



THE METROPOLITAN WATER DISTRICT  
OF SOUTHERN CALIFORNIA

# Board Information

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

4/9/2024 Board Meeting

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9-2

## Subject

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Proposed Interagency Local Supply Exchange Program

## Executive Summary

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This letter details the development of and a proposal for a program to allow transfers of locally produced supplies between Metropolitan's member agencies. After many discussions with member agencies and evaluation of Metropolitan's system and administrative structure, staff developed the Interagency Local Supply Exchange Program (ILSEP). The primary goal of ILSEP is to create an administrative framework for Metropolitan to facilitate the exchange of extra local supply production among its member agencies that do not have a pipeline to deliver their local supplies to each other. The local supplies at issue involve water that cannot be put into Metropolitan's system. This program will be further developed through our business model refinement initiatives, which will commence in April 2024.

ILSEP is responsive to the feedback that Metropolitan received from the Board and member agencies regarding the need for a process that facilitates the exchange of local supplies among its member agencies. Under ILSEP, Metropolitan will be facilitating the increasing of total local supply production in the region and will provide regional benefits by enabling member agencies to sell and exchange their extra local supply resources within the region. Under this program, the purchasing member agency (referred to as the "Buyer") would coordinate with the selling member agency (referred to as the "Seller") to arrange the purchase of the available extra local supplies produced. Metropolitan would not be involved in the price negotiations or agreements for local supplies between the Buyer and Seller. In ILSEP, the Seller and Buyer would agree to exchange extra local supply production under terms that they negotiate. The Seller would consume or use the extra local supply production in its service area. The Seller would be responsible for purchasing Metropolitan supplies for delivery to the Buyer in an amount equivalent to the extra local supplies produced. The Buyer would take delivery of the Metropolitan supplies into its service area. The Seller would be required to pay Metropolitan the full-service water rate applicable at the time the water is delivered to the Buyer.

The purchase of Metropolitan water by one agency for delivery to a different location is possible due to Metropolitan's integrated system, costs, and rate structure. However, deliveries to the Buyer will be subject to Metropolitan's operational conditions, availability, and Administrative Code. To implement ILSEP, an amendment to Metropolitan's Administrative Code will be necessary to permit requests for delivery to an alternative service connection.

## Fiscal Impact

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No fiscal impact estimated at this time. Member agencies responsible for ordering water supplies using ILSEP would incur the obligation to pay the applicable full-service rate for all Metropolitan water supplies delivered.

## Applicable Policy

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Metropolitan Water District Act Section 61: Ordinances, Resolutions and Orders

Metropolitan Water District Act Section 130: General Powers to Provide Water Services

Metropolitan Water District Act Section 130.5: Legislative Findings and Declarations Relating to Conservation

Metropolitan Water District Administrative Code Section 4201: Mission Statement

Metropolitan Water District Administrative Code Section 4205: Sale of Water By One Member Public Agency to Another

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

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

### **Details and Background**

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#### **Background**

Metropolitan was founded with the purpose of providing supplemental water supplies to its 26 member agencies across Southern California. While Metropolitan's main supplies are imported from the Colorado River and Northern California, local supplies and conservation efforts combine with Metropolitan's imported supplies to meet the retail level water demands in the service area. The region faces the increasing challenges to regional water supply reliability, but Metropolitan has long recognized the importance of local supplies within Metropolitan's water supply portfolio to meet those challenges. Over the past few decades, Metropolitan has played a pivotal role in supporting local agencies in developing and maximizing their local supply projects within the region through the Local Resources Program.

Metropolitan has received feedback from its member agencies and the Board that member and local agencies may have potential new or extra local supply production capability that is not being utilized and that other agencies may be interested in financing or purchasing those supplies. However, the situation exists where the interested agencies are not physically connected by their local infrastructure to deliver water that is not compatible with Metropolitan water and thus cannot directly deliver that water to each other. Because Metropolitan's distribution system and water supplies essentially connect the member agencies through the ability of all member agencies to receive Metropolitan water supplies, Metropolitan was requested to explore and develop a framework that could facilitate the exchange and use of these local supplies. Metropolitan's staff has developed a framework to address this challenge. The framework will enable the member agencies to increase the production and use of local supplies in the service area, which provides the overall regional benefit of increasing water supply reliability by increasing the total water supply. This also aligns with a key objective of Climate Adaptation Master Plan for Water (CAMP4W), which aims "to increase resilience and reliability of Southern California's water supplies."

#### ***Interagency Local Supply Exchange Program***

Metropolitan staff has developed a framework that it named the Interagency Local Supply Exchange Program (ILSEP). ILSEP establishes a framework for Metropolitan to facilitate the sale and exchange of local supply production among its member and local agencies. ILSEP is an administrative framework intended to facilitate indirect exchanges of local supply. Indirect exchanges do not involve the direct delivery of the local supply between participating agencies or the introduction of the local supply into Metropolitan's distribution system.

Under ILSEP, one local agency (Seller) would increase production of its local supplies above its existing production and make those local supplies available for sale and exchange to another local agency (Buyer). The actual increased local supply production would be consumed in the Seller's service area and would decrease the amount of Metropolitan water supplies that they would otherwise purchase. However, Metropolitan would deliver Metropolitan water supplies (Exchanged Supplies) to the Buyer's service area in an amount equal to the local supplies produced and sold by the Seller to the Buyer. The Seller will be responsible for paying the applicable full-service water rate for Metropolitan's deliveries made under the Program. The Buyer and Seller would arrange for payment or other agreements between them for the sale of the local supply. Metropolitan would not need to be involved in any of the agreement negotiations between the Buyer and Seller for the sale of the local supply. The Seller would be required to pay Metropolitan's full-service water rate applicable to the deliveries made to the Buyer at the time the water is delivered to the Buyer.

The sale from one agency to another is not a wheeling or transportation arrangement, because the Seller's water will not be transported. The locally supplied water project is not connected to Metropolitan's distribution system and is likely not compatible to be introduced into Metropolitan's system. Instead, the Program involves an indirect exchange through the use of Metropolitan deliveries to Metropolitan member agencies, in a very similar manner as current water sales to member agencies. Accommodation of Metropolitan deliveries to meet a seller's commitment under the Program, however, will be subject to Metropolitan's operational capabilities.

### ***Program Process***

Upon separate agreement by the Seller and Buyer for the sale and exchange of a local supply, Metropolitan, Seller, and Buyer would enter a three-party ILSEP agreement. Under the ILSEP agreement, the Seller would agree to coordinate with Metropolitan and identify the service connection(s) where Metropolitan would deliver the Exchanged Supplies to the Buyer. The Buyer would agree to the delivery of the Exchange Supplies to its designated service connections. The delivery of the Exchanged Supplies to the Buyer will be contingent upon Metropolitan's operational conditions, supply availability, and compliance with the Metropolitan Administrative Code.

Metropolitan will invoice the Seller at the full-service water rate applicable for the water delivered at the time the water is delivered on the Seller's monthly bill. The Seller has the option to request Metropolitan to deliver either treated or untreated water, provided that those connections are available for the Buyer to take delivery of the Exchanged Supplies. ILSEP is intended for indirect exchanges only. Metropolitan will not be wheeling or transporting water in its distribution system. Rather, Metropolitan is facilitating Metropolitan water deliveries to the Buyer at existing service connections. Metropolitan staff, in cooperation with the Seller and the Buyer, will complete a yearly reconciliation of the local supply production and the delivered Exchanged Supplies.

### ***Considerations During a Water Supply Allocation Plan Implementation***

A key consideration for Metropolitan is to ensure that the regional water supplies available to its service area are not negatively impacted by an ILSEP exchange, specifically during a Water Supply Allocation Plan (WSAP) implementation. Metropolitan's WSAP supply allocations to the member agencies are impacted by a member agency's local supply production and use during a WSAP Implementation. If not accounted for correctly, local supplies exchanged under ILSEP may not be credited to the proper member agency and Metropolitan could end up allocating more water supply than intended. Under ILSEP, for the purposes of WSAP implementation, the credit and benefit of local supply production are accounted to the Buyer and not to the Seller. The Exchanged Supplies are accounted to the Seller as Metropolitan supplies and not to the Buyer. With that accounting, Metropolitan would enforce any penalties or surcharges applicable at the time of the restriction for any parties that exceed their allocated Metropolitan supplies in the WSAP in line with the existing WSAP policy and procedures.


Metropolitan's Administrative Code does not currently allow member agencies to specify alternative delivery options to other member agency service connections. To accommodate the procedures under ILSEP, an amendment to Metropolitan's current Administrative Code will be required, to allow requests for delivery to an alternative connection while also allowing billing for the delivery to go to the Seller.

### ***Summary***

Metropolitan has long recognized the importance of facilitating local supply development and production to increase regional water supply reliability and mitigate climate change impacts and has been instrumental in supporting the development of regional local supply projects through the Local Resources Program. ILSEP is an innovative and straightforward approach that will help Metropolitan maximize regional local supply production and facilitate agreements between member agencies and local agencies to sell and exchange their extra local supply resources within the region. ILSEP is responsive to the member agencies and the Board's request for a program that facilitates these local supply exchanges and accomplishes it with no impact to non-participating agencies. The draft terms for the ILSEP are included in the **Attachment 1**. This program will become a component of Metropolitan's new business model as it is developed over the next few months.


**Next Steps**

Staff will incorporate feedback received from the Committee and return to the Board for approval and authorization of ILSEP.



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*Brandon J. Goshi*  
*Interim Manager*  
*Water Resource Management*

4/2/2024

*Date*

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*Adel Hagekhalil*  
*General Manager*

4/3/2024

*Date***Attachment 1 – Potential Interagency Local Supply Exchange Program (ILSEP)**

Ref# wrm12697979

# Potential

## Interagency Local Supply Exchange Program (ILSEP)

### ***General Process for Exchanges:***

1. A member agency with extra local supplies (Seller) may sell those supplies to another member agency (Buyer) in the absence of a physical connection between the two agencies for local supplies.
2. The Seller would purchase treated or untreated Metropolitan water at the full-service rate to be delivered to the Buyer's available connection.
3. The local supplies sold to another member agency will be reported to Metropolitan as the Buyer's local supply and not as the Seller's local supply.
4. The exchange is subject to operational capabilities of Metropolitan.

### ***Program Criteria:***

1. Metropolitan and participating Member Agencies (Seller and Buyer) would enter into an agreement, which agreement term is on a case-by-case basis, as long as the Program is active. Metropolitan's role in any such contract would be to facilitate the exchange by agreeing to deliver Metropolitan water purchased by the seller to the buyer in lieu of local supplies.
2. However, each delivery is contingent on Metropolitan's determination that the amount of water requested for the exchange is available for delivery to the buyer at the time requested and that operational capability is available for deliveries to the specified connections.

### ***Definitions:***

1. Local Supply is defined as water supply that is produced locally by a Metropolitan member agency or their customer in Metropolitan's service area.
2. Extra local supply is defined as local supply produced above a member agency's current local supply production.

***Seller:***

1. Seller will provide Metropolitan a proposed delivery schedule and proof that it is permitted to legally sell/exchange ILSEP water with the buyer.
2. Seller will confirm Metropolitan's ability to deliver supplies in the amount of water involved in the transaction at the time requested.
3. Seller will purchase Metropolitan water at the full-service rate in effect at the time the water is to be delivered in an amount equivalent to the local supplies it sells to the buyer. Seller may request treated/untreated water if a connection is available to the buyer.
4. The Seller will provide annual documentation to Metropolitan for local supply accounting for the purpose of future water supply allocation plans.
5. During a time of shortage (Emergency Conservation / Allocation Year) the Seller will provide proof to Metropolitan that the local supplies for sale are developed above the submitted local supply production as part of the Emergency Conservation / Allocation process.

***Buyer:***

1. Buyer will coordinate with Seller to develop a delivery schedule for Metropolitan.
2. Buyer will arrange payment for the purchase of local supply water with Seller, which will not involve Metropolitan.
3. Buyer will provide annual documentation of local supply received to Metropolitan for local supply accounting for the purpose of future water supply allocation plans.

***Metropolitan:***

1. Metropolitan will not be involved in negotiation of local supply purchase price between buyer and seller.
2. Metropolitan will invoice the Seller for deliveries made pursuant to the Program. The Seller will be charged all rates and charges applicable to any other water sales.
3. Reconciliation of local supply production will be conducted on a yearly basis.
4. During Emergency Conservation / Allocation, Metropolitan will impose penalties in place at the time of the restriction to any parties exceeding their volumetric limit / allocation.
5. Metropolitan will not be wheeling or transporting any member agency water under the Program but instead redirecting water purchased by a member agency to another member agency.
6. There will be no losses associated with Metropolitan's delivery of water exchanged under this Program. Metropolitan's delivery of Metropolitan water under this Program will be subject to the Administrative Code, no different than delivery of any other water purchased from Metropolitan.