



**WEST BASIN MUNICIPAL WATER DISTRICT**  
17140 S. Avalon Blvd., Suite 210  
Carson, CA 90746

**AGENDA NO. 13**

**OCTOBER 16, 2008 – Water Resources**  
Smith (Chair), Little  
**OCTOBER 27, 2008 – Board Meeting**  
Prepared by: Fernando Paludi  
Submitted by: Paul Shoenberger  
Approved by: Rich Nagel

## ACTION CALENDAR

### WATER SHORTAGE ALLOCATION PLAN

#### SUMMARY:

If the Metropolitan Water District (MWD) implements its water rationing plan in April 2009, or perhaps earlier, West Basin should have its own plan in place to equitably allocate imported water to our customer agencies. Furthermore, adoption of West Basin's Water Shortage Allocation Plan must allow sufficient time for the cities, private water companies, and County areas we serve to plan for certain actions to lower imported water demand, such as operational adjustments, ordinances, public education, etc. Time is also needed to develop administrative procedures and coordinate them with customer agencies well in advance of the allocation period.

On July 30, a workshop was conducted to introduce our customer agencies to the preliminary plan, including the methodology for allocating shortages and the potential for enforcement penalties. Subsequent to the workshop, West Basin has held individual meetings with all direct customer agencies to ensure that the plan is understood and to consider specific concerns and/or requests. Wherever possible, staff is working on addressing specific concerns and/or requests from customer agencies by adjusting the allocation methodology and implementation procedures. In general, customer agencies have been highly cooperative, recognizing the necessity of having a rationing plan in place in anticipation of less than adequate precipitation this winter.

#### **Enforcement Penalties**

Last month, the Water Resources Committee considered several options for the assessment and use of any penalties that might be incurred by customer agencies during the allocation period. The Committee recommended to the Board two (2) options for penalty assessment:

- Option 1. Assess same penalty structure and penalty rates that West Basin is subject to in MWD's Water Supply Allocation Plan, to every unit of a customer agency's usage above its allocation; or
- Option 2. Assess customer agencies only their share of any penalty that may be owed by West Basin to MWD.

Under Option 1: It is possible that West Basin will collect net penalty revenue (penalty revenue in excess of what is owed to MWD), including the scenario where West Basin collects penalties from certain customer agencies even though it is not itself incurring a penalty. There are valid arguments in favor of Option 1, including the need to have a financial enforcement

mechanism that will hold retail agencies accountable for all their potable water use in excess of their allocation, and that will encourage local entities to make reasonable investments ahead of rationing in order to lower demand.

The penalty structure and penalty rates under Option 1 would be identical to what West Basin is subject to under MWD's rationing plan. Table 1 represents what the MWD penalty rates are effective January 1, 2009, as represented in the October Board information item.

**Table 1: 2009 Rates**

Usage Above Allocation	Penalty Rate
100% - 115%	1 x Tier 2 (or \$528/AF as of 1/1/09)
Above 115%	3 x Tier 2 (or \$1,584/AF as of 1/1/09)

However, should the MWD and West Basin allocation plans be implemented in April 2009, with the allocation period extending from July 1, 2009 to June 30, 2010, penalties will actually be assessed after July 1, 2010. Although MWD's water rates in 2010 are not known at this time, MWD staff has indicated that a 15% to 25% increase in the commodity rate is a safe assumption. Table 2 provides a more realistic but conservative projection (15% increase) of potential penalty rates in 2010.

**Table 2: Estimated 2010 Rates (15% increase over 2009)**

Usage Above Allocation	Penalty Rate
100% - 115%	1 x Tier 2 (or \$607/AF)
Above 115%	3 x Tier 2 (or \$1,822/AF)

Staff recommends that the Board approve Penalty Assessment Option 1 where every unit of customer agency imported water usage above its individual allocation is assessed according to the penalty structure in Table 2, but with actual penalty rates to be determined by MWD's Tier 2 water rate effective January 1, 2010 (to be set by MWD's Board on or around their March 2009 regular meeting).

#### Use of Net Penalty Revenue

Last month, the Board also considered several options for the use of any penalty revenue collected from customer agencies. To minimize financial risk to West Basin, it is assumed that penalty revenues collected from customer agencies will first be applied to any penalty owed to MWD. Beyond that, or if no penalty is owed MWD, then "net penalty revenues" can be applied towards appropriate uses as approved by the Board. Staff offered the following policy guideline options for the use of net penalty revenues:

- Option A. Apply towards investments in conservation, education and/or other water reliability projects and programs that benefit the West Basin service area as a whole (e.g. water recycling, desalination, storage, etc).

- Option B. To the greatest extent practicable, apply towards investments in conservation, education, and/or other water reliability projects and programs within the customer agency where the penalty was incurred.
- Option C. Apply 25% of net revenues to reliability programs within the customer agency where the penalty was incurred, and the balance towards investments as described in Option A.

Underlying all options is the Board's discretion to use penalty funds to first cover any West Basin water sales revenue shortfall (less than budget forecast) resulting from extraordinary conservation efforts within the service area. This policy will help offset West Basin's base rate increases that would otherwise affect all customer agencies.

Staff recommends Option A, recognizing that funds are often applied more efficiently and effectively at the regional level on capital-intensive projects such as recycled water that result in a one-for-one offset of imported water

#### Customer Agency Allocations

The West Basin Water Shortage Allocation Plan mimics the methodology used by MWD in its allocation model, for allocating imported water shortages to customers. In short, the water allocation is based on a customer agency's imported water usage during a base period of 2004-06, adjusted for growth, dependence on imported water, and conservation efforts. West Basin's model also rewards those retail agencies that have a tiered water rate structure. Recycled water increases retail reliability by lowering demand for imported water, particularly if that offset has occurred since the 2004-06 base period.

Until Metropolitan's allocation model is completely updated, and West Basin staff is able to address its customer agency concerns and suggestions, the exact customer agency allocations will remain preliminary. West Basin will host a follow-up workshop with customer agencies by the end of the calendar year with final allocations, penalty rates, and a continuation of dialogue on administrative rules for implementation of the Plan.

#### Outreach to Customer Agencies

West Basin needs to provide ample notice of the enforcement penalties associated with the Water Shortage Allocation Plan for the Plan to be most effective in lowering demand for imported water. Additionally, retail agencies will require several months to consider and act on ordinances and ways of passing through any penalties they incur during the allocation period.

In November, a letter will be sent to all City Managers within West Basin underscoring the seriousness of the water supply situation and announcing the board's Adoption of the Water Shortage Allocation Plan in preparation for possible rationing next spring. The letter will offer West Basin and retailer briefings to the City Councils over the coming months to reinforce the message. The Board President and/or individual directors can send accompanying letters directly council members as well. In January 2009, depending on statewide precipitation and other factors, another letter will be sent again offering briefings to staff and councils. In addition to letters, other outreach vehicles will be used to keep constituents informed including all Water Reliability 2020 briefings to community and business audiences, and additional media as needed.

STRATEGIC BUSINESS PLAN IMPLEMENTATION:

Goal 1, Reliability – Maintain a level of local water reliability that supports the regional economy, our community and customer agency needs.

COMMITMENT STATEMENT:

Water Reliability – West Basin is committed to innovative planning and investments to provide water supply reliability and drought protection.

FISCAL IMPACTS:

Potential water rationing by MWD in 2009 and resulting conservation could adversely impact West Basin water sales revenue if demand for imported water falls below Fiscal Year 2009-10 budget projections. As recommended, Board policy regarding use of net penalty revenue would allow some financial protection for such a scenario. Any financial penalties incurred by West Basin as a result of MWD's rationing plan would be entirely offset by corresponding customer agency penalty collections. Any net penalty revenue could be applied to water reliability projects and programs according to adopted board policy.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Water Resources Committee on October 16, 2008 and recommended for approval at the October 27, 2008 Board meeting.

RECOMMENDED MOTION:

That the Board approves the following policies as part of the West Basin Water Shortage Allocation Plan regarding assessment of enforcement penalties, and use of net penalty revenue collected from customer agencies:

1. Penalty Assessment Policy: Every unit of a customer agency's imported water usage above its individual allocation will be assessed according to the same penalty structure and penalty rates that West Basin is subject to in MWD's Water Supply Allocation Plan; and
2. Net Penalty Revenue Use Policy: Penalty revenue collected from customer agencies in excess of any obligation to the MWD will be applied towards investments in water reliability projects and programs that benefit the West Basin service area as a whole. Additionally, at the Board's discretion, funds may be used to first cover any West Basin water sales revenue shortfall (less than budget forecast) resulting from extraordinary conservation efforts within the service area.

LIST OF EXHIBITS:

None.