THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Board Information

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

10/13/2026 Board Meeting

9-1

Subject

Information on Metropolitan's application to the State of California's Instream Flow Water Purchase Program

Executive Summary

The Instream Flow Water Purchase Program (IFWPP) is a state grant program to promote the recovery of species and improve upon existing flow conditions in the Sacramento-San Joaquin watershed. The IFWPP is specifically focused on funding the acquisition of instream flows in the January through June time period through the use of state grants. In October 2023, staff submitted an application to the California Department of Water Resources (DWR) for Metropolitan to provide water supplies for the IFWPP under the annual participating condition that the State Water Project (SWP) allocation is 30 percent or greater. In exchange for providing these supplies, Metropolitan would receive $70 million at the onset of the program with the obligation to provide ten installments of 14,000 acre-feet in participating program years. Based on projected future conditions, it would take approximately 15 years for Metropolitan to fulfill its commitment. DWR and the California Natural Resources Agency (CNRA) anticipate issuing an intent to award letter to Metropolitan.

Metropolitan's participation in the IFWPP has the potential benefit of receiving financial compensation for future SWP supplies that are contributed toward regulatory flows and obligations. If participation in the IFWPP does not help to offset future regulatory flows and obligations, Metropolitan's participation in the IFWPP can be viewed as an external pre-sale of SWP supplies in moderate and wet years. In either case, participation results in providing upfront revenue to Metropolitan which can be used to offset the cost of future replacement supplies. Due to the size of contributions relative to Metropolitan's overall supply portfolio and the built-in guardrail of a minimum 30 percent SWP allocation, participation in this program is not expected to impact Metropolitan's future reliability during its period of participation.

Fiscal Impact

Metropolitan's participation in the IFWPP, if approved by the Board, would provide $70 million in revenue to Metropolitan at the onset of the program. In future years, Metropolitan could be required to implement additional water management actions such as additional storage takes or transfer purchases during lower SWP allocations to offset the obligation to deliver 14,000 ac-ft in participating program years. During higher SWP allocations, Metropolitan would reduce water storage costs or risk of carryover spill. Revenue received through the IFWPP could be used to help offset the costs associated with additional water management actions, which if require appropriation, will be brought to the Board for approval at that time.

Applicable Policy

By Minute Item 52831, dated May 10, 2022, the Board voted to express support for developing the Voluntary Agreement approach as an alternative in the Water Board's Bay-Delta Water Quality Control Plan Update.

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

Staff will return in November 2026 for a board action to adopt a resolution supporting Metropolitan's participation in the state's Instream Flow Water Purchase Program and authorize the General Manager to accept $70 million in grant funding from the IFWPP and enter into contracts with the California DWR and CNRA.

Details and Background

Background

Program Information and Funding

The IFWPP aims to promote the recovery of species and improve upon existing flow conditions with a focus on funding the acquisition of instream flows in the Sacramento-San Joaquin watershed provided January through June, with priority for flows provided in dry and critically dry water year types. The grant guidelines state that instream flows provided during this period will improve upon existing conditions in a manner that will promote species recovery and environmental enhancement. The sole focus of the IFWPP program is to establish financial instruments and agreements necessary to ensure water for beneficial instream flows is made available from those with legal rights to use or dedicate water. IFWPP funding that would be eligible for Metropolitan originates from the Protecting California's Rivers, Streams, and Watersheds Grant Program (Proposition 68) and was appropriated in the 2021 Budget Act within the Water Resilience and Drought Response Package for Water Resilience Projects.

Overview of Application Process and Proposal Development

Metropolitan staff developed an initial proposal in the summer of 2023 through collaboration with executive management and between multiple resource groups including Bay-Delta Initiatives, Water Resource Management and Water System Operations. Prior to submittal, all program applications received signatory from the Executive Officer/Assistant General Manager, Water Resources.

June 2023	Grant guidelines published
October 2023	Metropolitan submitted initial Phase 1 application
January 2024	DWR meeting to discuss Phase 1 application
February 2024	Metropolitan submitted Phase 2 application
August 2025	DWR meeting to discuss Phase 2 application
September 2025	Metropolitan resubmitted Phase 2 application
July 2026	Metropolitan informed that proposal has been accepted
Fall 2026	Intent to award letter expected from CNRA

Valuation of Metropolitan Water Supplies

Metropolitan's submitted proposal specifies a price of $500 per acre-foot of water supplied to the IFWPP. The annual costs to develop and deliver Metropolitan's SWP supplies are comprised of fixed capital costs for the construction of the SWP and its facilities, as well as variable power costs for the energy required to move the water to Metropolitan's service area. The $500 per acre-foot valuation of water supplied to this program is based on Metropolitan's fixed SWP costs at a 60 percent allocation as projected in DWR's financial B-Tables and includes fixed costs such as transportation capital and O&M, but excludes variable power transportation costs. This value is also consistent with pricing outlined in the February 2025 board letter authorizing the General Manager to execute transfers and exchanges in 2025-2026.

Impacts to Reliability & Benefits

Participation in the program is determined on a year-by-year basis depending on the SWP allocation. Metropolitan's participation in the IFWPP would occur during SWP allocation years of 30 percent or more. A 30 percent allocation threshold for participating in this program was selected by Metropolitan to adequately meet annual SWP Dependent Area (SWPDA) demand, which typically ranges from 450,000 to 600,000 AF. Based on best available modeling of projected hydrologic conditions, the duration of the IFWPP would likely occur over an approximately 15-year period. Reliability analyses indicate that Metropolitan participation in the IFWPP at the proposed 14,000 AF per participation year results in no significant increases to the probability of total shortages or SWPDA shortages for Scenarios C and D of the Integrated Water Resources Plan. The minimal impact to Metropolitan's reliability is largely due to the fact that Metropolitan's participation in the IFWPP would occur in moderate or wet periods within the SWP. The reliability analyses conducted are similar to those performed within the Climate Adaptation Master Plan for Water project assessments and includes reductions in Metropolitan's Colorado River supply. When the SWP allocation is less than 30 percent, Metropolitan would not be required to participate in the program.

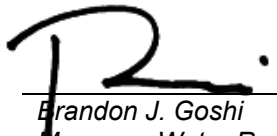
The benefits stemming from Metropolitan's participation in the program are monetary compensation, flow improvements, and regulatory support. Unlike a typical water transfer or option agreement in which monetary compensation for water supplies would occur in the year of transaction, under the IFWPP, the entirety of the $70 million of grant funds would be made available to Metropolitan at the program's onset. Additionally, there are no restrictions on the grant recipient's use of funds. As related to flow improvements, the stated goals of the IFWPP are to promote the recovery of species and improve upon existing flow conditions in the Sacramento-San Joaquin Delta. Metropolitan's participation in the program will add to flows in the critical January-June period when sensitive fish are more present or migrating through the Delta. Lastly, water secured via the IFWPP supports meeting state regulatory requirements, as these flows can be used to meet state contributions to the Healthy Rivers and Landscapes Program (HRL). In the event HRL is not implemented in the Water Quality Control Plan update, the IFWPP will continue, and the program's water contributions would likely be accounted for under the selected regulatory framework.

Summary of Agreement Terms and Example of Metropolitan Participation

- Participation during years when the SWP allocation is 30 percent or greater
- Metropolitan to contribute 140,000 acre-feet of water supplies across ten participating years
- Metropolitan to be awarded in advance a total of $70 million

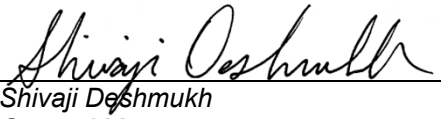
Next Steps

Staff will return to the Board in November 2026 to seek a board resolution to authorize the General Manager to enter into an Agreement with the California DWR and CNRA for the IFWPP.



9/24/2026

Brandon J. Goshi *Date*
Manager, Water Resource Management



9/24/2026

Shivaji Deshmukh *Date*
General Manager

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