



WEST BASIN MUNICIPAL WATER DISTRICT
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AGENDA NO. 4

AUGUST 13, 2009 – Water Resources
Little (Chair), Gray
AUGUST 24, 2009 – Board Meeting
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INFORMATION CALENDAR

METROPOLITAN WATER DISTRICT ACTIVITIES REPORT

SUMMARY:

This report on Metropolitan Water District (MWD) issues is intended to brief the Board on activities and issues relevant to West Basin Municipal Water District (West Basin) and its customer agencies. The first section, "On-Going Issues," is a status update on current studies, reports, and/or policy work groups that staff is involved with. The second section, "Current Month's Issues," is a report on noteworthy items that are being covered at the current month's MWD Board meeting. The last section, "Upcoming Issues," is a preview of new and forthcoming issues important to West Basin. This format is intended to keep the Board informed about current and future items at MWD in order to provide direction to staff and its MWD representatives in a timely manner, if required.

ON-GOING ISSUES

Water Supply Actions and Allocation Plan

Purpose: The Water Supply Allocation Plan was approved by the MWD Board in February 2008. In 2008, MWD began a Five-Year Supply Actions initiative to increase water supply through transfers, exchanges and other programs on both the Colorado River and State Water Project (SWP). These additional supplies have helped to decrease the gap between supply and demand projected for 2009. Despite an increase in the SWP allocation to MWD from 15% initially to 20% in April, the MWD Board took action in April 2009 to declare a regional shortage and implement the Water Supply Allocation Plan at a Regional Shortage Level 2 (MWD expects at least a 10% reduction in demand for imported water).

Update: MWD's Water Supply Allocation Plan became effective July 1, 2009. Future reports will cover how well the region is complying in terms of conservation.

Long-Range Financial Plan Workgroup: Cost of Service Review and Other Rate Issues

Purpose: The Long-Range Financial Plan workgroup of MWD and member agency staff will hold a series of meetings through the fall of 2009 to consider policy changes to address several issues raised by the Board during the last rate-setting cycle, including:

- Whether to add or delete cost of service categories;
- Whether to increase fixed charges, such as Readiness-to-Serve and Capacity Charges, develop a Treated Water Capacity Charge, and increase property taxes to cover a larger portion of the State Water Project expenses; and
- Setting 2011 rates and charges to recover the full cost of service, as directed by the Board.

In order for the workgroup's findings to be relevant to the 2011 rate-setting cycle, any policy recommendations must be ready for Board consideration by November 2009 (2010-11 Revenue Requirements are introduced in December).

Update: West Basin staff participated in the second meeting of the workgroup held on July 22. The following is a brief synopsis of two important topics from the meeting:

- Projected 2009-10 revenue collections: Assuming the MWD rates adopted in April are effective for a full year and MWD makes their budgeted sales, MWD will under-collect on the System Access Rate (part of the "wheeling rate") by 24%, and over-collect on the Supply Rate by 5%. Overall, MWD is budgeted to under-collect on all rates by 5%, or roughly \$75 million. This is a result of how the 2010 rates were not set to recover full cost of service on all rate elements, and therefore not overall.
- State Water Project costs in MWD rate setting: SWP costs comprise nearly 35% of MWD's total revenue requirement – by far the single largest component. According to the way that MWD currently allocates these costs, they are recovered through the Supply Rate (\$67 million), System Access Rate (\$208 million), System Power Rate (\$169 million) and RTS (\$38 million). If almost half of these costs were to be re-classified from conveyance to supply, for example, MWD's Supply Rate would increase and the wheeling rate (System Access Rate) would decrease commensurately. Impacts to member agencies would vary based on how much water is purchased from MWD versus other sources. In this particular example, all member agencies but one would see their water costs increase.

The next meeting of this workgroup will discuss MWD's Property Tax Proposal to recover a larger portion of the SWP costs from fixed revenues.

Conservation Programs Funding

Purpose: Due to high public awareness of the water supply shortage and effective regional delivery mechanisms for conservation incentives and devices, demand for MWD's incentive programs over the past 18 months has been unprecedented. MWD's Fiscal Year (FY) 2008-09 Budget was significantly oversubscribed, creating a backlog of obligations to consumers and agencies, and the FY 2009-10 Budget will be insufficient to continue incentives at the current demand trend and at current financial levels.

Update: July Board Meeting Recap

The MWD Board authorized \$14.2 million in backlog reimbursements for FY 2008-09, based on the General Auditor's report (not an official audit), to be funded from reserves and not the FY 2009-10 Budget of \$19.1 million. The Board action also included changes to incentive levels for some conservation devices and elimination of other incentives. With these changes, the current budget is expected to stretch longer into the fiscal year, but still fall short of anticipated public demand for rebates. MWD's use of regional rebate vendors will allow for member agencies to "opt-in" and continue funding rebates and incentives in their respective service areas once the MWD funding is expired.

The MWD Board will consider recommendations later this year on long-term policy and program changes to the conservation program.

Bay-Delta/State Water Project

Purpose: MWD pays for, and is entitled to deliveries from, roughly half of the State Water Project (SWP). Less Colorado River supplies since 2004 has meant that MWD has become increasingly reliant on supplies from the SWP to meet demands. The Bay-Delta, from which the SWP and the federal Central Valley Project (CVP) draw their deliveries, is a strained eco-system of competing needs, and extremely vulnerable to seismic or other catastrophic event. On-going regulatory restrictions curtail pumping from the Delta for the state and federal projects by as much as 40% annually. MWD is working on both short-term and long-term solutions to balancing water supply and ecosystem needs in the Bay-Delta.

Update: The state legislature is expected to debate a "Delta Package" of water-related legislation after their summer recess. It is reported that the package will include bills regarding Delta governance, a Delta conservancy, water use efficiency targets, and a water bond. Staff will report on these bills and other Delta related activity in the coming months.

2009 Integrated Resources Plan Update

Purpose: The original Integrated Resources Plan (IRP) was developed in 1994 and has served as a blueprint for long-term water resource planning for MWD and its member agencies. The 1994 Plan was updated but not re-evaluated in 2003. The 2009 IRP will be a new plan that addresses a set of challenges to imported water sources not present in 1994. MWD and member agency staff comprised of several technical workgroups focusing on specific resource strategies, as well as a Technical Oversight Committee, to review and evaluate various analyses and issue papers. Technical Workgroups include Conservation, Recycled Water, Ocean-Water Desalination, Groundwater, Stormwater, and Graywater. The 2009 IRP is expected to conclude in the fall 2009 timeframe.

Update: The MWD Board held a "2009 IRP Update" workshop on July 21, 2009. The agenda was to cover the following: 1) The status of resource development based on the implementation of previous IRP efforts; and 2) IRP Policy Alternatives. An in-depth discussion of the policy alternatives was held over until the next workshop, but staff did offer three alternative approaches, among a broad spectrum, for future IRP implementation:

- Maximize Current Assets (Import Supply Focus)
- Current Approach (Interdependency)
- Expanded Regional Reliability (Interdependency Plus)

Staff will report on the discussion of these alternative approaches after the next Board workshop in August.

CURRENT MONTH'S ISSUES

The following key items will be heard at the August Committee and Board meetings:

- Review participation in a funding agreement for the pilot operation of the Yuma Desalter Plant; and
- Report on a potential revolving loan program to support the public sector conservation program.

UPCOMING ISSUES

The following key items have been identified as upcoming issues at MWD's Committee and Board meetings:

- Authorize participation in a funding agreement for the pilot operation of the Yuma Desalter Plant;
- Status report on the formation of Joint Powers Authority for State/Federal Delta export contractors; and
- Adopt CEQA determination for the Seawater Desalination agreement with San Diego County Water Authority.

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.

Goal 5, Customer/Community Services – Provide for the needs of our customer agencies and the communities we serve in a way that reflects their needs.

COMMITMENT STATEMENT:

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

Customer Service – West Basin is committed to providing value by understanding and meeting the needs of our customers and the communities we serve

FISCAL IMPACTS:

Not applicable.

ENVIRONMENTAL COMPLIANCE:

Not applicable.

COMMITTEE STATUS:

This item was reviewed by the Water Resources Committee on August 13, 2009 and agendaized to the August 24, 2009 Board meeting under Metropolitan Water District Activities Update.

RECOMMENDED MOTION:

This item is for information only.

LIST OF EXHIBITS:

None.