



MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

DEC 12 1995

8-2

Karen E. Doff
EXECUTIVE SECRETARY

November 28, 1995

To: Board of Directors (Water Planning and Resources Committee--Action)
(Executive Committee--Action)

From: General Manager *Rhodvanka*

Submitted by: Debra C. Man, Chief
Planning and Resources *Debra C. Man*

Subject: Integrated Resources Plan Implementation Policies

RECOMMENDATIONS

As part of its commitment to a new era of reliability for the citizens and economy of Southern California, it is recommended that the Board of Directors establish or reaffirm policy in ~~six~~ seven key areas.

1. Reliability. Through the implementation of the Integrated Resources Plan, Metropolitan and its member agencies will have the full capability to meet full-service demands at the retail level at all times.
2. Balance. Metropolitan shall demonstrate stewardship by maintaining a resource mix which balances investments in additional imported supply capability with investments to assure ~~national~~ leadership in local resource development and conservation.
3. Competitiveness. Metropolitan shall provide affordable water service and will maintain its competitiveness by assuring that the effective rate for Metropolitan water will be less than \$500 per acre-foot in 2005.
4. Eastside Reservoir. Metropolitan reaffirms its commitment to complete the 800,000 acre-foot Eastside Reservoir Project with water deliveries to storage commencing in 1999.
5. Colorado River Aqueduct. Metropolitan will take all necessary actions to assure that the Colorado River Aqueduct will be operated at capacity for the benefit of all member agencies.

6. Bay/Delta. Metropolitan will support the CALFED process which establishes the essential coalition of urban, environmental and agricultural interests to reach long-term Bay/Delta solutions.
67. Adaptability. Metropolitan commits to a resource development and financial strategy that is flexible and will provide acceptable water quality and financial security for Metropolitan and its member agencies.

EXECUTIVE SUMMARY:

As Metropolitan and its member agencies approach the next century, they are being held accountable for the sound management of water resources in Southern California -- providing a reliable supply of quality water in a cost-effective manner that supports the region's strong economic base. This requires Metropolitan and its member agencies to continue their partnerships and commitment to implement the integrated resources planning process.

Over the last two-and-one-half years, Southern California's water managers have collectively developed an Integrated Resource Plan (IRP). The IRP calls for the implementation of a portfolio of programs and projects that result in an acceptable level of regional service reliability at the lowest possible cost. During this time, there has been a great deal accomplished in developing the policy and resources initiatives of the IRP. Your Board has reaffirmed Metropolitan's wholesale reliability goal; approved the approach of the preferred resource mix to meet that goal through diversified investments in local and imported water supplies; and established the guidelines and framework for the restructuring of water recycling, groundwater and conservation programs. Based on your Board's actions, Metropolitan's ten-year capital improvement program has been reduced by more than \$1.3 billion, while continuing the construction of critical emergency and supply facilities, such as the Eastside Reservoir.

Major progress has already been made in ensuring reliable deliveries of imported water. The certainty of full Colorado River Aqueduct deliveries over the long-term future has been reaffirmed through Metropolitan's reliability program and the demonstrated successes of Imperial Irrigation District/Metropolitan conservation program, Palo Verde Irrigation District land fallowing program, Arizona underground storage program, and Desert/Coachella delivery agreement. The landmark agreements of the December 1994 Bay-Delta Accord and Monterey Accord have provided the essential coalition of urban, agricultural, and environmental interests to reach long-term Bay-Delta solutions and restructure the state water contracts for the operation of a reliable State Water Project.

Your Board is in a position today to establish the policy foundation for those decisions that will allow the full implementation of the IRP. These policy issues concern regional reliability, affordability of water service, a balanced resource plan, construction of Eastside Reservoir, a full Colorado River Aqueduct, and adaptability of resource and financial management strategies.

DETAILED REPORT:

Nearly seventy years ago, the original Board of Directors of Metropolitan established a heritage of far-sighted planning and reliable, affordable water service for the Southern California regional economy. By the mid-1980s, changing conditions had overtaken and compromised the reliability of the regional water supply system. The loss of more than one-half of Metropolitan's firm entitlements to Colorado River water and declining certainty of Metropolitan's contractual rights in the State Water Project (SWP) combined to undermine confidence in Metropolitan's ability to maintain reliable water service. After a half-century of uninterrupted reliable service, studies sponsored by Metropolitan indicated that the reliability of water supply service compared unfavorably to the reliability of other infrastructure services and was significantly less than the level of reliability required by the regional economy.

For Metropolitan and its member agencies, this lack of reliability served as a call to action. Accordingly, during the last decade, and particularly during the past two-and-one-half years, Metropolitan, in cooperation with its member agencies, engaged in a wide range of intense activities to restore the reliability of regional water service. Specifically, regional water managers have:

- Implemented financial incentive programs which have contributed to the investment of hundreds of millions of dollars in conservation, reclamation, and groundwater projects throughout Metropolitan's service area;
- Sponsored the development of water marketing in California with Metropolitan purchasing substantial amounts of water in both the Colorado River region and Central Valley at a maximum price of \$175 per acre-foot;
- Maintained Colorado River Aqueduct deliveries at or near capacity and developed the Colorado River Reliability Program to assure low-cost reliable Colorado River water during coming decades;
- Obtained necessary permits and commenced construction on key elements of the Capital Improvement Program, most notably the Eastside Reservoir;

- Developed cooperative programs to store additional water in the region's groundwater basins for regional benefit;
- Provided leadership resulting in the historic December 1994 Bay-Delta Accord which significantly improved near-term SWP reliability and laid the foundation for the CALFED process to develop long-term solutions to the problems in the Bay-Delta system;
- Negotiated the Monterey Accord which restructured the State Water Contracts, providing Metropolitan with significant water management and financial benefits; and
- Completed the immense Integrated Resources Planning process which provides a flexible framework for avoiding redundant investments and maximizing coordination among the activities of Metropolitan, its member agencies, and other regional resource management entities.

Although much work remains, this record of accomplishment has restored the region's water supply reliability in the near-term and provided the foundation to achieve long-term security. Indeed, these recent changes are so significant that they warrant a major policy statement by your Board that: a) reaffirms recent key actions and decisions; b) clearly establishes additional guidelines to further protect the near-term interests of the region; and c) provides the framework for a continuing partnership with its member agencies and others to assure continued success and long-term reliability.

Recommendations in ~~six~~ seven key policy areas are summarized below. Management believes that collectively these policy responses define a new era of water supply reliability for the citizens and economy of Southern California.

1. **Retail Reliability**

Policy Statement: Through the implementation of the Integrated Resources Plan, Metropolitan and its member agencies will have the full capability to meet full-service demands at the retail level at all times.

Discussion: In 1993, Metropolitan established a reliability goal at the wholesale level to provide guidance to regional planning efforts. However, this wholesale reliability goal has occasionally been interpreted to imply that shortages may occur at the retail level which are of an unacceptable magnitude or frequency. It is recommended that Metropolitan clearly affirm a policy assuring that reliable service will be maintained at the retail level at all times. Metropolitan shall take all appropriate actions, in coordination with the member agencies and subagencies, to assure that full-service demands at the retail level will be satisfied under all foreseeable hydrologic conditions.

2. **Balanced Resource Mix**

Policy Statement: Metropolitan shall demonstrate stewardship by maintaining a resource mix which balances investments in additional imported supply capability with investments to assure national leadership in local resource development and conservation.

Discussion: The IRP unambiguously demonstrates the need for investments both in additional imported supplies and in local resource development. This commitment represents a significant departure from past decades during which Southern California met growing demands almost exclusively through the development of new, massive imported water supply projects. From a purely economic perspective, the development of these local resources, in some instances, may appear more costly than securing incremental supplies from natural sources or from agricultural water transfers. However, during the past decade, a new water management ethic has emerged in Southern California which has provided the foundation for consensus solutions with environmental and agricultural interests elsewhere in California. This demonstrated stewardship will be an essential element in securing the statewide agreements necessary for long-term reliable supplies. Among sustainable alternatives, the balanced investments in the Preferred Resource Mix approach of the IRP represent the lowest-cost approach for regional reliability.

3. **Competitiveness**

Policy Statement: Metropolitan shall provide affordable water service and will maintain its competitiveness by assuring that the effective rate for Metropolitan water will be less than \$500 per acre-foot in 2005.

Discussion: Metropolitan functions in a far more competitive environment today than in the past. Consequently, it is critical that Metropolitan become more cost-conscious and price its services competitively. To complement the policy of full reliability at the retail level, it is recommended that your Board establish as policy the goal that the effective rate for water delivered by Metropolitan will not exceed \$500/AF a decade hence. This policy will require that Metropolitan adjust to future changes not by compromising reliability or merely raising water rates, but by seeking cost reductions to assure its competitive position in the markets in which it functions.

4. **Eastside Reservoir**

Policy Statement: Metropolitan reaffirms its commitment to complete the Eastside Reservoir Project with water deliveries to storage commencing in 1999.

Discussion: Although uncertainty regarding future demands raises the risk of creating "stranded" investments, all available evidence indicates that Metropolitan should proceed as planned with the 800,000 acre-foot Eastside Reservoir Project. Additional surface storage in Metropolitan's service area is essential to maintain adequate emergency supplies. Equally important, this surface storage project is necessary to assure the effective conjunctive management of imported supplies and groundwater storage capacity in Metropolitan's service area. In a remarkably short period of time, Metropolitan obtained permits for and began construction on this project. While other elements of the Capital Improvement Program should be reviewed to assure that Metropolitan's costs are consistent with the affordability goal, it is recommended that Metropolitan reaffirm its full support for this keystone storage project.

5. Colorado River Aqueduct

Policy Statement: Metropolitan will take all necessary actions to assure that the Colorado River Aqueduct will be operated at capacity for the benefit of all member agencies.

Discussion: For many years following the landmark 1963 U.S. Supreme Court decision in the Arizona case, regional water supply planning was premised on the assumption the Colorado River Aqueduct (CRA) would eventually be half-empty. In contrast, a central conclusion of the IRP process has been that the region must maintain deliveries of cost-effective supplies through the CRA at or near capacity. The CRA provides by far the most cost-effective source of supplies for the region. Recently, Metropolitan, in cooperation with the Southern Nevada Water Authority and others, has developed the Colorado River Reliability Program. This program, if approved by the Secretary of Interior, would assure full deliveries of Colorado River water to Metropolitan for several decades at an affordable melded cost of about \$75 per acre-foot of additional supplies. Aside from occasional decisions to reduce CRA deliveries for the purpose of managing water quality, it is recommended that your Board adopt a policy to assure operation of this vital facility as close to full capacity as practical.

6. Bay/Delta

Policy Statement: Metropolitan will support the CALFED process which establishes the essential coalition of urban, environmental and agricultural interest to reach long-term Bay/Delta solutions.

Discussion: Improving the reliability of the State Water Project is an important component of Southern California's water future. The State Water Project is necessary to the region to meet its water quality objectives and continue to provide a dependable water supply. Recent milestones, including the historic Bay/Delta Accord and Monterey Agreement, have resulted in operational improvements on the system and set the stage for long-term solutions for the Bay/Delta. Through the CALFED process statewide alliance of urban, business, labor,

community groups, environmental groups, agriculture, and water agencies has been formed to work with federal and State agencies to develop solutions to environmental problems in the Delta. Metropolitan commits its support to the CALFED process, to help ensure successful completion of the three-year process.

67. Adaptability

Policy Statement: Metropolitan commits to a resource development and financial strategy that is flexible and will provide financial security for Metropolitan and its member agencies.

Discussion: Achievement of these policies will require that Metropolitan maintain an adaptive, flexible approach to the management of resources and finances. Ultimately, the specific resource investments included in the regional resource mix must be subject to adjustment as information about future water demands and other key market factors becomes available. In the near term, the attached schedule provides a timetable for making other specific decisions regarding the IRP resource mix and key policies that will be required to further implement the IRP. In addition, to protect rate payers from adverse impacts caused by stranded costs, it will be imperative that Metropolitan continue to develop financial and legal strategies, including appropriate pricing and contractual mechanisms, that assure effective use of resources while providing financial security for Metropolitan and its member agencies.

In the coming six months, necessary actions for the full implementation of the IRP will be presented to your Board for consideration and approval. These proposed actions and timing are listed in the attached Schedule of Board Actions.

BGT:arb

Attachment

bgt1295/board

Attachment

Schedule of Board Actions

<u>Proposed Board Actions</u>	<u>Month</u>
Adoption of External Wheeling Policy	
Pending Board Letter	November 1995
Final Board Letter	February 1996
Adoption of Integrated Resources Plan and Updated System Overview Study	
Draft Plan and Study	December 1995
Final Plan and Study	January 1996
Approval of the Water Surplus and Drought Management Plan	
Revised Pending Board Letter	January 1996
Final Board Letter	February 1996
Approval of the Local Resources Program and Local Storage Program	
Revised Pending Board Letters	January 1996
Final Board Letters	February 1996