

Agenda Item: {{section.number}}C

December 4, 2023

TO: THE ENGINEERING, OPERATIONS, AND WATER RESOURCES COMMITTEE

Director Gracie Torres

Director Fauzia Rizvi

FROM: Tim Barr, Deputy General Manager

APPROVE AMENDMENTS TO CYCLIC STORAGE AND COST-OFFSET CREDIT PROGRAM AGREEMENTS WITH THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

RECOMMENDATION:

Staff requests that the Engineering, Operations, and Water Resources Committee recommend the Board of Directors:

1. Authorize the General Manager to execute Amendments to 2019 Agreements between Western Municipal Water District and the Metropolitan Water District of Southern California, a Cyclic Storage Program Agreement and a Cyclic Cost-Offset Credit Program Agreement.

EXECUTIVE SUMMARY:

In May 2019, Western Municipal Water District entered into two agreements facilitating participation in the Metropolitan Water District of Southern California Cyclic Storage Program and the accompanying Cyclic Cost-Offset Credit Program for groundwater storage in the Riverside-Arlington Basin. Recently the Metropolitan Water District of Southern California made significant modifications to the programs. If approved by Western Municipal Water District's Board of Directors, the amended agreements incorporating the program changes will expand water storage opportunities from a single basin to all groundwater basins within Western Municipal Water District's service area and increase the storage quantity from 10,000 acre-feet to 40,000 acre-feet. Execution of these amendments further advance implementation of the April 19, 2023, authorization to purchase and store up to \$20 million in surplus water for use in dry years.

BUDGET IMPACT:

These amendments have no budget impact.

DETAIL:

On August 14, 2023, in response to one of the wettest years on record in California and the surplus supplies on the State Water Project, the Metropolitan Water District of Southern California (Metropolitan) approved modifications to their Cyclic Storage and their Cost-Offset Credit Programs. Two key modifications increase the payment/purchase schedule timeline from 5 years to 10 years and raises the maximum per acre-foot credit incentive paid to member agencies from \$264 to \$354.

A Cyclic Agreement establishes an account between Metropolitan and a member agency with either groundwater or surface storage availability. Through the account, Metropolitan delivers water to the member agency. The member agency then purchases water out of the account on an agreed-upon schedule, not to exceed a maximum of ten years. Cyclic accounts facilitate deliveries when imported water is abundant at potentially no cost upon delivery, while affording the member agency the option to acquire the water at the then current cost, over a designated timeframe not to exceed 10 years. The Metropolitan program also offers a potential offset credit for extraction and treatment costs above the cost of Metropolitan supplies of up to \$354 per acre-foot. The offset credit increases annually based on the Consumer Price Index for Urban Wage Earners and Clerical Workers for Los Angeles-Long Beach-Anaheim All Items (CPI-U). Nothing in the program agreements prohibits a member agency from acquiring water for storage in the current year and paying the current Metropolitan water costs.

For a Metropolitan member agency to qualify for an offset credit, the agency must adhere to the following conditions:

- The Metropolitan General Manager must determine that supply conditions justify the provision of credits, citing a risk of not capturing all available imported supplies.
- The member agency must increase the capture of surplus imported water supplies.
- Certification by Metropolitan staff is required to confirm that the capture of surplus imported water supplies in the Cyclic account exceeds the member agency's baseline operations.
- And, the member agency must incur costs to capture these surplus supplies that surpass the normal cost for imported water supplies from Metropolitan.

These conditions are in place to ensure that Metropolitan only disburses credits for deliveries that contribute to the increased capture of surplus imported water. It is explicitly stated that credits are only offered to offset the escalated costs incurred by a member agency, surpassing the standard rates they would pay for Metropolitan's imported water. While member agencies pay Metropolitan's full-service water rate, they are exempt from any capacity charges associated with the additional deliveries.

On May 1, 2019, Western Municipal Water District's (Western Water) Board of Directors authorized the General Manager to enter into a Cyclic Storage Program Agreement and Cost-Offset Credit Program Agreement for the Riverside-Arlington Basin. Due to the record-breaking wet year and surplus water supplies on the State Water Project, on April 19, 2023, the Board of Directors granted authority to purchase up to \$20 million in available surplus water to be placed in storage for future use. Amending the existing Cyclic Program Agreement and Cost-Offset Credit Program Agreement to expand the cyclic account to all basins in Western's Service Area will maximize the potential storage opportunities within Western Water's service area. Specifically, the amendment will allow for the Cyclic Program and Cost-Offset Credit Program to take place in the following groundwater basins: Riverside-Arlington Basin, Chino Basin, Elsinore Basins (Coldwater-Bedford Subbasin, and Elsinore Valley Subbasin), Temescal Basin, Temecula-Pauba Basin, and the San Bernardino Basin Area.

Expanding the opportunities for storage to additional groundwater basins will increase the region's water supply reliability and resiliency during periods of imported water shortage.

The attached agreement amendments are in draft form; however, no substantive changes are expected. Should modifications become necessary, the document will be re-reviewed by legal counsel. Should legal counsel determine that the changes are substantive in nature, staff will return to a subsequent Board meeting to seek approval of the updated document. If legal counsel determines that the changes are non-substantial, additional Board approval will not be sought by staff.

Reason for Action:

The Metropolitan Water District of Southern California recently made significant modifications that enhanced the Cyclic and Cost-Offset Credit Programs.

Solution:

Approve execution of the Cyclic Storage Program Amendment and the Cost-Offset Credit Program Amendment so that Western Water can take advantage of the updated program offerings.

STRATEGIC PRIORITIES REFERENCE:

This action is in alignment with Western Water's Strategic Priorities of Resource Management, Financial Stewardship, and Superior Service.

PROPOSED DATE OF ACTION:

If approved by the Committee, this item is scheduled for consideration by the full Board of Directors at their meeting on December 20, 2023.

LEGAL COUNSEL REVIEW:

Legal counsel has reviewed the Cyclic Storage Program Amendment and the Cost-Offset Credit Program Amendment.

Respectfully submitted by:

Tim Barr, Deputy General Manager

Attachments:

1. Cyclic Storage Agreement Amendment
2. Cyclic Cost-Offset Credit Program Agreement Amendment