



Finance, Audit, Insurance, and Real Property Committee

Update on Member Agency Purchase Order commitments covering January 1, 2015 through December 31, 2024

Item 6a

November 14, 2023

Item 6a Update on Purchase Order Commitments

Subject

Update on Member Agency Purchase Order (PO) commitments covering January 1, 2015 through December 31, 2024

Purpose

1. Inform the Board that we do not project any remaining PO commitments by Dec 31, 2024
2. Provide information on how the PO have performed

Next Steps

Recommend future action to not renew PO commitments, Tier 2 rate will not be included in upcoming budget & rates and to revisit PO commitments/structure as needed during business model review/CAMP4W

History of Purchase Orders

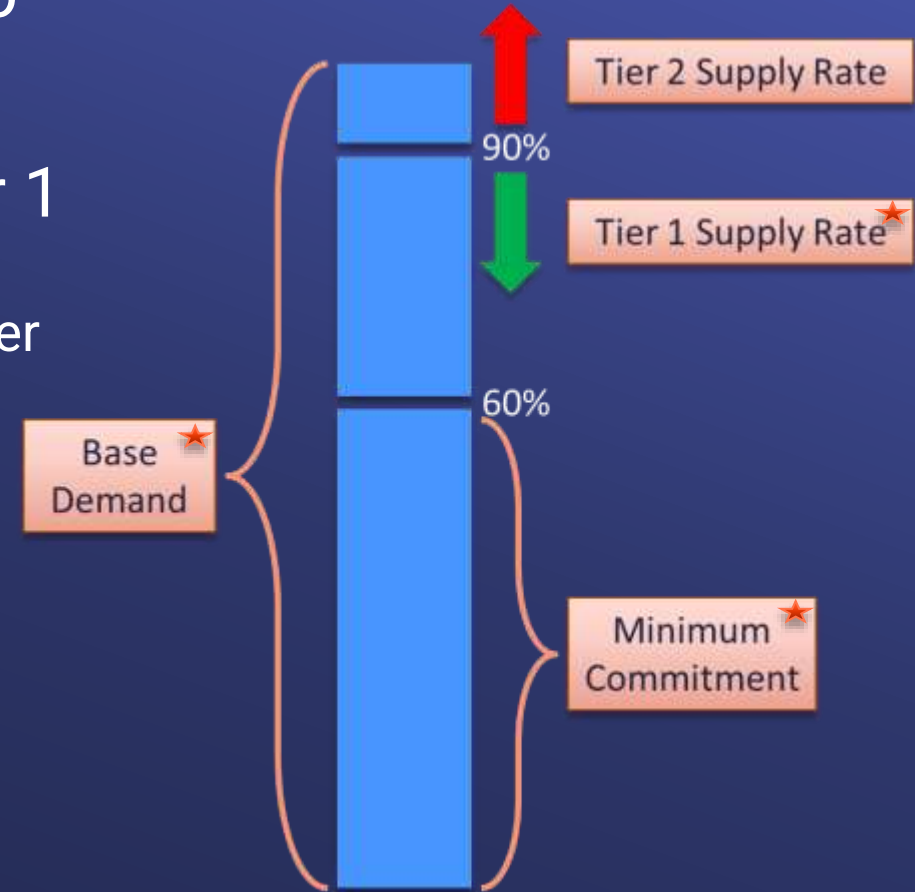
- 2003 Purchase Orders
 - Implemented as part of new rate structure adopted in 2002, including tiered rate structure
 - Established financial commitment from member agencies through a purchase order
 - Intended to support financial stability and cover the higher incremental resource costs (Tier 2) to agencies exceeding base demands (agencies with increasing demands)
 - Member agencies with a purchase order were granted larger allotments at the lower cost Tier 1 supply rate
 - Unpurchased commitment assessed over the 10-year term
 - Tier 2 water paid for annually if sale for the year exceeded Tier 1 annual maximum

History of Purchase Orders (cont.)

- 2012 Purchase Orders Extension
 - Extended original 10-year term to 12 years
- 2014 Purchase Order Renewal
 - Choice of base period
 - Original PO period of FY 1990 through FY 2002
 - Most recent 12-year period of FY 2003 through FY 2014
 - Opportunity to reset Base Period Demand using a 5-year rolling average
 - Tier 2 obligations evaluated at end of 10-year PO term
 - Tier 2 Supply Rates will only be applied to a member agency if its cumulative sales for the term of the Purchase Order exceed its cumulative Tier 1 Maximum
 - This change effectively made it so Member Agencies with a PO will not purchase any Tier 2 water

2014 Renewed Purchase Order

- Voluntary agreements that require agencies to purchase a minimum amount of water over a 10-year period in exchange for the right to purchase greater amounts of water at the Tier 1 Supply Rate.
 - 10-year term effective January 1, 2015, through December 31, 2024.
 - Minimum commitment equal to 60% of base demand.
 - Tier 1 Maximum equal to 90% of base demand.
 - Tier 2 obligations if purchases exceed Tier 1 Maximum.
- Member agencies must pay for unmet commitments at the end of the term.
- Provisions that allow for purchase commitments to be reduced.
 - These provision will be discussed in detail on a following slide



★ Agencies that selected the original 13-year base period have commitments and tier 1 limits calculated on different bases.

- Commitment is calculated on the initial base firm demand (ibfd)
- Tier 1 limit is calculated on the revised base firm demand (rbfd).

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2014 Renewed Purchase Order

Tier 2 Purchases

- None of the member agencies with purchase orders have incurred or are expected to incur Tier 2 obligations
- Agencies with purchase orders
 - Tier 2 Supply Rates will only be applied to a member agency if its cumulative sales for the term of the Purchase Order exceed its cumulative Tier 1 Maximum
- Agencies without purchase orders
 - Annual Tier 1 Maximum is equal to 60% of base demand
 - Tier 2 obligations settled annually

2014 Renewed Purchase Order

Purchase Commitments

- Commitments may be reduced as a result of policies or principles adopted by the Board that govern the allocation of System Water.
 - 10-year commitments were reduced by 1-year or 10% due to implementation of Water Shortage Allocation Plan for FY 2015/16.
 - 10-year commitments were reduced by 18 months or 15% in responding to the 2022 Regional Drought Emergency.
- Unmet commitment will be reduced by the amount of production from local resource projects that commence service after January 1, 2014, and are approved by the Board.

Status of current PO

Member Agency Purchase Orders as of July 2023*

Member Agency	Firm Purchases (1/2015 - 7/2023)	Projected Purchases (1/2015-12/2024) ⁽¹⁾	Purchase Order Commitment ⁽²⁾⁽³⁾	Projected Remaining Commitment	Cumulative Tier 1 Maximum	Projected Tier 2 Purchases
	A	B	C	D = C - B	E	F = B - E
Anaheim	207,164	241,482	111,203	0	248,001	0
Beverly Hills	81,753	95,296	66,900	0	133,803	0
Burbank	93,723	109,249	81,683	0	167,760	0
Calleguas	743,164		91,135	0	1,182,276	0
Eastern	717,014		87,925	0	1,175,850	0
Foothill	70,137		54,983	0	117,729	0
Fullerton	52,643		56,490	0	112,986	0
Glendale	126,150	147,048	131,108	0	262,215	0
Inland Empire	477,448	556,540	298,763	0	932,832	0
Las Virgenes	159,022	185,365	121,793	0	243,585	0
Long Beach	222,078	258,867	197,355	0	518,040	0
Los Angeles	2,119,799	2,470,956	1,524,848	0	3,698,265	0
MWDOC	1,520,307	1,772,155	1,608,173	0	3,216,348	0
Pasadena	157,670	183,789	114,825	0	229,653	0
San Marino	8,464	9,866	7,208	0	14,418	0
Santa Ana	67,470	78,646	60,645	0	196,173	0
Three Valleys	531,292	619,304	403,440	0	806,877	0
Torrance	126,253	147,167	96,023	0	192,042	0
Upper San Gabriel	375,823	438,080	82,560	0	672,282	0
West Basin	943,870	1,100,227	677,085	0	1,354,176	0
Western MWD	567,176	661,132	528,915	0	1,057,833	0
TOTAL (Acre Feet)	9,368,420	10,920,354	7,403,055	0	16,533,143	0

Firm purchases
through July 2023

⁽¹⁾ Calculated by adding together actual purchases through July 2023 and projected purchases for 8/2023 - 12/2024.

⁽²⁾ Incorporates 1 year or 10% reduction due to WSAP implementation in FY 2015/16.

⁽³⁾ Includes 15% (18 months) commitment reduction due to 2022 Regional Drought Emergency Resolution (starting Nov 2021) and 2022 Emergency Water Conservation Program (Apr 2022-Mar 2023)

*Does not include adjustments for local resource projects that have come online since January 1, 2014.

Projected Purchases

Member Agency	Firm Purchases (1/2015 - 7/2023)	Projected Purchases (1/2015-12/2024) ⁽¹⁾	Purchase Order Commitment ⁽²⁾⁽³⁾	Projected Remaining Commitment	Cumulative Tier 1 Maximum	Projected Tier 2 Purchases
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Burbank	93,723	109,249	81,683	0	167,760	0
Calleguas	743,164	866,274	591,135	0	1,182,276	0
Eastern	717,014	835,792	587,925	0	1,175,850	0
Foothill	70,137	81,755		0	117,729	0
Fullerton	52,643	61,363		0	112,986	0
Glendale	126,150	147,048		0	262,215	0
Inland Empire	477,448	556,540		0	932,832	0
Las Virgenes	159,022	185,365		0	243,585	0
Long Beach	222,078	258,867		0	518,040	0
Los Angeles	2,119,799	2,470,956		0	3,698,265	0
MWDOC	1,520,307	1,772,155		0	3,216,348	0
Pasadena	157,670	183,789	114,825	0	229,653	0
San Marino	8,464	9,866	7,208	0	14,418	0
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Western MWD	567,176	661,132	528,915	0	1,057,833	0
TOTAL (Acre Feet)	9,368,420	10,920,354	7,403,055	0	16,533,143	0

Projected purchases based on average of firm purchases to date.

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*Does not include adjustments for local resource projects that have come online since January 1, 2014.

Cumulative Purchase Order Commitment*

Member Agency	Firm Purchases (1/2015 - 7/2023)	Projected Purchases (1/2015-12/2024) ⁽¹⁾	Purchase Order Commitment ⁽²⁾⁽³⁾	Projected Remaining Commitment	Cumulative Tier 1 Maximum	Projected Tier 2 Purchases
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TOTAL (Acre Feet)	9,368,420	10,920,354	7,403,055			

- Reduced by 1 year or 10% due to WSAP implementation for FY 2015/16.
- Reduced by 18 months or 15% in responding to the 2022 Regional Drought Emergency (starting Nov 2021) and 2022 Emergency Water Conservation Program (April 2022-March 2023)
- Total of 30 months or 25% reduction in PO commitments

(1) Calculated by adding together actual purchases through July 2023 and projected purchases for 8/2023-12/2024

(2) Incorporates 1 year or 10% reduction due to WSAP implementation in FY 2015/16.

(3) Includes 15% (18 months) commitment reduction due to 2022 Regional Drought Emergency Resolution (starting Nov 2021) and 2022 Emergency Water Conservation Program (Apr 2022-Mar 2023)

*Does not include adjustments for local resource projects that have come online since January 1, 2014.

Projected Remaining Commitments*

Member Agency	Firm Purchases (1/2015 - 7/2023)	Projected Purchases (1/2015-12/2024) ⁽¹⁾	Purchase Order Commitment ⁽²⁾⁽³⁾	Projected Remaining Commitment	Cumulative Tier 1 Maximum	Projected Tier 2 Purchases
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Beverly Hills	81,753	95,296	66,900	0	133,803	0
Burbank	93,723	109,249	81,683	0		0
Calleguas	743,164	866,274	591,135	0		0
Eastern	717,014	835,792	587,925	0		0
Foothill	70,137	81,755	54,983	0		0
Fullerton	52,643	61,363	56,490	0		0
Glendale	126,150	147,048	131,108	0		0
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Long Beach	222,078	258,867	197,355	0	518,040	0
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West Basin	943,870	1,100,227	677,085	0	1,354,176	0
Western MWD	567,176	661,132	528,915	0	1,057,833	0
TOTAL (Acre Feet)	9,368,420	10,920,354	7,403,055	0	16,533,143	0

Projected remaining commitment at the end of purchase order term.

⁽¹⁾ Calculated by adding together actual purchases through July 2023 and projected purchases for 8/2023 - 12/2024.

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Cumulative Tier 1 Maximum

Member Agency	Firm Purchases (1/2015 - 7/2023)	Projected Purchases (1/2015-12/2024) ⁽¹⁾	Purchase Order Commitment ⁽²⁾⁽³⁾	Projected Remaining Commitment	Cumulative Tier 1 Maximum	Projected Tier 2 Purchases
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Inland Empire	477,448	556,540	445,265	0	932,832	0
Las Virgenes	159,022	185,365	159,022	0	243,585	0
Long Beach	222,078	258,867	222,078	0	518,040	0
Los Angeles	2,119,799	2,470,956	1,888,711	0	3,698,265	0
MWDOC	1,520,307	1,772,155	1,520,307	0	3,216,348	0
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San Marino	8,464	9,866	7,208	0	14,418	0
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TOTAL (Acre Feet)	9,368,420	10,920,354	7,403,055	0	16,533,143	0

Represents 90% of revised base demands over the term of purchase order

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Projected Tier 2 Purchases

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Calleguas	743,164	866,274	591,135	0	1,182,276	0
Eastern	717,014	835,792	587,925	0	1,350,350	0
Foothill	70,137	81,755	54,983	0	136,720	0
Fullerton	52,643	61,363	56,490	0	118,853	0
Glendale	126,150	147,048	131,108	0	277,158	0
Inland Empire	477,448	556,540	298,763	0	855,311	0
Las Virgenes	159,022	185,365	121,793	0	307,157	0
Long Beach	222,078	258,867	197,355	0	518,040	0
Los Angeles	2,119,799	2,470,956	1,524,848	0	3,698,265	0
MWDOC	1,520,307	1,772,155	1,608,173	0	3,216,348	0
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TOTAL (Acre Feet)	9,368,420	10,920,354	7,403,055	0	16,533,143	0

No projected Tier 2 purchases as of July 2023

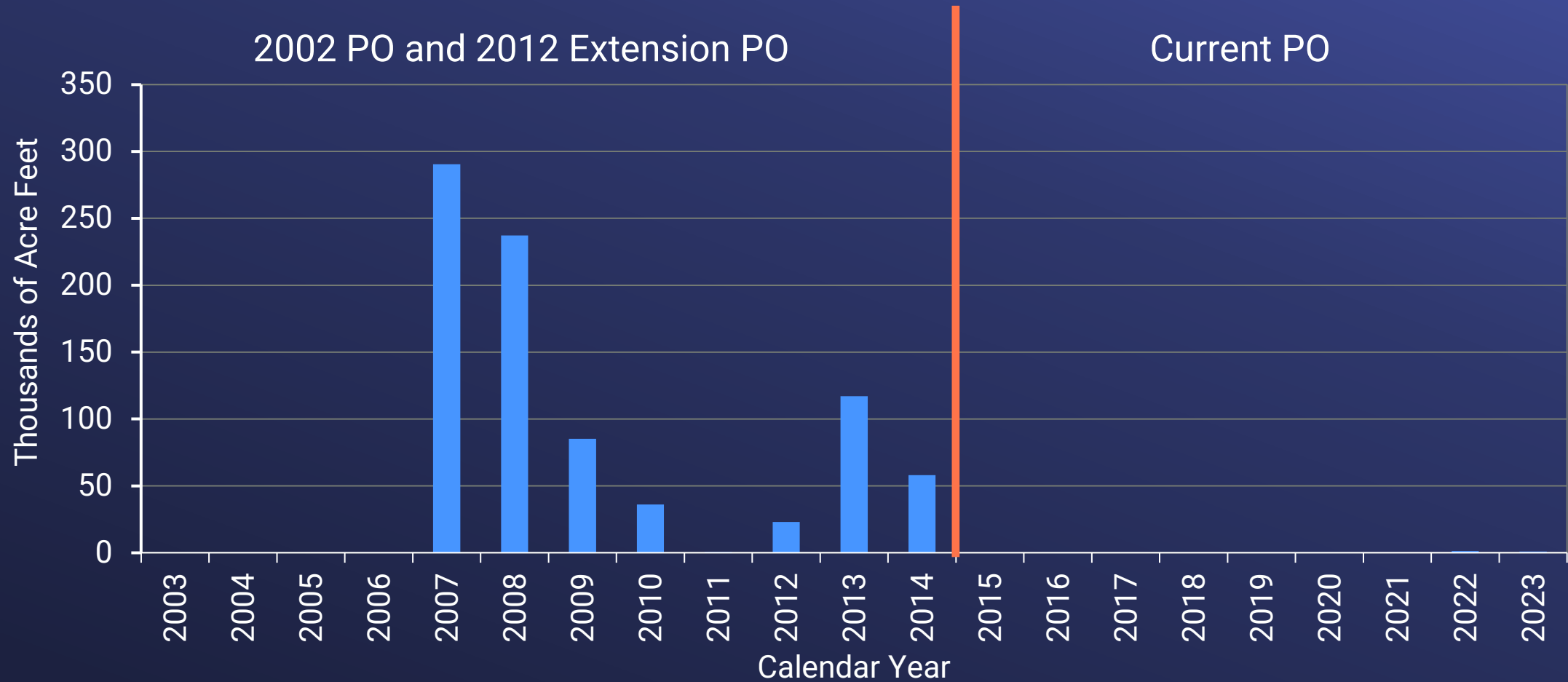
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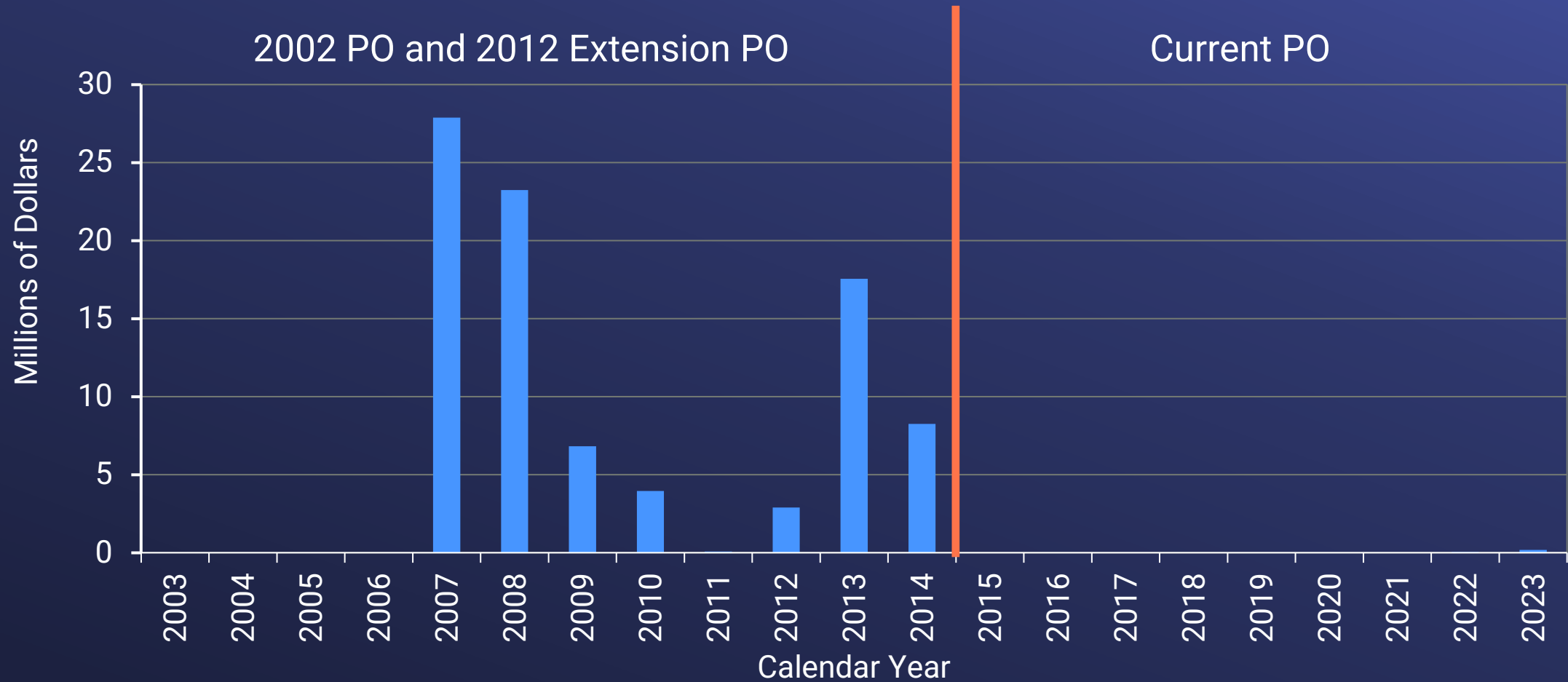
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*Does not include adjustments for local resource projects that have come online since January 1, 2014.

History of Tier 2 Purchases - AF



History of Tier 2 Purchases - \$



How Have the POs Performed

Tier 2

- 2003 PO
 - \$90.1M collected from 9 agencies with PO (paid annually)
 - \$0 collected from agencies without PO
- 2014 Renewed PO
 - \$0 obligations projected from agencies with PO (calculated at end of term)
 - \$0.25M collected from 1 agency without PO

PO Commitments

- 2003 PO
 - No commitment obligations paid
 - Compton PO Withdrawal
 - After PO execution, Compton received funds to improve operations and increase groundwater utilization
 - Faced penalties under PO of approximately \$170,000 to \$350,000 at end of 2012
 - Paid \$5,000 administrative fee to withdraw from PO
- 2014 Renewed PO
 - No commitment obligations

Assessment of the Current PO

- Purchase order commitments have not had the nexus to financial stability as originally envisioned
 - Reductions in commitments due to mandated water conservation actions and local resource projects
 - 10-year reconciliation of commitments and charges does not align with budget and rate planning cycles
- Immaterial amount of Tier 2 sales in volume and revenue

Future Board Options

Option #1

Do not renew PO commitments

- Tier 2 rate will not be included in upcoming budget and rates
- Revisit PO commitments/structure as needed during business model review/CAMP4W

Option #2

Seek to renew PO commitments under existing structure

- Modified by base period calculations, etc.

Option #3

Seek to renew PO commitments under new structure

- Exact nature of new structure to be determined

Recommendation for Future Board Action

Option #1

Do not renew PO commitments

- Tier 2 rate will not be included in upcoming budget and rates
- Revisit PO commitments/structure as needed during business model review/CAMP4W

