



**WEST BASIN MUNICIPAL WATER DISTRICT**  
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**AGENDA NO.** 4

**JULY 16, 2009 – Water Resources**

Little (Chair), Gray

**JULY 27, 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:** In May, the Department of Water Resources (DWR) announced an increase in the SWP allocation from 30 to 40%, following the April increase from 20 to 30%. MWD staff had already explained to its Board when the allocation was approved, that these likely actions by DWR would not change the need for implementing the allocation plan, or the Regional Shortage Level. The higher SWP deliveries will have the effect on MWD of drawing less water from storage reserves to meet demands in Fiscal Year (FY) 2009-10. The 12-month shortage allocation is effective beginning July 1, 2009.

At the June Member Agency Mangers meeting, MWD staff reported that the Five-Year Supply Initiative is expected to account for 460,000 acre-feet (AF) in new supply and reduced demand. The combination of Stage 2 shortage allocation, conservation and ordinances will reduce demand by roughly 235,000 AF in 2009. Colorado River related transactions will produce 166,000 AF in new supply (Yuma Desalter, Drop 2 Reservoir, and agreements with Southern Nevada Water Agency, Coachella Valley Water Agency, and Imperial Irrigation District). State Water Project related transactions will yield another 56,000 AF (Drought Water Bank, In-Delta transfers and Yuba transfers).

A groundwater recovery demonstration project with Los Angeles Department of Water and Power will produce 3,000 AF.

Continuing with these Five Year Supply Initiative projects and transactions, it is expected to yield over 500,000 AF in 2010 and between 600,000-808,000 AF annually from 2011 to 2014 to help replace lost supplies from the State Water Project.

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

**Update:** The Long-Range Financial Plan workgroup of MWD and member agency staff met on June 24 to kick-off the latest series of meetings focused on MWD's rate structure. The scope of this effort includes:

- 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).

#### 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: June Board Meeting Recap: What MWD Staff Recommended:** At the June Board Meeting, MWD staff recommended that the Board authorize expenditures of \$24 million in supplemental funding (from funds not being spent on water transfers) to pay-off the existing backlog of rebate requests for FY 2008-09. The original FY 2008-09 Budget for conservation incentives was approximately \$19 million, to which the Board authorized an additional \$20 million in February 2009. If approved, the \$24 million requested in June would bring the total FY expenditures to approximately \$63 million. The \$24 million backlog is comprised of the following:

- \$14.5 million for both residential and commercial regional rebate applications initiated prior to April 1, 2009;
- \$4 million for reimbursements to member agencies and retail agencies for past activity under their locally administered water conservation programs (Conservation Credits Program); and
- \$5.5 million for Phase II of the Public Sector Program approved by the Board in November 2008, including \$1 million to satisfy obligations for recycled water hook-ups initiated under Phase I.

Also included in staff's recommendation was authority to implement the various conservation programs in FY 2009-10 at the budgeted amount of \$19.1 million, and to implement program changes that would reduce incentive levels on various products:

- The FY 2009-10 Budget includes over \$10 million for regional rebate programs, \$5.5 million for member agency reimbursements, and \$2 million for a new Agricultural Conservation Program that was conceptually authorized by the Board when the decision was made to phase out the agricultural discounted water pricing. West Basin anticipates requiring \$500,000-\$700,000 from MWD under the Conservation Credits Program, or roughly 13% of the total \$5.5 million budgeted for the member agencies.
- Recommended program changes would reduce incentive amounts to now cover up to 50% instead of 100% of average retail device costs, and phase out of certain devices.

Board Action: After a very spirited discussion of staff's recommendation, the Board voted to

*"Direct the General Auditor to validate the current dollar amount of the backlog, and include in his report and evaluation of the relative effectiveness of various conservation investments (e.g. advertising, audits, incentive payments for different conservation devices, etc.) and that after receipt of the General Auditor's report, the Board will decide what guidelines are appropriate for the conservation program in 2009-10, and what, if any, part of the backlog to fund."*

(It should be noted that first a motion was offered, but not voted on, by a director from San Diego to use the full FY 2009-10 Budget of \$19.1 million, plus roughly \$5 million of reserves, to pay for the FY 2008-09 backlog, effectively terminating MWD's financial support of conservation for at least the next Fiscal Year.)

Several important issues and questions were raised during the Board discussion including:

- Should MWD continue to provide financial incentives to the public during a period of mandatory conservation?
- What is the mission and role of MWD, if not to promote and provide tools for conservation?
- Should conservation be more of a member agency responsibility in the future?
- The backlog would be funded from reserves. Given the recent debate on the budget and rates, is it prudent to reduce reserves to fund conservation?
- Eliminating conservation is simply a way of reducing the Water Stewardship Rate and thus lowering the "wheeling rate."

#### 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 for balancing water supply and ecosystem needs in the Bay-Delta.

**Update:** On June 4, National Marine Fisheries Service released a Biological Opinion (BiOp) for protection of salmon and steelhead species. MWD staff reported that this BiOp will probably add 5-

10% additional restrictions on pumping from the Delta, which when combined with Delta Smelt restrictions, can reduce exports from the Delta by as much as 45%. However, impacts from the new BiOp, will not be felt until spring 2010. Had it been in place this year, the impact is estimated to be approximately 120,000 AF (roughly the anticipated imported water demand of the West Basin service area for FY 2009-10). Total impacts of both BiOps on both the State Water Project and Central Valley Project are estimated to be between 1,500,000 and 2,000,000 AF.

Other brief highlights of Delta related activities and issues include:

- A "short-list" of Bay-Delta related litigation compiled by MWD staff includes 16 active state and federal court cases – nine regarding endangered species and seven other cases;
- MWD is considering how to address the issue of more than 2,000 illegal diverters of water in the Delta, representing 400,000 to 500,000 AF annually; and
- The Two Gates Fish Protection Demonstration Project ("Two Gates Project") that would install new temporary gates in central Delta channels operated in real-time to keep smelt away from the export pumps, is gaining positive attention. On June 16, Governor Schwarzenegger issued a statement offering support to the project, and on June 28, Interior Secretary Ken Salazar said he "Hoped to make an expedited review" of the Two Gates project. Secretary Salazar also assigned Deputy Interior Secretary David Hayes to focus on California water issues.

#### 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 Desalination, Groundwater, Stormwater, and Graywater. The 2009 IRP is expected to conclude in the fall 2009 timeframe.

**Update:** No update.

#### **CURRENT MONTH'S ISSUES**

The following key items will be considered for action at the July Committee and Board meetings:

- Review participation in a funding agreement for the pilot operation of the Yuma Desalter Plant;
- Authorize payment of conservation backlog and new program refinements;
- Report on potential revolving loan program to support the public sector conservation program; and
- Status report on Delta conveyance facility planning.