

- **Board of Directors**
Water Quality and Operations Committee

August 19, 2008 Board Meeting

8-3

Subject

Approve Energy Policy Principles

Description

This letter requests approval of the Energy Policy Principles as provided in [Attachment 1](#). The new principles will provide guidance and direction for Metropolitan's activities in the current energy market and in future industry, regulatory and legislative initiatives.

At the July meeting of the Water Quality and Operations Committee, draft principles were introduced and discussed. As requested, the principles have been finalized and are presented for board approval. Also discussed at the July meeting was the goal to create a comprehensive plan dealing with Metropolitan's response to the challenges of green house gas emission management. Such a plan is scheduled for discussion this fall.

Metropolitan's proposed energy policy is composed of 12 principles that are grouped into the following four categories:

1. Reliability – Principles that support or increase the reliability of Metropolitan's sources of energy.
2. Economics – Principles that protect Metropolitan's economic interests related to energy costs and revenues from system operations and operation of the State Water Project.
3. Compliance/Regulatory – Principles that relate to the pursuit of effective, efficient, and reasonable regulations while maintaining maximum board authority over Metropolitan's energy activities.
4. Stewardship – Principles that support prudent and sustainable utilization of the resources entrusted to and managed by Metropolitan.

The proposed principles complement and augment the existing Energy Policy Principles (approved June 11, 1996), Policy Principle on Global Climate Change and Water Resources Planning (approved March 12, 2002), and the Legislative Strategy for 2008 (approved January 8, 2008).

The existing Energy Policy Principles ([Attachment 2](#)) were developed over 12 years ago when the energy industry was very different than it is today. At that time, the focus was on deregulation of the California electric industry. Since that time, there has been unprecedented volatility in energy prices and supply, several energy company bankruptcies, and a continuing series of increasingly burdensome and complex regulations and compliance requirements.

As the energy industry evolves and adapts to issues like climate change and green house gas emission management, these principles will continue to be reviewed and updated.

Policy

Metropolitan Water District Administrative Code Section 2481: Duties and Functions of Water Quality and Operations Committee

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because the proposed action involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and approve the attached Energy Policy Principles ([Attachment 1](#)).

Fiscal Impact: No specific fiscal impacts identified

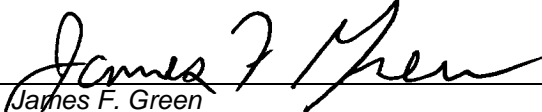

Option #2

Adopt the CEQA determination and direct staff to modify the principles as specified.

Fiscal Impact: No specific fiscal impacts identified

Staff Recommendation

Option #1

 _____ James F. Green for Eddie A. Rigdon Manager, Water System Operations	7/31/2008 _____ Date
 _____ Jeffrey Kightlinger General Manager	8/5/2008 _____ Date

[Attachment 1 – Energy Policy Principles](#)

[Attachment 2 – Existing Energy Policy Principles approved June 11, 1996](#)

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

ENERGY POLICY PRINCIPLES

The energy industry of today is a very complex and continuously changing environment. Metropolitan has significant energy assets and requirements. The following Principles provide guidance and direction for Metropolitan's energy activities in this dynamic industry.

Reliability: Metropolitan has significant energy-related assets, including a 230kV transmission system and long-term federal hydro generation contracts to support the pumping requirements on the Colorado River Aqueduct (CRA). These assets provide a reliable supply of power and energy to run the pumps and move water from the Colorado River to Southern California. The following Principles are to preserve and protect these assets:

- Preserve Metropolitan's existing contract rights.
- Protect Metropolitan's ability to fully utilize the CRA transmission facilities and prevent adverse impact from third party interconnections, transmission expansion and generation development.

Economics: Energy costs and revenues can have significant fiscal impact to Metropolitan. The impacts may be direct, such as incentive payments to expand Metropolitan's renewable generation capability, or indirect through billings for water from the State Water Project. The following Principles support the concept of "beneficiary pays" or cost causation as the basis for energy-related costs charged to Metropolitan, and protect Metropolitan's economic interests in energy efficiency and renewable generation projects:

- Ensure power costs are allocated on a "beneficiary pays" principle.
- Protect Metropolitan's interests as the State Water Project develops new and renewable generation resources.
- Pursue all available federal, state or local agency funding for Metropolitan's renewable energy development and implementation of energy efficiency projects.

Compliance/Regulatory: Regulations and compliance requirements relating to energy activities are becoming increasingly complex and burdensome, affecting Metropolitan by making activities subject to additional regulations or limiting available options for use of Metropolitan's assets. The following Principles relate to the pursuit of effective, efficient, and reasonable regulations while maintaining maximum board authority over Metropolitan's energy activities:

- Maintain board authority over Metropolitan's energy activities.
- Protect and enhance Metropolitan's ability to maximize revenue from its electric generation resources.
- Promote recognition of large hydro generation as a renewable energy resource for all purposes.

Stewardship: As a public agency, Metropolitan has the responsibility and obligation to manage the resources entrusted to it in a prudent manner that provides for the public good. Metropolitan has historically been a good steward of its water and energy resources through conservation efforts and the use and development of renewable energy. The following Principles support the continued prudent and sustainable utilization of energy and development of effective and equitable energy-related legislation and regulations:

- Protect Metropolitan's investment in long-term renewable power resources such as the Hoover and Parker Dams power plants.
- Develop economically responsible renewable energy projects.
- Promote energy conservation through water conservation.
- Promote effective and equitable legislation and regulations regarding energy-related climate change and sustainability issues.

Existing Energy Policy Principles

- Continue to take appropriate actions to protect Metropolitan's investment in long-term power resources such as the Hoover power plant and the Parker power plant.
- Oppose provisions that would expand jurisdiction of the California Public Utilities Commission (CPUC) or the Federal Energy Regulatory Commission over Metropolitan's activities.
- Continue to take appropriate actions to preserve Metropolitan's existing power contract rights and avoid cost increases and shifting of stranded costs as the electric utility industry restructuring moves forward.
- Seek opportunities that may arise through deregulation to provide direct service at reduced cost to Metropolitan's water supply loads that are serviced under tariff schedules.

M.I. 41941 - June 11, 1996