



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

9/10/2024 Board Meeting

9-2

Subject

Proposed Modifications to the Reverse-Cyclic Program

Executive Summary

This report provides information on potential modifications to the Reverse-Cyclic Program (“Program”). The Program allowed member agencies to purchase and pay for water and defer the actual delivery of water to a later year. The Program helped to preserve Metropolitan’s limited State Water Project (“SWP”) supplies in calendar year (“CY”) 2022 while preserving current year revenues. The Program implemented in CY 2022 was designed to manage the particular conditions that year. Because staff recognizes that the Program can be effective in managing both water supply conditions and revenue requirements, staff is proposing a modified Reverse-Cyclic Program to defer deliveries of purchased water under various water supply conditions. Under the modified program, the General Manager would have the authorization and discretion to initiate the program similarly to the Cyclic Program – when supplies are available for this Program – or when Metropolitan must preserve supplies during drought years. 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 would be able to purchase water at that year’s full-service rate for deferred delivery in a future year.

Fiscal Impact

None expected. The difference in revenues due to increases in the full-service rate between the time of purchase and the time of delivery is anticipated to be offset with savings to Metropolitan that would accrue from having to acquire water during drought years. In wet years, Metropolitan would increase its sales revenue by recording a full-service rate transaction when a delivery cannot take place due to capacity constraints.

Applicable Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Administrative Code Section 4209: Contracts

Metropolitan Water District Administrative Code Section 4507: Billing and Payment of Water Deliveries

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)

By Minute Item 52707, dated February 8, 2022, the Board authorized the General Manager to enter into reverse-cyclic agreements with participating agencies to preserve the availability of State Water Project supplies to Metropolitan. Staff will bring an action for consideration next month.

Staff plans to bring the proposed modifications to the Reverse Cyclic Program to the Board for approval in October 2024.

Details and Background

Background

Metropolitan is on track to end CY 2024 with record-high dry-year storage levels of 3.7 million acre-feet. This accomplishment follows three unprecedented drought years, nine atmospheric rivers that saturated Metropolitan's service area, a 100 percent SWP allocation, and a 40 percent SWP allocation. As conditions changed from dry to wet, Metropolitan has experienced lower sales and a corresponding decrease in revenue.

During the 2020-2022 drought, Metropolitan's Board of Directors ("Board") took actions to mitigate historically low SWP allocations by authorizing programs to preserve limited SWP stored supplies. In February 2022, the Board approved the Reverse-Cyclic Program to allow member agencies to purchase water in CY 2022 for delivery in a future year. Member agencies paid the full-service rate in effect at the time of purchase, generating revenue that Metropolitan would not have received without the Program. The Reverse-Cyclic Program ended on December 31, 2022.

In the year that followed, Metropolitan began to refill Diamond Valley Lake for the first time in three years and has subsequently been storing water in its various out-of-region banking programs, local storage accounts via the Cyclic Program, and other storage reserves. In CY 2023, demands remained low due to the overall cooler weather and capacity constraints resulting from the atmospheric rivers that refilled member agency reservoirs and replenishment basins. Metropolitan continues to experience low demands as some member agencies continue to be unable to accept planned Metropolitan deliveries due to having to manage their high local supplies. For example, member agencies with high local supplies have been unable to accept planned deliveries this year due to capacity constraints. To mitigate these capacity impacts, staff proposes modifying the Reverse-Cyclic Program to allow member agencies to purchase water for future delivery. Allowing the purchases now generates full-service sales revenue to help increase the decrease in water demands Metropolitan is experiencing this biennium and ensures future movement of water Metropolitan is currently storing.

Proposed Modifications to the Reverse-Cyclic Program

Staff is proposing modifications to the 2022 Reverse-Cyclic Program that would make it a standing program that could be initiated and implemented at the General Manager's discretion with no additional Board authorization required. These proposed modifications would provide staff with additional flexibility to allow the purchase of water and defer deliveries under various water supply conditions and would provide the General Manager with the authority to enter into agreements with the member agencies without requiring Board action for each separate agreement. Staff will evaluate the supply and demand conditions through the Water Surplus and Demand Management (WSDM) process and provide a WSDM recommendation to the General Manager when there is a need to initiate the Program. In the years the General Manager initiates the Program, these agreements will allow member agencies to purchase water for delivery in a future dry or wet year per the terms described in this report.

General Terms

The following conditions would apply each year – wet or dry - the General Manager initiates the Reverse-Cyclic Program:

- The member agency's purchase may not exceed the difference between its highest annual purchase in any of the prior five years and the projected deliveries to the member agency in the year the Program is implemented.
- Metropolitan will bill the member agency at the full-service water rate in effect, plus the treatment charge if applicable, at the time of the purchase.
- Metropolitan will include member agency purchases under the Program as allocated supply under a Metropolitan Water Supply Allocation Plan implementation or any other allocation or shortage program that may be implemented.

- When Metropolitan determines water is available to deliver to participating agencies, Metropolitan would deliver water to reduce the deferment balance incurred under the Program.
 - Metropolitan, at its sole discretion, shall determine when the water may be returned.
 - Deliveries will be negotiated based on the conditions for Metropolitan and the conditions for the member agency but will not exceed five full calendar years from the date of purchase unless the Parties mutually agree to a different delivery schedule.
 - Metropolitan will make best efforts to prioritize deliveries to the member agency if there is a critical need; for example, the groundwater storage basin reaches low levels where wells are not operable, or the basin reaches emergency storage levels.
 - Metropolitan will not apply any losses to the pre-purchased water if the water is delivered within five years or if delivered after five years due to Metropolitan's inability to deliver the water within that time period. If Metropolitan is unable to deliver the pre-purchased water within five years due to the member agency's inability to receive the water, then losses shall be applied to the pre-purchased water at a rate of 20 percent per year.
- Each year the Program is initiated, the GM will determine the supplies available for the Program based on water supply, hydrologic, financial, and operational conditions.

Metropolitan will consider member agency purchases under the Program to be part of the member agency's Revised Base Firm Demand for the year of the purchase. Purchases made under this Program will be included in the determination of the member agency's Readiness-to-Serve Charge at the time of purchase but will not be included in the determinations of the Capacity Charge because the deferred delivery will be completed at Metropolitan's discretion.

Initiating Dry Year Pre-Sales

The Program would be initiated in a dry year when the General Manager determines that the supply conditions warrant deferring the use of limited stored supplies due to the risk of shortage. For example, the Program may be initiated when there is a need to strategically work with the member agencies to reduce deliveries to help preserve limited available supplies and to avoid additional resource and operational costs that would be necessary without demand deferment. Metropolitan proposes offering the Program in dry years under the following conditions:

- The member agency and Metropolitan agree to defer Metropolitan deliveries of water purchased to allow Metropolitan to preserve limited stored supplies.
- When the General Manager initiates the Program to preserve limited stored supplies, Metropolitan would certify that the purchase reduces deliveries.

Initiating Wet Year Pre-Sales

The Program would be initiated when the General Manager deems it necessary to pre-sell water in wet years with SWP allocations of 40 percent or higher. For example, the General Manager may initiate the Program at times when Metropolitan is unable to complete deliveries due to member agency capacity constraints or limitations. Metropolitan proposes offering the Program in wet years under the following conditions:

- The member agency and Metropolitan agree to defer Metropolitan deliveries of water purchased.
- Metropolitan and the member agency agree on a baseline purchase of normal demands for the agency over five years.
- The delivery of pre-sold water to a member agency shall not reduce Metropolitan's full-service water sales in the year the water is delivered. Certification of Reverse-Cyclic deliveries could be limited if the member agency does not achieve projected full-service deliveries as determined by Metropolitan for that year.

Reporting and Billing


Metropolitan regularly reports to the Board on developing supply and demand conditions through WSDM Plan reports. Staff provides these monthly reports through the winter and spring and keeps the Board apprised of developing conditions, including the potential use of storage assets and the likelihood of storing or withdrawing supplies. Implementation of the Program will be incorporated into this regular reporting. Under the Program, Metropolitan will bill the member agency the full-service water rate plus the treatment charge, if applicable, at the time of the purchase. Under the Program, billing will occur before delivery is made, modifying the timing of billing required under Section 4507 of the Metropolitan Administrative Code (normally required at the time of delivery); all other aspects of Section 4507 will continue to apply. Metropolitan will include purchases made under this Program to determine the member agency’s Readiness-to-Serve Charge at the time of sale but will not include the purchase or delivery in the determination of the agency’s Capacity Charge because the initiation of the Program and the deliveries are at Metropolitan’s discretion.

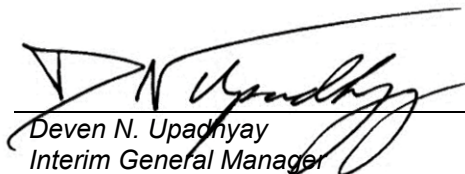
Summary

The proposed Reverse-Cyclic Program would help member agencies purchase planned amounts in times when Metropolitan may be unable to meet a member agency’s normal demands due to a need to preserve limited stored supplies or because the member agency is temporarily unable to accept Metropolitan deliveries in a wet year. Metropolitan will bill member agencies the full-service rate and applicable treatment charge in effect at the time of purchase. In doing so, the member agency will avoid paying the projected higher service rate that would be in place when Metropolitan makes the deferred delivery. Additionally, Metropolitan will benefit from a positive financial impact in the year the Program is initiated. With this delegation of authority to the General Manager, Metropolitan will have the additional operational flexibility (1) in dry years to save the limited storage for future drought years and (2) in wet years to assist member agencies with making planned purchases when they do not have the capacity to accept their full normal demands.

Next Steps

Staff will incorporate feedback received from the committee and return to the Board to request approval of the proposed modifications to the Reverse Cyclic Program in October 2024.

	9/4/2024
_____ <i>Blandon J. Goshi</i> Interim Manager, Water Resource Management	<i>Date</i>

	9/5/2024
_____ <i>Deven N. Upadhyay</i> Interim General Manager	<i>Date</i>