

- **Board of Directors**
Water Planning and Resources Committee

June 13, 2000 Board Meeting

9-9

Subject

Metropolitan's Cooperative Storage Program.

Description

In 1993, Metropolitan's Board of Directors authorized the implementation of a Cooperative Storage Program (CSP) to store excess supplies with member agencies. Under the CSP, member agencies may take deliveries without charge from Metropolitan, with the expectation to extract and pay for the water when Metropolitan requests release. Under this version of the CSP, when released from storage, the water would be charged the Seasonal Storage Service (SSS) rates then in effect.

In 1994, Metropolitan's Board authorized the implementation of a modified version of the CSP. Under this version of the CSP, when released, the water would be charged the SSS rates at the time it was placed into storage.

In 1995, Metropolitan's Board authorized the implementation of another modified version of the CSP, with an objective of augmenting supplies during the initial fill of Diamond Valley Lake (DVL). Under this modified version of the CSP, the participating member agencies paid \$90 per acre-foot for the incremental cost of delivering the water plus interest. The CSP is governed by Section 4517 of Metropolitan's Administrative Code. [Attachment 1](#) gives a detailed description of the CSP. [Attachment 2](#) reflects the CSP account balance of the participating member agencies.

For the current calendar year, Metropolitan has approximately 3.2 million acre-feet of supplies from the State Water Project and Colorado River Aqueduct. Metropolitan is optimizing the use of this water in excess of current retail-related demands to fill DVL and in-region and out-of-region conjunctive-use storage. Based on the current supply availability, it is anticipated that the use of CSP water to augment supplies for the fill of DVL will not be needed. The participating member agencies have proposed various ways of disposing of the CSP water and closing the accounts, as described in [Attachment 3](#).

Since adoption of the CSP, Metropolitan's Board has adopted a new set of guiding principles for conjunctive use. These principles allow for greater flexibility in both storing and releasing water when needed. The Raymond Basin Conjunctive Use Program was authorized using this set of principles, and anticipates transferring both Foothill Municipal Water District's and the City of Pasadena's CSP water into the conjunctive-use account. Other proposals include rolling the water into a conjunctive-use account or buying the water at the SSS rates at the time the water was placed into storage without specific CSP performance.

Phasing out the CSP in the manner described in [Attachment 3](#) would eliminate these storage programs that no longer meet the groundwater conjunctive-use principles adopted by Metropolitan's Board. An additional benefit would be the reduction in the amount of member agency and Metropolitan staff time spent administering the CSP accounts.

Policy

Administrative Code, Section 4517.

Board Options/Fiscal Impacts

Option #1

Authorize the General Manager to phase out the Cooperative Storage Program and enter into agreements with the participating member agencies to either sell the water at the Seasonal Storage Service rates or transfer the water into existing conjunctive-use accounts as described in **Attachment 3**.

Fiscal Impact: About \$7 million in gross initial revenues netting to about \$4 million when previously expended treatment and delivery costs are subtracted for water currently in the account.

Option #2

Do not authorize the General Manager to enter into agreements as described in Option #1.

Fiscal Impact: About \$3 million in delivery and treatment costs expended at the time of storage for water currently in the account.

Option #3

Release the water following the procedures described in the Administrative Code.

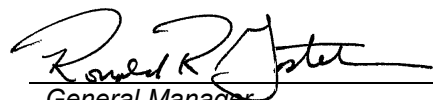
Fiscal Impact: About \$7 million in gross initial revenues netting to about \$4 million when previously expended treatment and delivery costs are subtracted for water currently in the account. Projected to be approximately \$1 million to place new water into conjunctive-use accounts instead of transferring CSP water.

Staff Recommendation

Option #1.


for Jill T. Wicke
Acting Manager, Water System Operations

5/22/2000
Date


General Manager

5/23/2000
Date

Attachment 1—Detailed Report

Attachment 2—CSP Account Balance by Member Agency

Attachment 3—Proposed Ways of Phasing out the CSP

DETAILED REPORT

History of the Cooperative Storage Program and Reason for Implementation

In 1993, the Board authorized the General Manager to enter into Cooperative Storage Program (CSP) Agreements with member agencies for advanced deliveries and storage of water in groundwater basins and reservoirs for future use and sale. The CSP is intended to serve as an adjunct to the Seasonal Storage Service (SSS) Program and expand regional conjunctive use by allowing agencies with limited funds on hand an opportunity to obtain increased deliveries of imported water for storage and pay for the water later when it is used. However, no water was placed into storage with the one contract entered into under the 1993 provisions. Under the 1993 provisions, the agency would pay the SSS rates in effect when the water would be withdrawn from storage.

In 1994, the Board authorized modifications to the CSP. These modifications were to address the agencies' discomfort with the uncertainty in escalation of the future SSS rate. Additionally, some agencies expressed concern that they would incur certain additional costs associated with providing the regional water supply benefits of the program and asked for reimbursement.

The solution adopted by the Board was to sell the water to the member agency upon delivery to storage but defer payment without interest until the water was released from storage. Additionally, a minimum usage clause was added limiting the amount that Metropolitan could request be released in any one year. To streamline procedures, the rules for the CSP were added into the Administrative Code (Section 4517) so that there is no need to sign any agreements. In 1994, about 89,000 acre-feet (AF) was stored under the rules of the 1994 CSP and another 20,000 AF was transferred from the 1991 Drought Storage Agreement. The term that this water may be held in storage is indefinite.

In 1995, the Board authorized another modification to the CSP addressing the following four areas:

- Delivery of the water would result in increased deliveries of imported water to Metropolitan's service area;
- The water would be delivered into local storage to increase regional water supply reliability in the future;
- The sale of such water would not adversely impact Metropolitan's finances; and
- The purchase of such water would not adversely impact the member agencies' ability to participate in the SSS Program in 1996.

It was also foreseen that the water could be used to augment the fill of Diamond Valley Lake. In 1995, about 7,500 AF was stored under the rules of the 1995 CSP. This water may be held in storage for a ten-year period.

Since 1995, no additional water has been placed into storage. Attachment 2 reflects the current account balance of the participating member agencies. Since initial fill of the accounts, about 55,000 AF has been released for gross revenues of \$14.3 million and net revenues of \$10.3 million. Additionally, another 6,500 AF has been applied to losses. The cost for these losses was about \$700,000 for treatment and delivery.

Financial Provisions

Water stored in 1994, when withdrawn, is charged the SSS rate in effect when it was placed into storage. Water stored prior to April 12, 1994 is exempt from the Readiness-to-Serve Charge (RTS) and New

Demand Charge (NDC). Water stored past April 12, 1994 but prior to 1995 is included in the RTS and NDC determinations when released from storage.

Water stored after 1994 is also sold at the SSS rate in effect when it was placed into storage. However, participating agencies pay the incremental cost of delivering the water plus interest with the following year's July 10 water billing invoice. In 1995, the incremental cost plus interest was \$90 per AF (\$85 per AF for the incremental delivery costs and \$5 per AF interest). When the water is released from storage, the agency is invoiced the SSS rate in effect when the water was placed into storage minus the incremental delivery costs previously paid but not the interest. Additionally, the agency is charged \$36 per AF RTS when the water is released from storage. The water is also included in the agency's NDC calculations.

Additionally, Metropolitan may bear losses on some of the CSP accounts. Also, if an agency fails to comply with the CSP provisions of the Administrative Code, it should pay the applicable treated or untreated Full Service water rates applicable at the time water was placed into storage.

Release Provisions

The following list is the release provisions for water stored prior to 1995:

1. In any fiscal year when SSS deliveries are available, the General Manager may release, up to half of the CSP water stored by the respective member agency, in place of the agency's request for delivery of SSS through the Metropolitan's distribution system, except for conditions as described in Sections 4 and 5 below.
2. In a fiscal year in which SSS or Full Service deliveries have been suspended, the General Manager shall release, and the participating member agency shall accept, up to half of the CSP water stored by the respective agency, to the extent the agency requests that release, except for conditions as described in Sections 4 and 5 below.
3. During an emergency such as an earthquake, when Metropolitan water service is interrupted, the General Manager shall release up to all stored CSP water stored by the respective member agency, to the extent of the interruption in water service and that the agency requests that release.
4. When the CSP water stored by the respective member agency is less than ten percent of the agency's average annual purchase of SSS deliveries for the prior four years, the General Manager may release all of the CSP water stored by the agency.
5. In any fiscal year during which a participating member agency's SSS or CSP water release request is less than its average annual purchase of SSS of the prior four years, the General Manager may release the CSP water stored by the respective member agency in combination with SSS sales up to the agency's four-year average SSS purchase. Metropolitan shall not release more than half of the CSP water stored by the respective member agency for this purpose and shall provide the agency with a 90-day advance notice of the release.

The following list is the release provisions for water stored after 1994:

1. The General Manager may release in a fiscal year up to one-third of the total amount of CSP water placed in storage by a respective member agency in place of that agency's request for delivery of water from the Metropolitan's distribution system or for SSS, in order to fill Diamond Valley Lake, meet operational requirements, or reduce or eliminate shortages. CSP water used to reduce or

eliminate shortages, or for operational requirements may be released during any ten months selected by the General Manager during a twelve-month period from the time of release. CSP water may be released at any time in place of the agency's request for SSS.

2. Upon release of CSP water by Metropolitan, the participating member agency shall furnish to Metropolitan, within 60 days, water supply and demand data based on historical information sufficient to document that it has produced the amount of CSP water released to it.
3. The General Manager shall release stored CSP water to the respective member agency no later than ten years after delivering it to that agency for storage.
4. If a member agency receives delivery of CSP water for storage after 1994, any CSP water that agency has stored in previous years shall also be subject to the release provisions for water stored after 1994.
5. Participating member agencies may transfer CSP water they have placed into storage under the CSP into other long-term water storage programs Metropolitan may develop as part of its Integrated Resource Plan under mutually agreeable transfer terms, executed in writing by both parties.

Attachment 3 describes how each agency would prefer to dispose of the CSP water.

Cooperative Storage Program (CSP) Account Balance by Member Agency

Member Agency	Account Balance (acre-feet)
Calleguas Municipal Water District	5,002
Foothill Municipal Water District	1,991
Inland Empire Utilities Agency	1,110
City of Los Angeles	25,004
City of Pasadena	21,967
Total:	55,074

Proposed Ways of Phasing out the Cooperative Storage Program (CSP)

Member Agency	Proposal
Calleguas Municipal Water District	About 3,800 AF stored in the Las Posas Basin would be transferred into the conjunctive-use account at the Seasonal Storage Service (SSS) rates. Water in the accounts when released would be under the rates established in the CSP. The water would not qualify for another SSS discount and Calleguas would pay any pumping costs. 1,200 AF stored by sub-agencies in another basin would be bought over a three-year period.
Foothill Municipal Water District	Would transfer the CSP water into the Raymond Basin conjunctive-use account when agreements are signed. Water in the account when released would be under the rates established in the CSP. The water would not qualify for another SSS discount and the producing agency would pay any pumping costs.
Inland Empire Utilities Agency	Monte Vista would pay for the CSP water and transfer to Ontario, and Ontario would use the water to offset their overproduction from the basin.
City of Los Angeles	Buy one-half of balance in summer 2000 and the other half in summer 2001.
City of Pasadena	Would transfer the CSP water into the Raymond Basin conjunctive-use account when agreements are signed. Water in the account when released would be under the rates established in the CSP. The water would not qualify for another SSS discount and Pasadena would pay any pumping costs.