



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Information

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

2/13/2024 Board Meeting

9-3

Subject

Proposed Supplemental Water Management Program

Executive Summary

This report provides information on a potential Supplemental Water Management Program (SWM Program). The SWM Program would establish a water management-based framework where Metropolitan would pay member agencies for actions that they take to help Metropolitan manage supplemental supplies. Through the SWM Program, member agencies would receive payment for water management actions (such as storing the water in local storage basins and reservoirs) that could benefit the region by helping Metropolitan manage this supplemental supply locally when available and provide regional benefits associated with the storage and use of that water.

Metropolitan has developed an extensive portfolio of storage and water management programs to be able to manage excess supplies in surplus years and utilize previously stored water in shortage years. However, particularly in extremely wet years, supplies may be greater than the amount of conveyance and/or capacity available in the existing Water Surplus and Drought Management (WSDM) portfolio. Without additional storage options, these supplemental supplies remain unmanaged and lost to the region. Metropolitan experienced these conditions recently in calendar years 2017, 2019, and 2023.

In an effort to develop programs that help maximize the capture of available supplies, Metropolitan staff initiated a series of workshops with member agency managers and staff to generate ideas and explore opportunities. As a result of those discussions, staff developed the potential SWM Program. Under the SWM Program, member agencies could receive payments for taking water management actions that help Metropolitan manage supplemental supplies. Importantly, this program is designed so that member agencies with groundwater storage, reservoir storage, or even flexible systems to shift demand onto Metropolitan service connections can all participate.

When supplemental supplies are available, the member agency would take delivery of the water and receive payment for water that is certified into storage. During a dry year, Metropolitan could call on the water under two conditions: when Metropolitan is pulling water from storage (Level 1) or during a regional shortage allocation (Level 2) and provide payment accordingly. In determining the payment amounts the region is willing to pay the agencies for actions taken, staff is considering what Metropolitan has paid for comparable actions and avoided in-region costs. Payments for these actions and avoided costs are between \$100 to \$800 per AF. Metropolitan would bill the member agency at the full-service rate in effect when the water is purchased from the SWM account within ten years, based on an agreed-upon schedule. The purchase by the agency would not incur a Capacity Charge, because the delivery would be at Metropolitan's discretion. All other components of Metropolitan's full-service water rate would be charged to the member agency at the time the water is sold, and the delivery would count towards the agency's Readiness-to-Serve Charge.

Fiscal Impact

No fiscal impact estimated at this time. The proposal would establish a framework that could be used when necessary and the financial impact will depend on when the framework is implemented and used. Member agencies using the SWM Program would incur the obligation to pay the full-service rate.

Applicable Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Administrative Code Section 4209: Contracts

By Minute Item 43514, dated April 13, 1999, the Board adopted the Water Surplus and Drought Management Plan

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

Staff plans to bring the proposed SWM Program to the Board for approval in Spring of 2024.

Details and Background

Background

Over the last few decades, Metropolitan's robust storage portfolio has helped manage supplies under rapidly changing conditions to meet the region's demands by storing supplies when conditions are wet to help meet demands during dry years. Calendar year 2023 began as the fourth consecutive dry year in the State with a SWP allocation of five percent. Winter storms improved SWP supplies and in April 2023 the Department of Water Resources increased the allocation to 100 percent, resulting in nearly 2 million acre-feet (AF) of supply for Metropolitan. To help maximize the capture of available supplies, in August 2023, Metropolitan made changes to the Cyclic Cost-Offset Program (CCOP). However, the increased allocation combined with low demands, additional interruptible SWP supplies (Article 21), and ample local runoff replenishing groundwater basins, resulted in over 500,000 AF of unmanaged supplies even with the existing WSDM portfolio of actions. Metropolitan ended 2023 with record-high storage levels of 3.4 million AF.

Metropolitan seeks to expand its portfolio of actions to improve the region's resiliency. Metropolitan staff initiated a series of workshops with member agency managers and staff to generate ideas and explore opportunities to manage supplemental supplies. The workshops aimed to develop a framework in partnership with member agencies to evaluate programs that help manage supplies in extreme surplus periods such as those experienced in 2023. While out-of-region storage has been beneficial to the region, Metropolitan recognizes that there is great value in increasing supplies in-region, especially when having discretion on the storage and recovery of those supplies. Furthermore, storing water locally is beneficial during an emergency when out-of-region storage may not be accessible.

Potential Supplemental Water Management Program

Staff is proposing the SWM Program, which is aimed at helping Metropolitan manage supplemental supply, water that is above Metropolitan's ability to manage within a given year using its existing storage programs and other WSDM actions. The proposed SWM Program would help Metropolitan manage supplemental supplies that otherwise would be unmanaged. Unmanaged supplies provide no regional benefits; thus, the capture of additional supplies makes the region more resilient to future droughts. Metropolitan would solicit member agency proposals for the SWM Program on an open and continuous basis. Staff would evaluate the proposals to ensure that they are consistent with the SWM Program's proposed framework. The General Manager would have the authority to enter into agreements with the member agencies and to initiate the SWM Program in real-time. The delegation of authority would provide flexibility in the operation of the SWM Program and allow timely deliveries of supplemental supplies.

Under the SWM Program framework, Metropolitan would pay member agencies for water management actions taken (such as storing the water in local storage basins and reservoirs) to help manage supplemental supplies locally when available and provide regional benefits associated with the storage and use of that water. The

payment would be based on the region's willingness to pay for water management actions based on the regional benefit they provide. Such benefits include, promoting in-region storage of supplemental supplies and long-term local supply sustainability, relieving imported water demand and takes from storage, potentially reducing the need for critical dry-year transfer supplies, and may lessen the severity of regional shortage allocations.

In determining the payment amounts, the region is willing to pay, the staff is considering what Metropolitan has paid for comparable actions and avoided in-region costs. Payments for these actions and avoided costs are between \$100 to \$800 per AF. Comparable actions include Central Valley groundwater storage programs, Local Resources Program, conservations efforts, Cyclic and CCOP, Conjunctive Use Program, Operational Shift Cost-Offset Program, Dry-year Transfers, Critical Dry-year Transfers, and Yuba Accord Dry-Year Transfer Program. Avoided costs include the Tier 2 Untreated Full-Service rate and Water Shortage Allocation Plan (WSAP) allocation surcharge.

Member Agency Requirements

When supplemental supplies are available, the member agency would take delivery of the water in addition to their baseline water purchases for that year and receive payment for water that is certified into storage. During a dry year, Metropolitan would call on the member agency to use the stored water under two conditions: when Metropolitan is pulling water from storage (Level 1) or during a regional shortage allocation (Level 2). Upon certifying production of previously stored supplies under SWM, Metropolitan would pay the agency for that production. Furthermore, if Metropolitan determines that the production of water relieves an operational constraint (i.e., shutdown) or mitigates a location-specific shortage, a locational premium would be added to the payment.

Metropolitan would bill the member agency at the full-service rate in effect when the water is purchased from the SWM account within ten years, based on an agreed-upon schedule. The schedule would provide certainty to Metropolitan that the water would be sold to generate a future sale. The schedule also provides the member agency certainty as to how the additional water purchases would impact future budgets. Similar to purchases from cyclic accounts, the purchase by the agency would not incur a Capacity Charge, because the delivery would be at Metropolitan's discretion. All other components of Metropolitan's full-service water rate would be charged to the member agency at the time the water is sold, and the delivery would count towards the agency's Readiness-to-Serve Charge.

Program Process

Staff would evaluate the supply, demand, and storage availability through the Water Surplus and Drought Management process. If additional supply needs to be managed after other water management actions are potentially exhausted, staff would recommend the General Manager initiate the SWM Program. Through a monthly certification and annual reconciliation process, staff would ensure that deliveries under SWM were in addition to their normal deliveries. Similarly, if additional supplies are needed to meet demands and Metropolitan is taking water from its storage programs, Metropolitan would call on the member agency to produce the previously stored water.

Additional Considerations

Based on member agency feedback, staff was asked to consider: (1) how to encourage participation from agencies with only treated connections; (2) allowing participation of agencies that may not have storage facilities; and (3) providing an Extraordinary Supply option which would benefit the member agency during WSAP implementation years.

Member agencies with only treated connections. Under certain circumstances, Metropolitan may gain an added benefit from delivering water to specific treated connections such as, but not limited to, changing hydrologic conditions and current or anticipated system constraints. In that case, the member agency would purchase water at the full-service *treated* rate, thereby incurring additional costs for storing treated water at Metropolitan's request. Since deliveries to these connections would be at Metropolitan's request and for an operational or other benefit to Metropolitan, staff proposes that Metropolitan provide a payment for the added costs incurred by member agencies with only treated connections and that the General Manager be given delegated authority to determine when deliveries to these connections would maximize water resource management.

Member agencies without storage facilities. There may be member agencies interested in helping Metropolitan manage more supplemental supplies without the use of local storage facilities but instead with creative ideas for increasing demands. If a member agency can increase their demands to manage more supplemental supplies but is not able to certify water into storage, a baseline of historical demand on Metropolitan could be established by Metropolitan staff in coordination with the agency. When the SWM Program is activated, the member agency would need to increase their demands above the baseline to participate. No put or take payments would be provided since the member agency would not be certifying water into storage or making future recovery possible. However, the member agency would benefit from the option to purchase the water over time through a purchase schedule. Staff proposes that member agencies without storage facilities be able to participate in the SWM Program through this mechanism.

Extraordinary Supply option. Staff recognizes that financial compensation may not be the only way to encourage member agencies to put supplemental water into storage. Based on feedback provided during the workshops, staff explored an option where stored water could be used as an Extraordinary Supply during a WSAP regional allocation. Under the Level 2 Metropolitan call, a member agency could choose to receive either financial compensation or utilize the stored water as Extraordinary Supply. Extraordinary supplies as defined in the WSAP 2014 Revision are deliberate actions taken by member agencies to augment the total regional water supply only when Metropolitan is allocating supplies through the WSAP. However, after significant discussion with the member agencies, staff removed the Extraordinary Supply option based on feedback that member agencies did not believe the WSAP's Extraordinary Supply designation was intended to be used in this manner and that water sold under the SWM Program and taken as Extraordinary Supply would only benefit the participating member agency and not provide a regional benefit.

Summary

Under extraordinary supply conditions, there may be an availability of supplemental supplies beyond what Metropolitan can manage. By providing payment to member agencies based on a willingness to pay for an action taken that is based on the regional benefit that it provides, member agencies would increase the amount of water delivered to the region benefiting all member agencies and the region in the same manner as other water management programs. Increased deliveries under SWM bring more water into the service area. This enhances Metropolitan's ability to respond to emergency events more than storage outside the service area. By delegating authority to the General Manager to enter into SWM agreements, and to begin deliveries or calls from the account, the SWM Program would provide operational flexibility to manage and store supplemental supplies. The draft terms for the Potential SWM Program are included in **Attachment 1**.

Next Steps

Staff will incorporate feedback received from the committee. In addition, staff will continue to develop the proposed compensation amounts and return to the Board to request authorization of the SWM Program.



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Interim Manager,
Water Resource Management

2/1/2024
Date



Adel Hagekhalil
General Manager

2/1/2024
Date

Attachment 1 – Term Sheet

Ref# wrm12698878

Draft Term Sheet**Proposed Supplemental Water Management (SWM) Program****SWM Storage Account**

- SWM deliveries could be made directly or in lieu of production from surface water reservoirs or groundwater basins. To receive a payment, the member agency must perform by managing the supplemental delivery during the agreed-upon performance period.
- The amount of supplemental water available will be at Metropolitan's discretion based on hydrologic, financial, and operational conditions.
- SWM accounts may be subject to approval by local groundwater basin watermasters or groundwater managers.
- There shall be no losses for delivering water into the SWM account. Any methodology for losses for water that remains in the SWM account shall be defined before water is stored and consistent with how losses are assessed to other entities that store water in the basin.
- Member agencies may choose to perform at different levels under the program. Initial performance is to capture additional supplemental water and would be eligible for a "put" payment from Metropolitan. Additional performance would be at Metropolitan's request for a Level 1 or Level 2. Water recovered and certified for such action would be eligible for a take payment.

Other SWM Account

- Operating plans may be required from the member agency prior to receiving supplemental deliveries. Operating plans would help certify deliveries into SWM accounts as separate from normal deliveries.

Supplemental Delivery Requirements

- A SWM agreement is required to account for the deliveries.
- The supplemental delivery of water to a member agency shall not reduce the full-service water sales of Metropolitan. Certification of supplemental deliveries could be limited if the member agency does not achieve projected full-service deliveries as determined by Metropolitan for that year. Metropolitan would agree on a purchase schedule for the agency purchase of the delivered water.

SWM Program Costs

- Metropolitan shall pay member agency a payment for certified puts into storage.
- For a Level 1, Metropolitan shall pay member agency a payment for certified recovery from storage.
- For a Level 2, Metropolitan shall pay member agency a payment for certified recovery from storage.
- Metropolitan shall pay member agency an additional payment if Metropolitan determines that production mitigates an operational constraint or location-specific shortage.
- Metropolitan may deliver water to member agencies with only treated water connections at Metropolitan's request. Since the delivery will be made at Metropolitan's discretion,

Metropolitan will pay the agency for the added costs incurred by the agency for treated water deliveries into storage.

- Member agency shall pay full-service water rate in effect at the time water is purchased from the SWM account, except the Capacity Charge. Metropolitan's Capacity Charge shall not apply to water sold from the SWM account because delivery into the accounts is at Metropolitan's discretion.
- All other components of Metropolitan's full-service rate, including the Readiness-to-Serve Charge, shall be charged to the member agency at the time the stored water in the SWM account is sold to the member agency.
- Any payments given for water puts and takes that are unable to be validated and reconciled by official documentation (i.e., Watermaster report or other official documentation) after certification would be voided by Metropolitan.

Term

- The SWM agreements shall have a term of up to ten years unless previously terminated or extended upon mutual agreement.
The member agency would be required to purchase the delivered water no later than ten full calendar years from the date of supplemental delivery. Metropolitan and member agencies would agree on a purchase schedule for the agencies' purchase of the delivered water under the SWM agreement.