



- Board of Directors
Water Planning and Stewardship Committee

3/12/2019 Board Meeting

9-3

Subject

Information on potential credit to enhance in-lieu deliveries to cyclic storage under limited conditions

Executive Summary

This report describes a proposed revision to Metropolitan's cyclic agreements to increase the ability to capture imported supplies in future surplus conditions. Under the proposed modification, Metropolitan would be able to store water within its service area by delivering surplus supply to member agencies during extraordinary conditions, in-lieu of those agencies using their own local supplies. In exchange for agreeing to the in-lieu delivery and performance, Metropolitan would pay member agencies up to \$225 per acre-foot in the form of a credit. The maximum cost of \$225 per acre-foot would be comparable to Metropolitan's costs for other water management programs. For the agencies, the credit would offset some of the increased costs they would incur when taking treated imported deliveries in-lieu of using local supplies during surplus conditions. Metropolitan would credit the participants for their documented increased costs to receive the treated water up to \$225 per acre-foot (indexed by inflation each year). The proposed program would provide the General Manager the authority to execute cyclic agreements and to initiate in-lieu deliveries when water supplies may exceed Metropolitan's ability to capture. Upon authorization of in-lieu deliveries, staff would report the activity and the conditions that warranted this action to the Board at its next regular meeting.

Details

Background

Metropolitan has developed a diverse portfolio of water storage facilities and agreements to help capture imported supplies in surplus conditions. This portfolio includes surface storage facilities, groundwater storage, and pre-delivery accounts that are both inside and outside of the region. Since the 1970's this portfolio has included cyclic agreements.

Cyclic Accounts

A cyclic agreement establishes an account between Metropolitan and a member agency with either groundwater or surface storage. Through the account, Metropolitan can deliver water to the member agency at Metropolitan's convenience. Once delivered, the member agency then purchases water out of the account on an agreed upon schedule, not to exceed five years. Unlike some other programs in Metropolitan's storage portfolio, cyclic accounts do not charge Metropolitan any costs for this activity, and there are no loss factors applied to deliveries into cyclic accounts.

At times, Metropolitan may prefer to deliver higher amounts of water than a member agency may have budgeted for in a given time period. Cyclic accounts allow Metropolitan to make larger deliveries when imported water is available while allowing the member agency to purchase the water over a period of time, allowing stable and predictable budgeting.

Two Methods of Delivery into Cyclic Accounts

Metropolitan can deliver water into cyclic accounts through either direct or in-lieu methods. Direct deliveries are made when Metropolitan provides untreated supplies directly to a surface reservoir or groundwater spreading connection. Direct deliveries are common, although operational conditions can constrain when direct deliveries can be made. Sometimes the capacity of local spreading basins, water quality issues, and/or the potential presence of invasive species can impact the ability to make direct deliveries.

In-lieu deliveries can be made if the member agency reduces groundwater pumping or reduces the use of local surface storage in order to increase deliveries from Metropolitan's treated water system. In this operation, Metropolitan provides treated drinking water to meet consumptive demands in-lieu of the member agency using its groundwater or surface water to meet demands. This increases Metropolitan's imported deliveries when they are available and preserves the local supplies to be used at a later date. By virtue of using Metropolitan's many treated water connections, Metropolitan has a higher degree of operational flexibility in making in-lieu deliveries.

In-lieu Deliveries Are an Economical Form of Water Management for Metropolitan, but Come at a Higher Cost for the Local Agency

In-lieu deliveries can significantly increase the amount of water maintained in local cyclic accounts. However, member agencies typically plan to replenish groundwater and surface water storage using untreated deliveries over time. When taking in-lieu deliveries, the member agency must also pay Metropolitan's treatment surcharge. This higher cost serves as a disincentive to the member agency to use more imported water, particularly when it can simply wait to purchase untreated water at a later date. When a member agency takes treated in-lieu deliveries, the member agency avoids costs associated with pumping and delivering the local supplies. These avoided costs, however, are outweighed by the higher cost of Metropolitan's treatment surcharge.

2017 In-Lieu Credit Program

In 2017, Metropolitan experienced extraordinary conditions with a high amount of available imported supplies and low member agency demands. Metropolitan's ability to manage water in available storage accounts was maximized. In July of 2017, to increase deliveries of treated supplies, Metropolitan's Board authorized a credit of up to \$225 per acre-foot for in-lieu deliveries of treated water to member agency cyclic accounts. The \$225 per acre-foot cost to Metropolitan was competitive compared to other storage alternatives and reduced the cost impact to a member agency for taking in-lieu deliveries. The credit payable to a member agency was determined using the costs incurred by the agency as a result of taking additional treated water at Metropolitan's request in-lieu of using their own local supply, minus the costs that the agency would have incurred without the in-lieu delivery, not to exceed \$225 per acre-foot. Member agencies submitted their estimates of avoided cost to Metropolitan, which Metropolitan reviewed based on documented records. Agencies entered into purchase agreements to purchase the water within five years. Metropolitan entered into agreements for treated in-lieu deliveries with Municipal Water District of Orange County, City of Anaheim, City of Fullerton and City of Santa Ana. Other agencies voiced interest in taking in-lieu deliveries, but the approval of the program came too late in the year for their operations to accommodate the water.

The 2017 in-lieu credit program was approved only for the duration of the 2017/18 fiscal year. During the brief program, about 65,200 acre-feet were captured in cyclic accounts through in-lieu deliveries. This water would have otherwise been lost if the program were not in place.

Potential Modification to Cyclic Program

Staff is proposing a modification to the current Cyclic Program similar to the in-lieu credit program authorized by Metropolitan's Board in July 2017. Whereas the previous cyclic program was limited in both scope and duration, the modification would not be limited in that manner. The General Manager would have the authority to enter into cyclic agreements with member agencies and to initiate a credit for in-lieu deliveries based on water supply conditions in real time. This delegation of authority would provide flexibility in the operation of the Cyclic Program to allow for timely deliveries of surplus supplies.

The window to capture surplus supplies is often limited. For example, Article 21 supplies on the State Water Project can become available with little notice and only be available for a few weeks. If agreements and authority to initiate deliveries were in place beforehand, the amount of captured supplies would be maximized. These deliveries would increase water delivered and stored in the region, thus improving reliability for all member agencies and providing a regional benefit in the same manner as other water management programs. Further, these programs collect Metropolitan's full-service rate on a pre-determined schedule.

Member Agency Requirements

Under the proposed revised Cyclic Program when surplus water is available, member agencies would take treated water from Metropolitan in addition to their baseline water purchases for the year, in exchange for a credit of up to \$225 per acre-foot. The credit would be calculated as the difference in costs of the in-lieu delivery compared to their normal groundwater operation. Metropolitan would retain the sole discretion in determining eligible costs. The resulting credit would remove the financial barrier for a member agency to increase in-lieu deliveries from Metropolitan.

Participating member agencies would be purchasing more water than was already projected for delivery. Metropolitan would bill the member agency through a cyclic account at the full-service rate within five years, based on an agreed upon schedule. The schedule would provide certainty to Metropolitan that the water would be sold to generate a future sale. The schedule also provides the member agency certainty as to how the additional water purchases would impact future budgets.

Like all other purchases from cyclic accounts, the purchase by the agency would not incur a Capacity Charge, because the in-lieu delivery would be at Metropolitan's discretion. All other components of Metropolitan's full-service water rate would be charged to the member agency at the time the water is sold, and the delivery would count towards the agency's Readiness-to-Serve Charge. The member agency would be billed the treatment surcharge at the time of delivery, and would also receive the credit in the same year. To ensure credits were given only for deliveries of additional water, Metropolitan would certify that the in-lieu delivery to an agency was in addition to normal deliveries in the fiscal year.

Program Process and Reporting

Staff would evaluate the supply, demand, and storage availability through the Water Surplus and Drought Management process. If additional supply needs to be managed after other water management actions are potentially exhausted, staff would recommend the General Manager initiate in-lieu deliveries. Staff would report Cyclic Program activity to the Board at the next regular board meeting. The report to the Board would include information about the circumstances that led to the action, estimated surplus supplies and identify the participating member agencies and planned delivery amounts. Through a monthly certification and annual reconciliation process, staff would ensure that deliveries under the Cyclic Program were in addition to their normal deliveries.

Summary

Under extraordinary supply conditions, there may be an availability of supplies beyond what Metropolitan is able to manage. By providing a credit to member agencies to accept in-lieu deliveries under limited conditions, member agencies would increase the amount of water delivered to the region benefiting all member agencies and the region in the same manner as other water management programs. Increased deliveries into cyclic accounts bring more water into the service area. This enhances Metropolitan's ability to respond to emergency events more than storage outside the service area.

By delegating authority to the General Manager to enter into cyclic agreements to provide in-lieu credits, and to begin in-lieu deliveries, the Cyclic Program would provide operational flexibility to manage and store extraordinary supplies. The draft terms for the Potential In-Lieu Cyclic Program are included in **Attachment 1**.

Policy

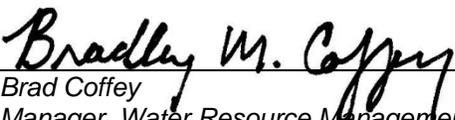
Metropolitan Water District Administrative Code Section 4209: Contracts

By Minute Item 50793, dated April 10, 2017, the Board approved the General Manager to enter into Cyclic Agreements with Metropolitan’s member agencies.

By Minute Item 50888, dated July 11, 2017, the Board approved the General Manager to enter into Cyclic Agreements providing a credit of up to \$225 per acre-foot for in-lieu deliveries in fiscal year 2017/2018.

Fiscal Impact

The fiscal impact would be a short term increased cost associated with the maximum credit of \$225 per acre-foot (indexed each year). The credit is competitive with the unit cost of Metropolitan’s State Water Project groundwater storage programs. Increased local supplies would reduce demand in dry years when alternative water supply sources are likely to be more expensive and provide more reliability in emergency events, providing a regional benefit to all member agencies.


Brad Coffey
Manager, Water Resource Management

3/1/2019
Date


Jeffrey Kightlinger
General Manager

3/1/2019
Date

Attachment 1 – Term Sheet, Member Agency In-Lieu Agreements

Ref# wrm12660548

Term Sheet
Member Agency
In-Lieu Cyclic Agreements

In-Lieu Credit

- Metropolitan would provide a credit of up to \$225 per acre-foot, escalated yearly using the Consumer Price Index, for the in-lieu deliveries of Metropolitan supplies.
- The credit payable to a member agency would be based on the estimated additional costs that would be incurred by the member agency as a result of taking delivery of additional treated water supplies at Metropolitan's request. The credit would be equal to the treatment surcharge minus the costs that the agency would have incurred without receiving in-lieu deliveries. Avoided cost estimates would be provided by the member agencies for review.
- Metropolitan would have sole discretion in determining the eligible costs that would be reimbursed.
- Metropolitan would bill the treatment surcharge to the member agency at the time of delivery.
- Transactions would be accounted for at the meter level.
- The credit applied to the member agency meter invoiced amount, and subject to reconciliation of the credit amount and the in-lieu delivery amount.
- Adjustments to in-lieu credits could result from reconciliations.

In-Lieu Delivery Requirements

- The in-lieu delivery of water to a member agency shall not reduce the full-service water sales of Metropolitan. Certification of in-lieu deliveries could be limited if the member agency does not achieve projected full-service deliveries as determined by Metropolitan for that year.
- Metropolitan would agree on a payment schedule for the agencies' purchase of the delivered water.
- Operating plans would be required from the member agency prior to receiving in-lieu deliveries. Operating plans would help certify in-lieu deliveries into cyclic agreements as separate from normal deliveries. Any credits given for water deliveries that are unable to be validated and reconciled by official documentation (i.e., Watermaster report or other official documentation) after certification would be voided by Metropolitan.
- The terms for the agency's purchase of the delivered water, including applicable rates and charges, would be the same as all other purchases from the member agency's cyclic agreement.

Term

- The member agency would be required to purchase the delivered water no later than five full calendar years from the in-lieu delivery. Metropolitan and member agencies would agree on a payment schedule for the agencies' purchase of the delivered water under the cyclic agreement.