THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

BOARD ACTION

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

5/9/2023 Board Meeting

8-5

Subject

Review and maintain the General Manager's implementation of the Cyclic Cost-Offset Program effective April 15, 2023, pursuant to the Program terms approved by the Board on April 9, 2019; the Program previously was determined to be exempt or otherwise not subject to CEQA

Executive Summary

The General Manager has determined that water supply conditions strongly indicate that Metropolitan is at risk of not being able to capture and store all available supplies in calendar year 2023. Given the recent State Water Project (SWP) allocation increase to 100 percent, surplus SWP supplies through Article 21, continued lower demands, and late-season storms that continued to fill replenishment basins, available supplies are projected to exceed Metropolitan's storage capability this year. Accordingly, the General Manager initiated the Cyclic Cost-Offset Program (Program), effective April 15, 2023, pursuant to the Board's April 2019 authorization. The implementation of the Program increases Metropolitan's water management opportunities by helping member agencies offset costs incurred while capturing water they otherwise would not have purchased from Metropolitan. The cost-offset is limited to $264/acre-foot, which escalates each calendar year using the Consumer Price Index (CPI).

Metropolitan provides the offset as a credit on water purchased above the member agencies' normal deliveries pursuant to prior arrangement with the member agency and Metropolitan staff, certification, and reconciliation. The procedure to implement and continue the Program was authorized by the Board's April 2019 action. Therefore, no board vote or action is required to continue the Program as determined and implemented by the General Manager. However, the Board may suspend the current implementation of the Program and stop the use of cost-offset credits, which would take effect no earlier than May 26, 2023. The additional time after the Board's action to suspend would minimize disrupting deliveries already arranged with member agencies and allow for the 15-day notice of termination required under the agreements.

Details

Background

On April 9, 2019, Metropolitan's Board authorized the General Manager to enter into agreements to provide a credit to offset costs associated with increased deliveries to cyclic accounts when the General Manager determines that availability of imported supplies exceeds Metropolitan's ability to manage those supplies for the region. During that wet year, Metropolitan pre-delivered 19,000 AF that could not otherwise be captured by the region. The participating agencies subsequently purchased all that water from their cyclic accounts and reduced demand on Metropolitan over these past drought years.

In addition to increasing the allocation to 100 percent, DWR has also delivered 134,000 acre-feet of Article 21 supplies as of April 19. Article 21 refers to interruptible water DWR makes available to SWP contractors. Article 21 water is in addition to Table A allocation amounts. As a result of the increased SWP allocation, lower forecasted demands, Article 21 supplies delivered, and late-season storms that filled replenishment basins, staff projects up to 419,000 acre-feet of available supplies at risk of loss to the region. The amount of supplies at risk of loss may change as hydrologic conditions develop.

Metropolitan is working to meet member agency requested deliveries, repay supply obligations, and store as much water as possible in a cost-effective manner. The current strategy is to repay the Human Health & Safety water debt, SWP flexible storage, and Reverse Cyclic Program obligations, fill Diamond Valley Lake, maximize contractual storage in Metropolitan's SWP groundwater storage programs, store water in member agency conjunctive use and cyclic programs, maximize SWP carryover, store Colorado River supplies with Desert Water Agency and Coachella Valley Water District, and add water to Lake Mead either through storage in Metropolitan's Intentionally Created Surplus account or a new arrangement with the U.S. Bureau of Reclamation.

Early implementation of the Program maximizes opportunities to capture supplies, and therefore further reduces the potential magnitude of unmanaged supplies in 2023. Delays in Program implementation increase the risk of missed opportunities to capture the projected available supplies. Accordingly, the General Manager exercised the authority provided by the Board pursuant to its April 2019 action to implement the use of cost-offset credits and enter into agreements to implement the Program.

Cyclic Cost-Offset Credit Program

In order to receive the cost-offset in the form of a credit, the member agency must take an action to increase the capture of additional supplies at Metropolitan's request. Since such requests would require agencies to take deliveries beyond their normal operations, agencies may incur additional costs associated with capturing the increased supplies. Capturing additional supplies in the region may be limited if Metropolitan does not offset these additional agency costs.

The cost-offset credit helps member agencies manage the additional unplanned costs associated with capturing increased volumes of water. To qualify for the credit, the member agency must:

(1) Receive more water from Metropolitan than it originally projected; and

(2) Purchase the delivered water on an agreed-upon schedule at the then-applicable full-service rate within five years.

Pursuant to the General Manager's determination to implement the Program as of April 15, 2023, Metropolitan staff is working with member agencies to execute new agreements and to amend existing agreements to incorporate the 2023 credit rate. Existing cyclic agreements allow Metropolitan to manage up to 545,000 acre-feet. Metropolitan will deliver water under the Program only when there is a need to do so. Metropolitan is not required to deliver the maximum amount of water in each agreement and may terminate deliveries under the Program upon 15 days' notice if there is no longer a need.

For those agencies without existing cyclic agreements, staff is working to complete agreements as soon as possible. Like all other deliveries from cyclic accounts, the purchase of water received under the Program does not incur a Capacity Charge because the delivery is at Metropolitan's discretion. Metropolitan charges the member agency all other components of Metropolitan's full-service water rate, and the deliveries are included in the calculation of the agencies' Readiness-to-Serve Charge at the time the agency purchases the water. To determine the amount of the credit for each agency, staff considers additional costs the agency incurs to capture supplies beyond the amount originally expected. The approved increased costs then become eligible for the cost-offset credit, up to $264/acre-foot, which was escalated from 2019 by the CPI as authorized by the Board in its original action approving the Program. To ensure Metropolitan gives credits only for deliveries of water exceeding the agency's projections, Metropolitan in its sole discretion will certify that the surplus delivery to an agency is in addition to normal deliveries. Metropolitan will void any credits given for uncertified deliveries.

Summary

Given the recent SWP allocation increase to 100 percent, the delivery of Article 21 supplies, and lower demands, water available in 2023 may exceed Metropolitan's capability to store. By initiating the cost-offset credit for deliveries into cyclic accounts, member agencies increase the amount of water delivered to the region. By increasing deliveries to the region, Metropolitan frees up future water supplies to ensure reliable deliveries to all member agencies. This water will be managed locally, which enhances supplies available either during an emergency or future dry year and increases Metropolitan's future water sales pursuant to the agency's agreement to buy that water.

Pursuant to the Board's April 9, 2019, action, continuing the implementation of the Program requires no action and, therefore, no vote by the Board. However, if the Board elects to stop the use of cost-offset credits, the Board may vote to suspend the General Manager's implementation of the Program. Staff recommends that any such suspension be effective no earlier than May 26, 2023, to avoid disrupting deliveries staff has already arranged with member agencies and allow for the 15-days' notice of termination required under the agreements. The alternative to suspend the Program's April 15, 2023 implementation, however, does not rescind the Board's April 9, 2019, action to authorize the General Manager to implement the Program, and the General Manager may implement the Program again in the future.

Policy

Metropolitan Water District Administrative Code Section 4209: Contracts

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 50793, dated April 10, 2017, the Board authorized the General Manager to enter into cyclic agreement with Metropolitan's member agencies.

By Minute 50888, dated July 11, 2017, the Board authorized the General Manager to enter into cyclic agreements providing a credit of up to $225 per acre-foot for in-lieu deliveries.

By Minute Item 51563, dated April 9, 2019, the Board approved the General Manager to enter into Cyclic Cost-Offset Credit Program Agreements providing a credit of up to $225 per acre-foot for deliveries, to be escalated per CPI.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1 and #2:

The Program was previously determined to be categorically exempt under the provisions of CEQA and the State CEQA Guidelines. More specifically, the General Manager found the Program to be exempt under Class 1, Section 15301 of the State CEQA Guidelines on April 9, 2019. The proposed action involves review and consideration of current Program activities and whether to suspend them but does not involve any substantial changes to the Program itself. Accordingly, no further CEQA documentation or determination is necessary for the Board to act with regard to the proposed action.

Board Options

Option #1

Review and maintain the General Manager's implementation of the Cyclic Cost-Offset Program effective April 15, 2023, pursuant to the Program terms approved by the Board on April 9, 2019 (No motion or vote is required for this option; the Report will be received and filed.)

Fiscal Impact: Up to $264 per acre-foot cost-offset credit to participating member agencies in 2023. The total cost to Metropolitan will depend on the duration of the Program and the deliveries actually made pursuant to the Program. Though the use of this Program was not budgeted for in this biennium, the combined Water Supply and State Water Project budget remain under budget, which can be used to pay for the Program.

Business Analysis: Metropolitan would improve regional reliability through the delivery of water to the region that would have otherwise been lost. The additional cost to manage such water at an amount not to exceed $264 per acre-foot is less than Metropolitan's average cost of approximately $300 per acre-foot to store water in its SWP storage programs. Further, the delivery of the supplies to the region incurs lower power costs in wet years than in dry years because of higher hydroelectric generation on the State Water Project. Metropolitan will also generate additional revenue from its ability to sell the additional water it is able to receive and store pursuant to the Program.

Option #2

Suspend the Cyclic Cost-Offset Credit Program implementation by the General Manager on April 15, 2023, effective no earlier than May 26, 2023.

Fiscal Impact: The cost of the credits will be limited to eligible deliveries made under the Program between April 15, 2023, and May 26, 2023. Thereafter, fiscal impact includes potential loss of water that may be sold in the future and an increase in costs to acquire additional water for the region in the future through other means.

Business Analysis: Suspending the credit in cyclic agreements would decrease the water supplies available to the region in 2023 and in the future.

Staff Recommendation

Option #1, which requires no vote by the Board.

Brad Coffey 5/2/2023

Brad Coffey *Date*

Manager, Water Resource Management

5/3/2023

Adel Hagekhalil *Date*

General Manager

Ref# 12696833