

WEST BASIN MUNICIPAL WATER DISTRICT

AUGUST 6, 2003 - Water Resource
McDonald, Little

AUGUST 25, 2003 - Board Meeting

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ACTION CALENDAR

TIER 1 POOL POLICY ALLOCATIONSUMMARY:Background

The majority of the District's retail agencies signed voluntary Imported Water Purchase Agreements last fall, effective January 1, 2003. Each Purchase Agreement establishes an amount of non-interruptible imported water that an agency is allowed to purchase annually at the lower rate tier (Tier 1 Limit) before being assessed the higher rate tier (Tier 2). Under the Agreement, each agency is also committed to purchase a set quantity of water from the District over five years (Purchase Commitment).

The scenario of unallocated Tier 1 water was not formally addressed when the current rate structure policy and form of Purchase Agreement was adopted in April 2002. The total Tier 1 limit that the District had available from the Metropolitan Water District (MWD) was 156,874 AFY. The aggregate amount of customer agency requests during the sign-up period; however, was 155,082 AFY, leaving an unallocated "pool" of Tier 1 water of 1,792 AFY (Tier 1 Pool, or Pool). The existence of this Pool has prompted important questions and policy considerations as we progress through the first calendar year of imported water usage.

The following key principles of the current tiered rate structure serve as a guide in considering policy refinements with respect to the allocation of the Tier 1 Pool:

- Full Allocation of Tier 1: A goal of full allocation of the District's total Tier 1 limit among its customers is important in minimizing the District's financial risk and maximizing the use of lower priced non-interruptible water;
- Opportunities for Tier 1 Adjustments: Assuming full allocation of the total Tier 1 limit, increases or decreases in individual Tier 1 amounts would only be permitted if equivalent and offsetting needs existed;
- Recycled Water: The exception to the aforementioned principle is the purchase of recycled water from the District, which would directly lower imported demands;
- Conservation-Based Structure: Establishing a water budget for each customer and a tiered rate structure promotes effective planning and conservation, including the development of recycled water to offset imported demand; and
- Fairness: The rate structure reflects the balanced conservation-based tiered rates and fair treatment of all customer agencies.

Through recent discussions with customer agencies and staff analysis of demand projections for 2003, it is likely that certain agencies will want an increase in their Tier 1 Limit while others will want a decrease. The first opportunity for adjustment, as referred to in the principles above, will occur in November of this year. However, the current policy regarding adjustments is not explicit enough to address the additional variable of an available Tier 1 Pool. The following recommendations are intended to provide clarification for Tier 1 adjustments when a Pool exists:

Policy Regarding Allowable Tier 1 Maximum Increase

Customer agencies with unforeseen water quality, operational, and/or institutional issues impacting imported demands will be allowed to increase their Tier 1 limit at any time if a Pool is available. This would be consistent with the District's goal of full allocation of the District's Tier 1 capacity. When the quantity in the Tier 1 Pool reaches zero, future requests for Tier 1 increases would be handled according to the current policy; only considered in November and would depend on equivalent, offsetting request(s). However, agencies should note that an increase in Tier 1 limit also results in an increase in the total Purchase Commitment over the five-year term of the Purchase Agreement.

Policy Regarding Allowable Tier 1 Maximum Decrease

Customer agencies that want to decrease their Purchase Commitment will not be allowed to return Tier 1 to the Pool. Their request for decrease must occur during the reallocation period specified in the Purchase Agreement and will be dependant upon equivalent and offsetting requests, if any, during that period. Allowing returns of Tier 1 would actually promote the Tier 1 Pool and be contrary to the goal of full allocation. Allowing exchanges between customers while there is still unallocated Tier 1 also promotes the Pool but provides a measure of fairness to the customer at minimal risk to the District.

Policy Regarding Recycled Water Exemptions

Customer agencies that offset imported demand with recycled water purchased from the District can decrease their Purchase Commitment without being dependent upon offsetting needs from other customers. Such decreases would contribute to the Tier 1 Pool. This recommendation is consistent with the intent of the tiered rate structure to promote conservation of imported supplies.

FISCAL IMPACTS:

None.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Water Resource Committee on August 6, 2003 and was recommended for approval at the August 25, 2003 Board meeting.

RECOMMENDED MOTION:

That the Board adopts the policy recommendations regarding Allowable Tier 1 Maximum Increase, Allowable Tier 1 Maximum Decrease, and Recycled Water Exemptions.

LIST OF EXHIBITS:

Exhibit "A" - West Basin Municipal Water District's Customer Base Allocations.

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