



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

**AGENDA NO.** 4

**SEPTEMBER 18, 2009 – Water Resources**

Little (Chair), Gray

**SEPTEMBER 28, 2009 – Board Meeting**

Prepared by: Fernando Paludi

Submitted by: Paul Shoenberger

Approved by: Rich Nagel

## 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. The month of July was unseasonable cool throughout most of MWD's service area, contributing to water sales that were more than 10% lower than July 2008. Similarly retail demands were lower in the West Basin service area as compared to 2008. West Basin customer agencies collectively purchased 24% less imported water from West Basin year-to-year for the month of June, and 14% less in July– the first month of the Imported Water Shortage Allocation.

##### 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 fall 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 December 2009 (2010-11 Preliminary Rate & Charges Proposal is made in January).

**Update:** West Basin staff participated in the fourth meeting of the workgroup held on August 30. The following is a brief synopsis of two important topics from the meeting:

- Analysis of Increasing Property Tax Revenues: MWD staff presented tables of: 1) member agency shares of total taxes paid to MWD between 1930–2009; 2) member agency shares of sales revenue and RTS for Fiscal Year (FY) 2009-10; and 3) projected impacts by member agency of increasing tax revenue by \$10 million (\$7 million from taxes and \$3 million from RTS), and lowering water rates by an equivalent amount. Depending on whether a member agency contributes more on a percentage basis to MWD through taxes versus water sales, the impacts of such a proposal would be positive or negative.
- Allocation of State Water Project (SWP) Costs in Cost of Service model: Currently, \$412 million of MWD's SWP costs are considered "Conveyance & Aqueduct" and recovered predominantly through the System Access Rate and System Power Rate (so-called "wheeling rate"). Sixty-seven million dollars are considered "Supply" and recovered through the Supply Rates (Tier 1 and 2). The San Diego County Water Authority has been advocating a change in cost of service approach where most, if not all, SWP costs are classified as "Supply" and consequently recovered by MWD through the Supply Rates. As discussed in last month's report, under this scenario, all member agencies but one would see their water costs increase because only one agency transfers a significant supply and avoids the Supply Rate for each transferred acre-foot. An alternative approach presented by MWD staff would be to maintain the current Cost of Service approach for existing SWP facilities, but develop a new methodology for splitting future Delta improvement costs between Supply and Conveyance.

The next meeting of this workgroup has not yet been scheduled. The MWD Board will conduct a workshop on the Cost of Service Review process on September 22.

### 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 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: August Water Planning & Stewardship Committee Discussion Recap**

The MWD Water Planning & Stewardship Committee heard a staff report in response to a prior Directors' request for information on a potential member agency "Revolving Fund" approach to supporting conservation programs in the future. After some discussion of potential advantages and disadvantages of such an approach, the issue was deferred to future Board deliberations on IRP and MWD's role in regional resource development.

### 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- and long-term solutions to balancing water supply and ecosystem needs in the Bay-Delta.

**Update:** The "Delta Package" of water-related legislation was introduced and is currently being debated by the Legislature. Both the Senate and Assembly have assigned members to a joint water committee to craft a compromise for floor votes in each house prior to the Legislature's adjournment on September 11. MWD is disseminating information related to the Delta through its website, where they have posted talking points, comment letters and other information to support their positions.

### 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, will 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 second IRP Workshop on August 25, 2009. The agenda focused on "IRP Policy Alternatives" including the role of MWD and member agencies in ensuring future water reliability, and policy guidelines on implementation of the IRP. Most of the discussion centered around the projected supply gap (yet to be formally presented), and whether MWD or the member agencies (or both) are responsible for developing – and paying for – the resources to meet the gap. A schedule was presented for tackling the IRP and so-called "Strategic Policy Review" through a process that includes at least two more Board workshops in fall 2009 and spring 2010.

## **CURRENT MONTH'S ISSUES**

The following key item will be heard at the September Committee and Board meetings:

- Authorize participation in a funding agreement for the pilot operation of the Yuma Desalter Plant.

## **UPCOMING ISSUES**

The following key item has been identified as an upcoming issue at MWD's Committee and Board meetings:

- Authorize entering into an Incentive Agreement for Carlsbad Seawater Desalination Project 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 not reviewed by the Water Resources Committee on September 18, 2009. It was referred to the September 28, 2009 Board meeting under Metropolitan Water District Activities Update.

## RECOMMENDED MOTION:

This item is for information only.

## LIST OF EXHIBITS:

None.