



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

**FEBRUARY 11, 2010 – Water Resources**

Little (Chair), Gray

**FEBRUARY 22, 2010 – 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 Update and Allocation Plan

**Background:** The Water Supply Allocation Plan (WSAP) 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 helped to decrease the gap between supply and demand in 2009, but 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:** As of the drafting of the report, the Department of Water Resources (DWR) has not updated the initial SWP allocation of 5%. However, with snowpack in Northern California is at or above average levels after a series of recent storms, DWR is expected to increase the SWP allocation to at least 15%. MWD staff has initiated a process to review and refine the Water Supply Allocation Plan with the member agencies. Changes or adjustments deemed critical by a consensus of member agencies and approved by MWD staff could be recommended to the Board for adoption in time to affect the implementation of a Fiscal Year (FY) 2010-11 shortage allocation, should that be necessary. Future reports will summarize potential changes to the Plan.

### Proposed FY 2010-11 Budget and 2011 Rates and Charges

**Purpose:** When MWD's 2010 rates and charges were approved in April 2009, the Board directed staff to:

"Work with the member agencies and Board to evaluate the historical cost-of-service methodology utilized by MWD, including a review of additional fixed charges, including property taxes, with the intent to ensure that all rates and charges recover the full cost of service when the Board establishes rates for the 2010-11 Fiscal Year."

**Update:** At the first Board workshop on the FY 2010-11 Budget and Rates, MWD staff presented a preliminary rate proposal that recovers full cost of service in FY 2010-11 with a 12.6% average rate increase. The workshop also provided an opportunity to update the Board on the existing PAYGO policy for funding a portion of Rehabilitation and Repair (R&R) projects out of current revenues, and the potential impacts to MWD's credit rating of not adopting rates that recover full cost of service. Staff also presented a concept for structuring a two-year rate proposal that would include "single-digit" rate increases in each year, essentially softening the blow to cities and retail water agencies and adding some predictability to rate-setting over the next two years. Given the same budget assumptions as the 12.6% increase, the two consecutive increases would be both 7.5%. After the February committee meetings, the next meeting – exclusively on the rates – will be a workshop later in the month (date TBD).

### Energy Management and Reliability Study

**Background:** The goal of the Energy Management and Reliability Study (EMRS) is to identify future actions and to serve as a blueprint for an Energy Management Master Plan (Plan) to achieve energy reliability, carbon reduction, and cost control. The Plan will address actions and specific components to be undertaken immediately, in the near-term, and over a longer term (up to 20 years). The response actions are aimed at controlling overall operational costs and moving MWD towards carbon neutrality by 2030. However, many of the response actions are contingent on various regulatory, legislative, and market-related trigger points occurring over the three planning phases.

**Update:** The EMRS was presented at a Board workshop on Energy on January 27. Staff identified potential policies that would enable MWD to take proactive steps in helping ensure energy reliability and pave the way for approval of near-term actions. The specific policies planned to be brought to the Board in February 2010 for adoption are as follows:

- **Regulatory:** Track federal and state greenhouse gas regulations and develop strategies to hedge against price and regulatory risks towards MWD.
- **Legislation:** Pursue legislation to increase net metering, feed-in-tariffs, energy wheeling, or other means to allow expansion of renewable energy initiatives.
- **Contracts:** Maintain maximum flexibility on existing and future contracts with Hoover and other energy contracts to hedge against cost and regulatory risks.
- **Projects/Partnerships:** Pursue cost-effective renewable energy projects and partnerships to hedge against energy price increases, regulatory risks, and move MWD towards carbon footprint reductions.

- **Revenue Stream:** Pursue revenue stream renewable energy facilities on operational lands to assist in cost containment, provide reductions in carbon footprint, and provide hedge against renewable portfolio standards and regulations.
- **Carbon Footprint:** Develop cost-effective projects and programs to reduce MWD's carbon footprint at the retail level in 2015 by 50%, at the retail level in 2020 by 100%, and at both retail and wholesale levels in 2030 by 100% (carbon neutral).

Upon adoption of the Energy Management policies, staff plans to recommend several projects to the Board for implementation, including up to 10 megawatts of solar generation projects at the Weymouth, Skinner (an expansion), Mills, and Jensen plants; a large-scale renewable energy project that would provide supplemental power for the CRA; and various renewable energy projects related to land lease/revenue stream opportunities at Diamond Valley Lake and other MWD-owned properties.

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

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

- Continued discussions regarding draft FY 2010-11 Budget proposal and proposed 2011 rate increase;
- Review Bay-Delta Conservation Plan and EIR/EIS schedule;
- Review and consider action on Energy Management and Reliability Master Plan policies; and
- Review conditions for WSAP implementation decision for FY 2010-11.

### **UPCOMING ISSUES**

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

- Review and consider action on Long-Term Conservation Program;
- Review and consider action on near-term energy management projects; and
- Approval of FY 2010-11 Budget and Rates & Charges.

### **STRATEGIC BUSINESS PLAN IMPLEMENTATION:**

Goal 1: Water Reliability – West Basin is committed to innovative planning and investments to provide water supply reliability and drought protection.

Goal 3: 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 February 11, 2010 and agendaized to the February 22, 2010 Board under Metropolitan Water District activities.

RECOMMENDED MOTION:

This item is for information only.

LIST OF EXHIBITS:

None.