



WEST BASIN MUNICIPAL WATER DISTRICT
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AGENDA NO. 4

OCTOBER 15, 2009 – Water Resources

Little (Chair), Gray

OCTOBER 26, 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: Total cumulative deliveries by MWD (July-August 2009) were 39,400 acre-feet (AF) less than the Water Supply Allocation Plan Baseline for August. This continues a trend of lower sales this past summer due in part to cooler weather but also demand reduction from conservation and heightened awareness of water supply shortage. Compared to July-August 2008, MWD's sales over the same period this year were 73,000 AF, or 15.4% lower. Similarly, West Basin's imported water sales were over 16% lower in year-to-year for the month of August. As a result, both MWD and West Basin are well within their allocation limits thus far.

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

Purpose: The Long-Range Finance Plan workgroup of MWD and member agency staff will hold a series to meetings through the 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: The MWD Board conducted a workshop on the Cost of Service Review on September 22. Staff presented two potential near-term adjustments to the Cost of Service model:

- State Water Project Terminal Reservoir "Flex Storage" Cost Allocation: Since a portion of Castaic and Perris Reservoirs are used for drought storage (under the Flex Storage agreement with DWR), the drought storage cost component (approximately \$10 million) could be included in the Supply function rather than the Conveyance function. This change would be consistent with the way that MWD treats its own reservoirs (Diamond Valley Lake drought storage costs, for example). This would result in a decrease of about \$5/AF in the System Access Rate, and a corresponding increase in the Supply Rates.
- Include Operations and Maintenance Costs in the RTS and Capacity Charge: This proposal would increase MWD's fixed revenue derived from the RTS and Capacity Charges by recovering O&M costs over average and peak system usage, rather than just average system usage as is done currently. Whereas currently most O&M costs are recovered through the System Access Rate (average system usage), a portion of these costs assigned to peak usage would be instead recovered through the RTS and Capacity Charges. Under this scenario, the System Access Rate would decrease by \$97 million (roughly \$50/AF) and the RTS and Capacity Charge would both increase by \$64 million and \$33 million respectively. Because of differing supply and operation characteristics, these changes would impact member agencies differently. West Basin staff is analyzing the potential impacts to our service area.

MWD staff will present an information item to the Board on what, if any, changes will be proposed as a result of the Cost of Service review process with an Action Item to follow in November. The 2011-12 Cost of Service study will be completed in December and a preliminary rate recommendation will be made in January.

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: Through the Conservation Credits Agreements, MWD has historically provided funding to member agencies for rebates and incentive with no annual cap. For FY 2009-10, MWD will provide only 50% of the funding requested by member agencies. In September, MWD reinstated the regional residential and commercial rebate programs with no reservation system. MWD staff believes that with reduced rebates and incentives, it is unlikely that regional program funding will expire before the end of the fiscal year.

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 outcome of potential legislation will be covered in the November update.

2009 Integrated Resources Plan (IRP) Update

Purpose: The original 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 IRP Steering Committee of the Board met again on September 22. Staff's presentation on the process included a proposed agenda for a tentative workshop to be held in November. The agenda as proposed would include: 1) Demand/supply gap assessment; 2) Supply scenarios for each policy approach; 3) Performance metrics for supply scenarios (regional versus member agency reliability, regional versus member agency costs, etc); 4) Policy considerations; and 5) Next steps. Several Directors representing San Diego County Water Authority continued to request a policy discussion focused on member agency versus MWD responsibilities for reliability, member agency accountability, and choice in future supply reliability projects and programs. Other Directors cautioned against the so-called "opt-out" choice model and the notion that member agencies must always see a direct benefit for their investment in MWD programs. Staff will frame these issues as a policy discussion for future meetings.

CURRENT MONTH'S ISSUES

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

- Approve entering into MOUs with employee associations.
- Report on principles for delivery of member agency procured State Water Project supplies.
- Report on Carlsbad Seawater Desalination Project with San Diego County Water Authority and its local retail agencies.
- Report on Cost of Service Review Process.

UPCOMING ISSUES

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

- Action item regarding potential Cost of Service adjustments.

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 October 15, 2009 and agendaized to the October 26, 2009 Board meeting Metropolitan Water District Activities report.

RECOMMENDED MOTION:

This item is for information only.