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METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

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

From: ^{FOR:} General Manager Debra C. Man

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Subject: Process for Evaluating Alternative Water Supplies Under the
 Integrated Resources Plan

RECOMMENDATION

Information only.

EXECUTIVE SUMMARY

In January 1996 your Board adopted the Integrated Resources Plan (IRP) as a guideline for developing water resource and capital improvement investments. The IRP called for the development of additional imported supplies, water transfers, conservation, storage, and local projects to ensure a reliable, high quality water supply at the lowest possible cost.

To date, much progress has been made towards achieving the goals and resource targets identified in the IRP. Because of this success, Metropolitan has received numerous applications for local projects and proposals for water transfers and storage programs from both public and private entities. It is important that Metropolitan respond to these proposals in a timely manner so that potentially beneficial opportunities for achieving the IRP targets are not lost. Many of these proposals seek to engage Metropolitan in business partnerships, representing a new model for developing alternative water supplies and/or storage. However, a comprehensive and consistent approach for evaluating such proposals is currently not in place. It is important that a process be established to ensure that all interested parties understand Metropolitan's resource needs and evaluation criteria and that proposals are evaluated in a fair and equitable manner.

This evaluation process would: (1) demonstrate the regional need and economic value of these water resources; (2) evaluate the financial, legal, and regulatory feasibility of resource options; (3) select qualified providers and high value proposals; and (4) negotiate and close in a timely manner.

DETAILED REPORT

One of the fundamental premises of the Integrated Resources Plan (IRP) is that regional water supply reliability will be achieved through the implementation of a diverse portfolio of resource investments and conservation measures. The guidelines presented in the IRP establish broad resource targets for each of the major supply, storage, and conservation options available to the region including:

1. Conservation
2. Water Recycling
3. Groundwater Recovery
4. In-Basin Surface Reservoir Storage and Groundwater Conjunctive Use Storage
5. Central Valley Water Transfers and Storage
6. Colorado River Supplies and Transfers
7. State Water Project Improvements

Implementation of the diversified resources strategy presented in the IRP relies upon both traditional and alternative, non-traditional resource development opportunities. Reliability will be achieved through investments in large-scale regional investments, like the Eastside Reservoir Project, and from water management programs that encourage local, more smaller-scale projects, such as the Local Resources Program. In addition, market solutions are being sought in which willing sellers and buyers develop partnership agreements for the transfer of water. These programmatic and market solutions sometimes make it more difficult to evaluate regional benefits and come to closure when benefits have been established.

As a result of the progress that has already been achieved in meeting the goals and objectives for the IRP, Metropolitan has received numerous applications for local projects and proposals for water transfers and storage programs. While the influx of these proposals offers a favorable outlook for achieving the regional targets for the IRP, it poses many challenges as well. Two such challenges are:

1. How can Metropolitan thoroughly and fairly assess the relative strengths and weaknesses of many competing proposals?
2. In an environment strained by conflict and rapidly changing strategies, how can the needs of the region be adequately defined and closure be assured?

In the past, Metropolitan has successfully negotiated long-term transactions for water resource programs with several agencies on a case-by-case basis; but this has been accomplished with relatively few resource development opportunities. Today, the number of alternatives has increased. In addition, with so many potential opportunities, the political pressures to select cost-effective and appropriate options in a fair and well understood process cannot be understated. In this context, Metropolitan needs to expand and standardize its process for the development, acquisition, and utilization of innovative, non-traditional water resources and storage options.

FOUR-STEP PROCESS

In response to these challenges, staff proposes to develop a four-step process to permit Metropolitan to move forward with the implementation of measures needed to achieve the targets in the IRP in a feasible and cost-effective manner.

1. *Demonstration of Regional Need and Economic Value*

The resource targets identified in the IRP establish the overall goal for broad resource development. Within each of these targets, however, it is necessary to define the specific components which will achieve those targets. For example, the IRP's target for the Colorado River Aqueduct (CRA) is 1.2 million acre-feet per year. But, what is the feasible and most cost-effective mix of CRA supplies to accomplish this target (core transfers, conservation, dry year options, storage, and re-operations)? Before addressing the merits of specific proposals and providers, the first step in the process is the definition of needs. This will provide an objective basis for defining the scope and performance requirements for the implementation components for each resource target that Metropolitan will pursue.

2. *Evaluation of Financial, Legal, and Regulatory Feasibility*

Once the need for the resource has been demonstrated and its performance requirements defined, the next step is an assessment of the feasibility of obtaining the water supply or storage. This assessment will address the policy issues associated with the range of options open to Metropolitan when it contracts with a member agency or other third party provider. It answers questions regarding the type of contract Metropolitan prefers to pursue, the level of control and/or ownership that is appropriate, the appropriate term or duration of the agreement, the potential environmental issues, and the legal authority and rights of both Metropolitan and the potential providers to commit to a specific agreement.

3. *Selection of Qualified Providers and Proposals*

When the scope of Metropolitan's technical requirements have been clearly specified and a feasible approach to resource acquisition developed, the next step is the evaluation of the potential providers and proposals. The development of the selection process should strive to ensure a "level playing field" for all providers, with wide public understanding of Metropolitan's needs, timing, and evaluation criteria. This process does not intend to compare proposals for supply alternatives under one resource target (e.g., local projects) with proposals for another resource target (e.g., Central Valley transfers). Further, because many potential agreements will involve significant, long-term relationships with selected providers, an evaluation process should be developed that focuses on the ranking of the specific proposals, as well as the providers themselves. A value-based selection process that evaluates price, performance, and the provider will help ensure that cost alone does not drive the selection process.

4. *Timely Negotiations and Closure*

One of the more difficult aspects of this process is the coming to closure. Failure to reach closure can result from inadequate resolution of policy issues prior to proceeding with the acquisition, lack of consensus on evaluation criteria, or a fundamental disagreement on the need for a specific resource acquisition. In order to avoid these pitfalls, the proposed approach encourages continuous involvement of your Board in the process.

CONCLUSION

The implementation of a comprehensive, Board-approved water resource acquisition process is essential to the achievement of the resource targets identified in the IRP. The policies and processes required to establish the need for and feasibility of specific resource investments, combined with the ability to select and close on high value proposals are essential to realizing the benefits of new and emerging opportunities for innovation in the achievement of long-term regional water supply reliability.

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