Authorization to Provide Cost-Offset Credits under Operational Shift Cost Offset Program

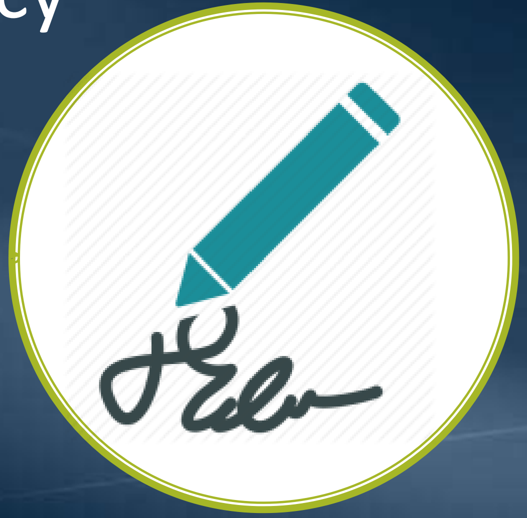
Water Planning and Stewardship Committee
Item 7-7
May 10, 2021

Background

- Regional Reliability
  - Integrated system and robust WSDM portfolio
- Actions to preserve SWP supplies
  - Operational shifts
- Shifting demands from SWP to Colorado River supplies helped in last drought
  - LADWP shifted operations
  - Complex, multi-year arrangement to eliminate fiscal barrier
- Ongoing need for operational shifts in years with extremely low SWP allocations

Operational Shift Cost Offset Program

- Issue cost-offset credits for member agency actions related to operational changes to their system
  - Provide a regional benefit
- Modeled on Cost-Offset Program for surplus deliveries (April 2019 Board action)
- Agreement between Metropolitan and Member Agency
- Program offered in Calendar Years 2021 and 2022
  - Program evaluated after 2022
  - Consider adjustments based on experience and return to Board if further authorization desired



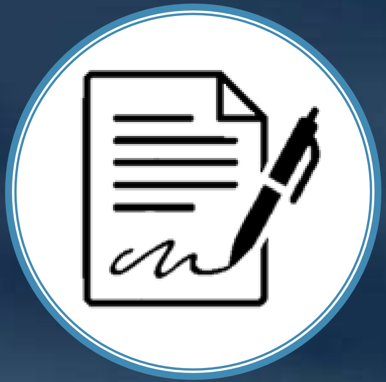
Financial Terms

- Credit keyed to treatment surcharge and up to $5/AF for additional costs to manage shift
  - Performance based
  - Offset additional member agency costs and impacts (e.g., treatment, pumping)
  - Maximum credit: $332/AF (2021) & $349 (2022)
- Member agency will be billed at the full-service water rate
- Voluntary deliveries at Metropolitan's discretion
  - Capacity charge not affected
- Certification and reconciliation procedures
- Credit applied on a Metropolitan invoice

Need to Initiate the Program This Year

- Supply/Demand gap projected to be 557 TAF
- A SWP Allocation increase is unlikely
- Metropolitan taking WSDM dry-year actions to satisfy the supply/demand gap including:
  - Storage withdrawals
  - Purchase transfer supplies
  - Operational actions to minimize use of limited SWP supply
- Need exists for Metropolitan to shift operations to reduce use of limited SWP supply

Program Implementation



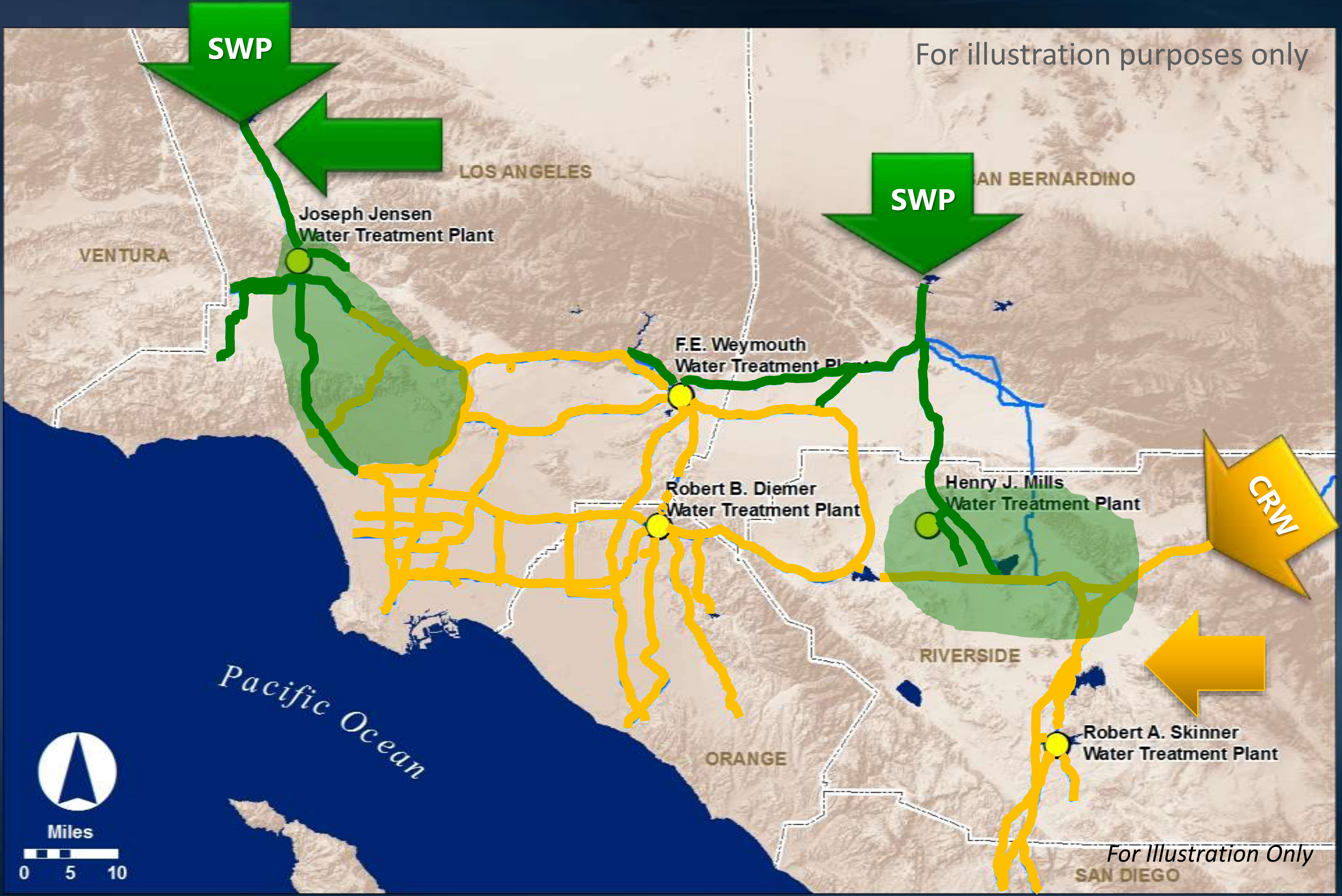
Agreement Execution

Voluntary Shifts by Member Agency

Credit Provided to Member Agency

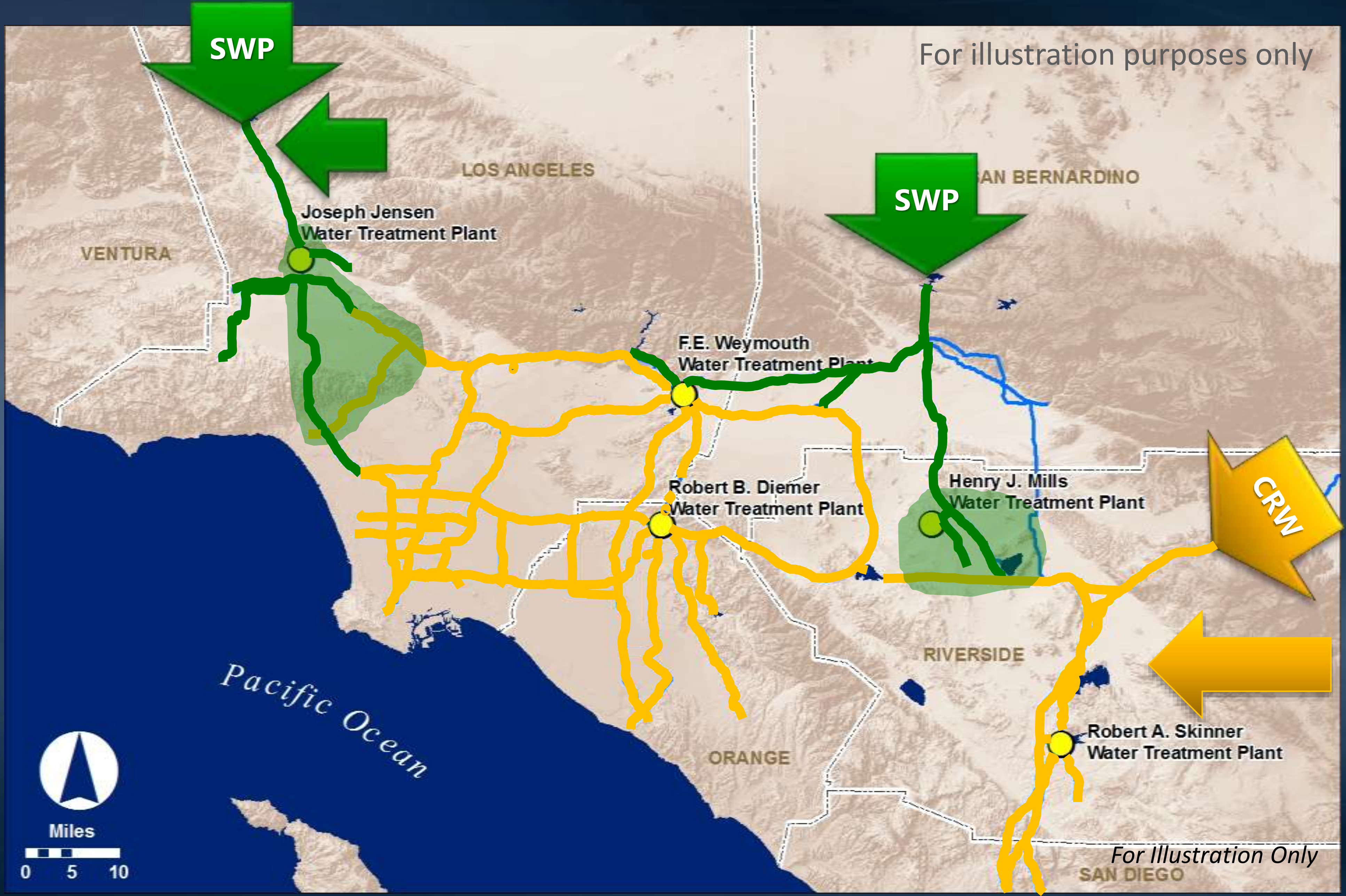
Cost Reconciliation

Operational Flexibility



- Normal SWP Use

Operational Flexibility



Shaded regions illustrate reduced SWP use after shifting to CRW connections

How would the credit be calculated?

Example: Member Agency shifts deliveries from an untreated SWP connection to treated Colorado River water connection. The shift results in increased cost to the agency. Metropolitan's total deliveries remain the same.

Supply	Incremental Cost	Base Case		Shift Case (without credit)		Shift Case (with credit)	
	($/AF)	Volume (TAF)	Cost	Volume (TAF)	Cost	Volume (TAF)	Cost
Untreated connection (SWP)	10*	200	-- 50 TAF	150	$1.5 M	150	$1.5 M
Treated connection (Colorado)	324*	100	+ 50 TAF	150	$48.6 M	150	$48.6 M
Metropolitan Credit	--314**						-- $15.7 M* ($314/AF x 50,000 AF)
Member Agency Net Cost			$34.4 M		$50.1 M		$34.4 M
Total Supply from Metropolitan		300		300		300	

*Rounded numbers for example purposes. These costs are in addition to Metropolitan's Full Service Untreated Rate.

**Credit amount to be determined. Additional factors may include pumping or other operational costs

50,000 AF SWP Storage Preserved

Example

Summary of Benefits

- Shifts Metropolitan's operations to enhance reliability
- Increases Metropolitan's flexibility in responding to prolonged dry years
- Reduces the need for purchasing more expensive water transfer supplies
- Eliminates the financial barrier a member agency faces in re-operating their distribution system for a regional benefit

Board Options

Option 1:

- Authorize the General Manager to enter into agreements to provide a cost-offset credit of up to $332 per acre-foot in CY 2021 and $349 per acre-foot in CY 2022 for net increased costs incurred by a member agency from shifting operations to improve regional reliability

Option 2:

- Do not authorize the General Manager to enter into agreements to provide a credit for operational shifts

Staff Recommendation

- Option 1

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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