



- Board of Directors
Water Planning and Stewardship Committee

8/20/2019 Board Meeting

8-6

Subject

Review the General Manager's determination to initiate the Cyclic Cost-Offset Program effective August 1, 2019, and determine whether to suspend the Cyclic Cost-Offset Program initiated by the General Manager; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

The General Manager has determined that water supply conditions strongly indicate that Metropolitan will not be able to capture and store all available supplies in calendar year 2019. Given the recent State Water Project (SWP) allocation increase to 75 percent, continued lower demands, loss of replenishment orders due to groundwater quality concerns, and the likelihood of surplus SWP supplies through Article 21, available supplies exceed Metropolitan's storage capability this year. Accordingly, the General Manager implemented the Cyclic Cost-Offset Program (Program), effective August 1, 2019, pursuant to the Board's April 2019 authorization. The Program increases water management opportunities for Metropolitan by helping member agencies offset costs incurred while capturing water they otherwise would not have purchased from Metropolitan. The maximum cost-offset is capped at \$225/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.

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 Program and stop the use of cost-offset credits, which would take effect no earlier than September 6, 2019. 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 exceed Metropolitan's ability to manage those supplies for the region. In July, staff reported to the Board that higher-than-anticipated flows in the San Joaquin River allowed Department of Water Resources to increase Delta exports above earlier forecasts. This additional supply supported an increase in the SWP allocation from 70 to 75 percent, or 94,000 acre-feet (AF). The increased SWP allocation, in combination with lower forecasted demands, expected Article 21 deliveries in the fall, and loss of replenishment orders due to the concern over per-and polyfluoroalkyl substances (PFAS) in groundwater, results in at least 35,000 AF of available supplies at risk of loss to the region. The 35,000 AF is a minimum based on current conditions, but various changes in conditions may significantly increase the amount of supplies at risk of loss. For example, this volume could increase if additional Colorado River supplies become available from agricultural adjustments. Metropolitan is working to store as much water as possible in a cost-effective manner and meet the requested deliveries of the member agencies. However, Metropolitan's ability to manage water is nearly maximized. The current strategy is to operationally maximize deliveries to Diamond Valley Lake, maximize contractual storage to Metropolitan's SWP groundwater storage programs, store water in member agency conjunctive use and cyclic storage programs, maximize SWP carryover, store Colorado River supplies with

Desert Water Agency and Coachella Valley Water District, and store water in Lake Mead. Even with all these efforts, supplies remain at risk. Pre-delivering water to the member agencies helps manage anticipated 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. Agencies may incur additional costs associated with capturing the increased supplies, and therefore opportunities may be limited without offsetting those 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 August 1, 2019, Metropolitan staff developed Program agreements with 14 agencies as listed in **Attachment 1**. These agreements could manage up to 60,000 AF. 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. Metropolitan also has and is entering into new cyclic agreements to manage up to 560,000 AF. Metropolitan already plans to deliver up to 137,000 AF to Three Valleys, Calleguas, Eastern/Rancho, Burbank, and Upper San Gabriel Valley under the regular cyclic agreements, without the cost-offset credit. These deliveries will not receive a cost-offset credit because they were either already planned or they do not incur an additional cost. 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 \$225/acre-foot, which escalated yearly using the CPI.

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 75 percent, continued lower demands, and the expected delivery of Article 21 supplies, water available in 2019 exceeds 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 meet potentially increased demands by all of its 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, implementation and continuation 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 Program implemented by the General Manager. Staff recommends that any such suspension be effective no earlier than September 6, 2019, 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 implemented as of August 1, 2019, 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 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 agreements with Metropolitan's member agencies.

By Minute Item 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.

California Environmental Quality Act (CEQA)

CEQA determination(s) for Option #1:

None required.

CEQA determination for Option #2:

The proposed action is not defined as a project under CEQA (Public Resources Code Section 21065, State CEQA Guidelines Section 15378) because it will not cause either a direct physical change in the environment or a reasonably foreseeable indirect physical change in the environment and involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not defined as a project under CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

Board Options

Option #1

Receive and file information regarding the General Manager's decision to implement the Cyclic Cost-Offset Program as of August 1, 2019, pursuant to the authority approved by the Board on April 9, 2019. (No motion or vote is required for this option.)

Fiscal Impact: Up to \$225 per acre-foot cost-offset credit to participating member agencies in 2019. The total cost to Metropolitan will depend on the duration of the Program and the deliveries actually made pursuant to the Program.

Business Analysis: The General Manager's determination stands and the Program implemented on August 1, 2019 continues.

Option #2

Suspend the Cyclic Cost-Offset Credit Program implemented by the General Manager on August 1, 2019, effective no earlier than September 6, 2019.

Fiscal Impact: The cost of the credits will be limited to eligible deliveries made under the Program between August 1, 2019, and September 6, 2019. 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 could decrease the water supplies available to the region in 2019 and in the future.

Staff Recommendation

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



Brad Coffey
Manager, Water Resource Management

8/5/2019
Date



Jeffrey Nightlinger
General Manager

8/5/2019
Date

Attachment 1 – Cyclic Program Participating Agencies

Ref# wrm12670382

Cyclic Program Participating Agencies

Member Agency

City of Burbank

City of Long Beach

City of Pasadena

Calleguas Municipal Water District

Eastern Municipal Water District

Eastern Municipal Water District with Rancho California Water District

Los Angeles Department of Water and Power

Municipal Water District of Orange County

Municipal Water District of Orange County with City of Anaheim

Municipal Water District of Orange County with City of Fullerton

Municipal Water District of Orange County with City of Santa Ana

San Diego County Water Authority

Three Valleys Municipal Water District

Western Municipal Water District

Western Municipal Water District with Rancho California Water District

Upper San Gabriel Valley Municipal Water District