Authorization to Provide a Cost-Offset Credit for Surplus Deliveries to Cyclic Accounts

Water Planning and Stewardship Committee
Item 8-4
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Background

- Diverse portfolio of water storage facilities and agreements inside and outside the region
  - Examples:
    - Surface storage
    - Groundwater storage
    - Pre-delivery accounts
- Long history of deliveries into cyclic accounts
  - First cyclic agreements with Upper San Gabriel Valley MWD (1974) and Three Valleys MWD (1991)

Cyclic Program

- Cyclic agreements establish account with Member Agency
  - Groundwater or surface delivery
- Ability to deliver water to member agency at Metropolitan's request
  - Capacity charge does not apply
- No costs to Metropolitan to put or recover water
- Member Agency purchases water from account on agreed schedule within five year period
  - Member agency pays full service water rate in effect at time of purchase

Two Methods of Delivery

Direct

- Supplies delivered directly to surface reservoir or groundwater spreading basin connection (e.g., injection into aquifer storage and recovery)

In-Lieu

- Supplies delivered to meet consumptive demands *in-lieu* of member agency using its groundwater or surface water supplies

Cyclic Deliveries

- Cyclic agreements help manage supplies during surplus conditions by pre-delivering imported water to member agencies
- Member agencies may take additional steps to capture additional surplus imported supplies
  - Results in costs above member agency normal operating conditions

Proposed Modification to Cyclic Program for Surplus Deliveries

- General Manager authority to:
  - Issue cost-offset credits related to member agency actions to capture water in cyclic accounts
    - Credits provided under following conditions:
      - Risk of not capturing all available imported supplies
      - Member agency takes action to increase capture at Metropolitan’s request
      - Captured supplies are above baseline operations
      - Member agency incurs costs to capture surplus supplies above their normal costs to accept imported supplies

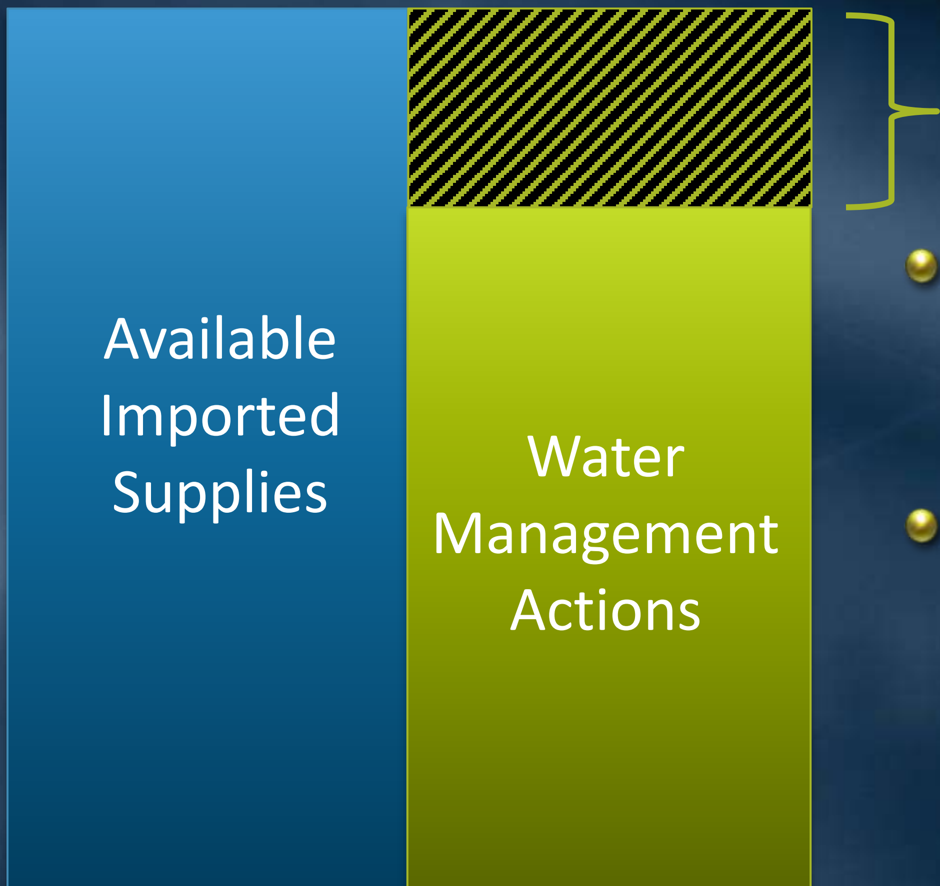
Why is Cost-Offset Credit Needed?

- Cyclic program does not include a mechanism to offset higher cost of some actions to capture an increased amount of imported water
  - Examples of actions:
    - Increased deliveries to local surface storage
    - Increased deliveries to groundwater spreading
    - Increased deliveries to groundwater basins
    - In-lieu deliveries
- Opportunities may be limited without a credit for member agencies

Cost-Offset Credit Terms

- Metropolitan pays the member agency a cost-offset credit up to $225/AF (Indexed in future years)
- Based on additional costs incurred by member agency for actions to capture additional supplies
- Evaporative losses are associated with surface water reservoir deliveries
    - Five percent each year up to ten percent
- Cyclic agreement must be in place
    - Certification and reconciliation procedures associated with cyclic agreements remain in effect

When Would Cost-Offset Credits Be Made Available?



- Short-term actions for temporal conditions (e.g., Article 21 supplies)
- Long-term actions for conditions when supplies expected to exceed both demand and other storage management actions

Program Process: Determining Need

WSDM Process

- Staff evaluates supply, demand and storage management availability
- If supplies exceed ability to capture within available management actions, then
- Staff recommendation to the General Manager to initiate use of cost-offset credits

Program Process: Initializing Credits

General Manager Issues Cost-Offset Credits

- Member agency takes action to increase capture of surplus imported water at Metropolitan's request
- Capture of surplus supplies into cyclic accounts certified above baseline

Program Process: Reporting

Metropolitan Board Review

- Next regularly scheduled Board meeting
  - Conditions that led to action
  - Provide estimates of deliveries
  - Option for Board to stop providing offset credits

Program Process: Ending Credits

When Regional Supplies are No Longer at Risk

- General Manager stops providing cost-offset credits when regional supplies are no longer at risk

Program Process: Certification and Reconciliations

Reconciliation and Certification

- Member agency must:
  - Accept supplies in addition to base deliveries
  - Decrease local supply production
- Staff review of costs incurred by agency to calculate eligible cost
- Deliveries must be certified monthly and reconciled annually

Summary of Delivery Types

Delivery		At the time of delivery	At the time of purchase
Treated	Direct	Member agency pays the treatment surcharge.	Member agency pays full service untreated rate on defined schedule.
	In-Lieu	Metropolitan provides a cost-offset credit to the member agency.	
Untreated	Direct	Member agency does not incur a treatment surcharge.	Metropolitan provides a cost-offset credit to the member agency for eligible costs.
	In-Lieu		Member agency pays the full service untreated rate on defined schedule.

Example Cyclic Delivery

- Metropolitan pre-delivers untreated water to member agency
- Member agency normally takes untreated deliveries from Metropolitan
- There are no additional costs to the member agency to accept additional supplies
- Member agency purchases supplies within five years on an agreed upon schedule.

Example In-Lieu Delivery

Metropolitan:

- Delivery of treated water in-lieu of pumping local groundwater

Member agency:

- Normally takes untreated deliveries
- Cost to pump and disinfect is assumed to be $100 per acre-foot
- Incurs treatment surcharge cost of $319 per acre-foot when accepting additional treated water

Result:

Metropolitan provides a credit of $219 per acre-foot ($319 for the treatment surcharge less $100 in avoided pumping and disinfection costs)

Example Direct Delivery

Metropolitan:

- Delivery of untreated water directly to surface water reservoir

Member agency:

- Normally takes untreated deliveries
- Cost to pump into reservoir is assumed to be $50 per acre-foot
- Incurs evaporative losses associated with holding supplies in reservoir
  - Evaporative loss is five percent multiplied by untreated rate
  - Purchases supplies in following year
    - In 2019, five percent of $731 per acre-foot ($37 per acre-foot)

Result:

Credit would be $87 per acre-foot ($50 per acre-foot pumping costs and $37 per acre-foot for evaporative losses)

Summary of Benefits

- Increases delivery of additional water to the region
  - Improves regional reliability
  - Delivery becomes a Metropolitan sale
- Increases dry-year reliability
- Ability to respond quickly to surplus conditions
- Increases the average flows through the treatment plants
- Cost competitive with other storage programs

Board Options

Option 1:

- Authorize the General Manager to enter into agreements and provide a credit of up to $225 per acre-foot for surplus deliveries, consistent with the terms in Attachment 1.

Option 2:

- Take no action

Staff Recommendation

- Option 1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

1928