



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Board Information

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

12/10/2024 Board Meeting

9-2

Subject

Update on developing State Water Project water management actions to meet multiple objectives of managing dry-year and wet-year water supplies and generating new revenues

Executive Summary

This report provides information on the development of potential State Water Project (SWP) water management actions to achieve multiple objectives: (1) generate new revenue through the sale and exchange of available water supplies, (2) manage annual surplus water supplies for regional benefit, and (3) manage and procure water transfers and exchanges to reduce the risk of future water supply shortages and increase regional water supply reliability. Extreme fluctuation in SWP supplies driven by variable hydrologic conditions gives rise to these two challenges: (1) wet years are typically associated with lower water sales and low revenue generation, and (2) dry years, especially multiple dry years, require storage and supplemental water purchases to maintain water supply reliability. While these goals may sometimes appear to conflict, they can also complement each other when managed strategically in a timely and holistic manner. Addressing these challenges effectively will require prompt responses to available opportunities. In the coming months, staff plans to request Board authorization for the General Manager to enter into water transactions—whether to buy or sell water—as opportunities arise so that Metropolitan can act swiftly to ensure it does not miss valuable prospects that require immediate action. Ultimately, this flexibility will help Metropolitan adapt to changing conditions, enabling it to align financial and resource goals more effectively.

Staff plans to pursue water transactions that enhance Metropolitan’s financial health while protecting long-term water supply reliability. Staff have identified that authorization to sell up to 400,000 acre-feet of 2025 and 2026 SWP supplies to other SWP contractors, including their members and landowners within the SWP place of use, will help generate the estimated \$120 million in unrealized annual revenue assumed in the Metropolitan budget and rates adopted in April 2024. On the other hand, if hydrologic conditions in 2025 and 2026 turn out to be dry, thus increasing the risk of shortages, staff have identified that authorization to purchase up to 100,000 acre-feet at a cost of up to \$50 million from sellers that convey water via the SWP would be needed to help manage potential shortage conditions. It is envisioned that a portfolio of water transactions, with short- and longer-term purchases and sales of water, will be effective in managing the multiple objectives that Metropolitan and its member agencies face currently and into the future.

Fiscal Impact

In the current biennium: Depending on hydrologic conditions, a potential estimated revenue of up to \$120 million via non-permanent transfers of Metropolitan SWP supply to other SWP contractors; or a potential cost of up to 50 million for the purchase of non-permanent SWP transfer supplies or non-project water from sellers that can convey water via the SWP.

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 Act Section 132: Sale of Surplus Water

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

Staff plans to return to the Board in January 2025 to request that the Board authorize the General Manager to execute SWP transfer and exchange agreements with parties in the SWP place of use that generate up to \$120 million in revenue in the next biennium or that secure dry-year supply at a cost of up to \$50 million.

Details and Background

Background

Historically, staff has come to the Board annually and on a case-by-case basis for authorizations to buy additional supply. Staff generally makes annual requests to the Board to purchase single-year water transfers, if needed. The Board authorized single-year water transfer purchases of up to \$44 million in April 2021, \$60 million in April 2022, \$100 million in January 2023, and \$50 million in February 2024. These annual authorizations allowed for additional water purchases under existing programs, such as the Yuba Accord Water Transfer Program, that was first authorized by the Board in 2007. In recent years, the funds for these water purchases would have come from unspent Water Supply Program or SWP budgeted funds. The full requested amounts were not spent in the past four years. In the dry years of 2021 and 2022, spending was constrained by the limited availability of transfer supply. In the past two years, water supply conditions improved significantly after February such that Metropolitan did not need to purchase supplemental water.

More recently in October 2024, the Board authorized option agreements with Western Canal Water District and Richvale Irrigation District for single-year water transfers during 2025 through 2027. These agreements are being developed over more than a year of negotiations with these sellers as a new approach for providing increased SWP-dependent area reliability over multiple dry years. A major benefit of these recently approved agreements is that they offer first-right access to a relatively large quantity of limited north-of-Delta transfer supply. Going forward, staff will need to continue to develop water transfer partnerships. Metropolitan would benefit from additional partnerships, especially with parties that can offer water unconstrained by Delta conveyance capacity or with flexible call dates.

Adapting to changed conditions, staff will be seeking additional authority to sell SWP water for the first time. This flexibility is 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.

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 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 of Metropolitan SWP supply sales to other parties at least covers the Supply Rate element charged for water sales to Metropolitan member agencies (approximately \$300 per acre-foot).

Protection of Water Supply Reliability

The quantity of water that Metropolitan would be willing to sell in 2025 or 2026 would be constrained by the need to maintain reliability, in particular for the SWP-dependent area. SWP-dependent area reliability could be achieved by having four years of dry-year storage in the various storage accounts that can meet SWP demands and by having a robust portfolio of potential dry-year water transfer purchases.

Additionally, staff could negotiate terms in agreements to help mitigate future dry-year risk. For example, water sale prices could be set to a schedule tied to the final SWP allocation with higher dry-year prices reflecting the higher value and replacement cost of that water. Another possible protection would be to include an option to purchase the water back in the next four years. Because of projected record high end-of-2024 storage, staff anticipates being able to sell up to 50,000 acre-feet of SWP supply in 2025 without negatively affecting SWP-dependent area reliability, even at low SWP allocations in 2025. The quantity of water for sale at SWP allocations higher than 30 percent would be less constrained, and dependent on the overall balance between Metropolitan member agency demands and SWP and Colorado River supplies. Staff recommends that the Board authorize the General Manager to sell up to 400,000 acre-feet of SWP supply in 2025 and 2026 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, including their members or landowners. Sale of water to a non-SWP contractor (e.g., a Central Valley Project (CVP) contractor) would require that DWR petition the State Water Resources Control Board (SWRCB) to allow a transfer of SWP water outside of the SWP place of use. Because of the regulatory challenges related to sale 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. 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

If 2025 and 2026 are 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 single-year water transfer supplies from Western Canal Water District and Richvale Irrigation District through 2027. In the future, staff plans to seek additional authority to purchase single-year water transfers 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 2025 and 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 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 2025 and 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 SWP 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 (**Attachment 1**), 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.

Summary

In early 2025, staff will be seeking that the Board authorize the General Manager to execute water transactions that generate new revenue and/or secure needed water supplies in calendar years 2025 through 2026. This authority is needed to effectively and efficiently respond to changing hydrologic and market conditions and maximize potential benefits for Metropolitan. Staff plans to return to the Board to seek this authority and update the Board monthly on transactions secured under this authority, if granted.



Brandon J. Goshi
Interim Manager,
Water Resource Management

11/27/2024

Date



Deven Upadhyay
Interim General Manager

11/27/2024

Date

Attachment 1 – Article 57(g) of the SWP Contract

Ref# wrm12702675

Article 57(g) of Metropolitan's State Water Project Contract

Article 57. Provisions Applicable to Both Transfers and Exchanges of Project Water

(g). The District shall, for each transfer or exchange it participates in, confirm to the State in a resolution or other appropriate document approving the transfer or exchange, including use of Article 56(c) stored water, that:

- (1) The District has complied with all applicable laws.
- (2) The District has provided any required notices to public agencies and the public.
- (3) The District has provided the relevant terms to all contractors and to the Water Transfers Committee of the State Water Contractors Association.
- (4) The District is informed and believes that the transfer or exchange will not harm other contractors.
- (5) The District is informed and believes that the transfer or exchange will not adversely impact State Water Project operations.
- (6) The District is informed and believes that the transfer or exchange will not affect its ability to make all payments, including payments when due under its Contract for its share of the financing costs of the State's Central Valley Project Revenue Bonds.
- (7) The District has considered the potential impacts of the transfer or exchange within its service area.