



- **Board of Directors**
Imported Water Committee

10/11/2022 Board Meeting

7-8

Subject

Authorization to extend the term of the Operational Shift Cost Offset Program to provide credits in calendar year 2023; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The Operational Shift Cost Offset Program (OSCOP) helps preserve limited State Water Project (SWP) supplies by offsetting the increased costs a member agency incurs by shifting Metropolitan deliveries from SWP-supplied connections to Colorado River water-supplied connections at Metropolitan's request. Under existing OSCOP agreements, Metropolitan's member agencies have shifted about 52,000 acre-feet (AF), helping Metropolitan preserve its limited SWP supplies. This proposed action would extend the term of OSCOP into calendar year (CY) 2023 because of continuing drought conditions.

Agreements are slated to terminate on December 31, 2022, per the terms approved by the Board for the current OSCOP. Staff have reassessed the program and recommend extending the OSCOP to 2023. This action would further preserve SWP supplies and avoid additional resource and operational costs that would be necessary for Metropolitan to meet demands in SWP-dependent areas without demand deferment. Metropolitan would reassess the program based on operational experience, observed costs, and other lessons learned and return to the Board for approval of any extension of the program after 2023, if deemed necessary.

Details

Background

Following three years of record-breaking drought conditions that resulted in historically low SWP deliveries, Metropolitan declared a Water Shortage Emergency in the SWP-dependent areas and authorized an Emergency Water Conservation Program in April 2022. Despite extraordinary measures taken by Metropolitan, its member agencies, and others in Southern California, further and immediate action is needed to preserve and slow the draw from Metropolitan's stored SWP supplies. In order to maximize available Colorado River supplies and to save the limited SWP storage for potential future drought years, Metropolitan is maximizing use of its integrated and flexible system by working with the member agencies through the existing OSCOP to shift the points of delivery to meet demands wherever possible to preserve SWP supplies.

In May 2021, the Metropolitan Board authorized the OSCOP and authorized the General Manager to enter into agreements to provide a cost-offset credit of up to \$332 per AF in CY 2021 and \$349 per AF in CY 2022 for net increased costs incurred by a member agency from shifting operations to improve regional reliability. This credit was set at \$5 per AF above Metropolitan's Treatment Surcharge in each of the years. The Treatment Surcharge formed the basis of the maximum cost offset payable credit since most operational changes consisted of shifts from untreated deliveries to treated deliveries. The \$5 per AF increase beyond the Treatment Surcharge helped offset additional monitoring or operational costs incurred by the member agency due to the shift.

The program was authorized for CYs 2021 and 2022. Metropolitan executed OSCOP agreements with Eastern Municipal Water District, the city of Los Angeles, the city of Santa Monica, and Three Valleys Municipal Water District. Metropolitan is currently drafting agreements with Upper San Gabriel Valley Municipal Water District and Central Basin Municipal Water District. As of August 2022, Metropolitan and participating member agencies have certified a shift of approximately 52,000 AF (which, comparatively, is nearly half of the volume of the

current 5 percent SWP allocation). Based on continuing drought circumstances, staff proposes to extend the term of the OSCOP.

Proposed Extension of Term

This action seeks to extend the term of the OSCOP through CY 2023 to continue providing cost-offset credits for member agency actions related to operational changes to their system that provide a regional benefit. Cost-offset credits would only be given to a member agency under the following conditions:

- The member agency takes an action to make changes to its operations to accommodate Metropolitan's operational request.
- The member agency incurs costs due to these actions that are above the normal costs to operate their system.

These limits ensure that Metropolitan only pays cost-offset credits for deliveries needed for Metropolitan to implement its own operational changes. It also ensures that credits are paid only for expenses incurred that exceed the member agencies' normal operation costs due to receiving shifted Metropolitan water deliveries. Upon approval, the General Manager would work with participating member agencies and enter into agreements through CY 2023 to address the need to continue shifting deliveries sourced from SWP supplies or storage to deliveries from the Colorado River.

Operational Shift Cost Offset Program

Attachment 1 provides the general terms for the OSCOP. OSCOP would be offered in CY 2023, and credits for water delivered under qualifying operational changes would be limited to up to \$359/AF. The credit limit of \$359 per AF is set at \$5 per AF above Metropolitan's 2023 Treatment Surcharge, similar to the program in CYs 2021 and 2022. Although it is expected that most operational changes will consist of shifts from untreated deliveries to treated deliveries, some participating agencies have made other types of coordinated operational shifts to reduce deliveries of SWP supplies. Such coordinated shifts have resulted in additional costs due to additional energy use, increased operations and maintenance costs, and increased purchase costs. Staff is proposing to only add one additional year (CY 2023) at this time.

Staff reviewed the performance of OSCOP in CYs 2021 and 2022 and determined that no program changes are needed (other than updating the maximum credit based on the 2023 Treatment Surcharge). Certification and reconciliation procedures are already in place to determine the maximum credit that can be reimbursed (if any). All water delivered under the OSCOP will be billed at Metropolitan's applicable full-service rate. If cost-offset credits are issued, Metropolitan will account for the costs similar to other supply programs. The costs are accounted for in the quarterly financial report as supply program costs. Although the OSCOP was not included as part of the Supply Programs Budget for FY 2022/23 and FY 2023/24, even with that addition of this program, the total Supply Programs Budget is projected to be below budget as a result of reductions in other programs.

Initiating Cost-Offset Credits and Reporting

Metropolitan regularly reports to the Board on developing supply and demand conditions through Water Surplus and Drought Management (WSDM) reporting. These monthly reports inform the Board of developing conditions, including the potential use of storage assets and the likelihood of storing or withdrawing supplies. Notification of OSCOP implementation is reported through the WSDM reports.

To calculate the credit, staff looks at the net additional costs an agency incurs in taking the above actions beyond their normal cost for making operational changes to their system to accommodate Metropolitan's operational changes. The increased costs would be eligible for the credit, up to \$5/AF above the Treatment Surcharge.

Summary

The OSCOP has helped Metropolitan maximize the current resources available from the Colorado River and SWP. By offsetting costs for agencies to shift deliveries, Metropolitan has increased reliability for the region. This program has further helped reduce the need for purchasing more expensive transfer supplies. If extended to CY 2023, OSCOP will continue to allow for improved availability of storage reserves to supplement supplies during dry years. With this extension of the OSCOP term, Metropolitan would have additional operational

flexibility to decrease deliveries from the SWP side of its system and increase deliveries from the Colorado River part of its system in the current year to increase storage supplies on the SWP for the future.

Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

Metropolitan Water District Administrative Code Section 4209: Contracts

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA (Public Resources Code Section 21065, State CEQA Guidelines Section 15378) because the proposed action involves continuing administrative activities such as general policy and procedure making, which will not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not defined as a project under CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment. (Section 15378(b)(4) of the State of CEQA Guidelines).

CEQA determination for Option #2:

None required

Board Options

Option #1

Authorize to extend the term of the Operational Shift Cost Offset Program to provide credits in CY 2023, consistent with the terms in **Attachment 1**.

Fiscal Impact: Up to \$359 per AF credit to the member agency in CY 2023. CY 2023 funding is unbudgeted. Although the OSCOP was not included as part of the Supply Programs Budget for FY 2022/23 and FY 2023/24, even with that addition of this program, the total Supply Programs Budget is projected to be below budget as a result of reductions in other programs.

Business Analysis: Metropolitan would improve regional reliability by shifting operations to deliver more Colorado River water and reserving its limited supplies on the SWP. The additional cost to manage such water at an amount not to exceed \$359 per AF in CY 2023 is reasonable in light of Metropolitan's past average cost of \$300 per AF to recover water in its SWP storage programs, north-of-Delta transfers (with costs in the range of \$800/AF), and the anticipated unavailability of that water in the near future.

Option #2

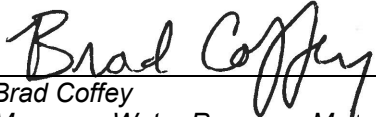
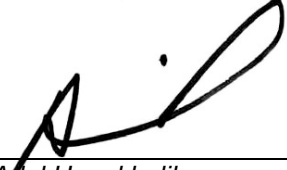
Do not authorize extending the term of the Operational Shift Cost Offset Program to provide credits in CY 2023.

Fiscal Impact: None

Business Analysis: Not implementing the credit decreases Metropolitan's flexibility in managing supplies for the region and reduces overall regional reliability.

Staff Recommendation

Option #1

 Brad Coffey Manager, Water Resource Management	10/5/2022 Date
 Adel Hagekhalil General Manager	10/6/2022 Date

Attachment 1 – Term Sheet Operational Shift Cost Offset Program (OSCOP)

Ref# wrm12689530

Term Sheet

Operational Shift Cost Offset Program (OSCOP)

Cost-Offset Credit

- Credit of up to \$359 per acre-foot (AF) in calendar year (CY) 2023 to help offset the estimated additional costs and risks incurred by the agency as a result of voluntary operational changes requested by Metropolitan for the purpose of maximizing Metropolitan's water resources.
- Metropolitan would have sole discretion in determining the eligible costs that would be credited.
- Credit would be based on Metropolitan's requested operation compared to the agency's normal operation. For example, if a member agency shifted deliveries from untreated to treated service connections per Metropolitan's request, the agency's increased cost would be the difference between Metropolitan's Treatment Surcharge and the agency's own cost to treat water. The agency may also incur other costs to implement the change in operation, which could include power or disinfection costs within their distribution system. In this case, Metropolitan would reimburse the agency for these cost increases on a per acre-foot basis, up to the maximum amount described above.
- All components of Metropolitan's full-service water rate, including the Readiness-to-Serve Charge, would be charged at the time the water is delivered. The Capacity Charge will apply, as OSCOP is not intended to change the amount of overall deliveries or the timing of the deliveries, rather just shift location of deliveries. Any operational changes that do affect the Capacity Charge determination, based solely on Metropolitan's request, will be evaluated for the applicability of the Capacity Charge.
- Member agency will be invoiced for water delivered.
- Transactions would be accounted for at the meter level.
- The credit would be applied to the member agency meter invoiced amount and would be subject to reconciliation of the credit amount and the delivery amount. Adjustments to credits could result from reconciliations.

Term

- Metropolitan would enter OSCOP agreements with the member agencies interested in participating in the Program.
 - 1-year program agreement.
 - The credit would apply only to deliveries made pursuant to the Program.