



● **Board of Directors**
Water Planning and Stewardship Committee

3/9/2010 Board Meeting

9-2

Subject

Review potential modifications to Water Supply Allocation Plan definitions and procedures

Description

Background

Between July 2007 and February 2008, Metropolitan staff worked with the member agency managers and staff to develop a Water Supply Allocation Plan (WSAP). The WSAP includes the specific formulas for calculating member agency supply allocations and the key implementation elements needed for administering an allocation.

Throughout the development process Metropolitan's Board of Directors was provided with regular progress reports on the status of the WSAP, with oral reports in September, October, and December 2007, an Information Board letter with a draft of the WSAP in November 2007, and a Board report with staff recommendations in January 2008. Based on Water Planning and Stewardship Committee discussion of the staff recommendations and further review of the report by the member agencies, refinements were incorporated into the WSAP for final consideration and action in February 2008. The WSAP was adopted at the February 12, 2008 Board meeting.

In April 2009, the Board voted to implement the WSAP for the first time. The WSAP was implemented at a Level 2 allocation level, and is in effect for the period of July 1, 2009, through June 30, 2010. Since implementation of the WSAP began in July 2009, two important elements have been identified that require clarification. Specifically, at the February 2010 Water Planning and Stewardship Committee meeting, the Board requested clarification on the following items in the WSAP:

- Definition of Extraordinary Increased Production
- Policy on selection of the WSAP Base Period

This letter provides the Board with information on the issues associated with each of these elements, and their significance in the WSAP. This letter also provides potential staff recommendations for modifications to the WSAP that would resolve the identified issues. An action letter to effect any changes and clarifications will be brought to the Board for consideration in April 2010.

WSDM Principles for Allocation

Any potential modifications to the WSAP should be made in consideration of the 1999 Water Surplus and Drought Management Plan (WSDM Plan) principles for allocation. While the WSDM Plan did not include a Water Supply Allocation Plan or implementation approach, it did include a set of principles and considerations for staff to address when developing a specific plan. The WSDM Plan included a guiding principle to be followed in developing any future allocation scheme. As stated in the WSDM plan:

"Metropolitan will encourage storage of water during periods of surplus and work jointly with its Member Agencies to minimize the impacts of water shortages on the region's retail consumers and economy during periods of shortage."¹

¹ WSDM Plan, p. 1. Emphasis added.

This principle reflects an objective for an allocation approach that is both equitable and minimizes disparate regional hardship.

The specific issues considered in the WSDM Plan to accomplish an equitable regional allocation of Metropolitan supplies during times of shortage included the following:

- The impact on retail customers and the economy
- Allowance for population and growth
- Change and/or loss of local supply
- Reclamation/Recycling
- Conservation
- Investment in local resources
- Participation in Metropolitan's non-firm (interruptible) programs
- Investment in Metropolitan's facilities

Definition of Extraordinary Increased Production

The first issue identified during the course of the current WSAP implementation, is the need to clarify the definition of Extraordinary Increased Production. Under the WSAP formula, local supply production in the Allocation Year can either be designated as "planned" or "ordinary" Allocation Year Local Supply, or as "Extraordinary" local production. This is an important designation because the two types of supplies are accounted for differently in the WSAP formula, with "Extraordinary" local production increases providing more benefit to the member agency. The WSAP defines Extraordinary Increased Production in the following way:

"This adjustment accounts for extraordinary increases in local supplies in times of shortage above the base period, including such efforts as purchasing water transfers or overproducing groundwater yield."²

The spirit of the definition provided in the WSAP is clear: Member agencies who take extraordinary steps to increase their water supplies in a WSAP allocation should see a benefit for doing so. However, the definition provided in the WSAP as to what actions qualify as "Extraordinary" is vague. When considering the potentially large investments of time and money an agency may undertake to secure or produce Extraordinary Increased Production, additional clarity is of critical importance.

Staff recommends that the following clarification to the WSAP definition of Extraordinary Increased Production:

"Extraordinary Increased Production shall be defined as a supply that is delivered only in a year when Metropolitan's WSAP is implemented."

This definition would clearly differentiate actions taken by member agencies to augment supplies only when Metropolitan is allocating supplies through the WSAP from local supplies and programs that are operated on an ongoing basis.

Policy on Selection of the WSAP Base Period

The second issue identified during the course of the current WSAP implementation is the lack of a clear policy regarding the selection of historical years to be included in the WSAP Base Period. The WSAP formula uses a historical Base Period with established water supply and delivery data as the basis for estimating total Allocation Year water needs. For each agency, the total Base Period Retail Demand is determined by summing a three-year average of Base Period Local Supplies and Base Period Wholesale Demands. A growth factor is then applied to the resulting Base Period Retail Demand to estimate the needs for each agency in the Allocation Year. The WSAP defines the Base Period in the following way:

"The base period for each of the different categories of demand and supply is calculated using data from the three most recent non-shortage years, 2004-2006."³

² Water Supply Allocation Plan, p. 9.

³ Water Supply Allocation Plan, p. 6.

During the development of the WSAP, it was recognized that, given the foundational importance of the Base Period, it was essential that it did not underestimate needs by including data from years that are impacted by shortages or extraordinary conservation efforts in the service areas of the member agencies. The historical period of 2004-2006 was specifically selected because that period was prior to the initial SWP shutdown due to Delta smelt protection, and the subsequent outreach and advertising campaigns to reduce water use.

The WSAP clearly identifies the Base Period years and the method for adjusting the Base Period data for growth in an allocation year. However, the WSAP stops short of setting a policy on how the Base Period will be updated in the future. Because the WSAP is the approved board policy for allocating water supply in a shortage condition, the Base Period cannot be changed without board approval. Any recommended changes to the Base Period should include the same consideration for the impacts of shortages or extraordinary conservation.

Next Steps

Staff is seeking board direction on the potential recommendations for modifications to the WSAP definitions and procedures described in this information letter. Staff will incorporate board input from the March 9, 2010, Water Planning and Stewardship Committee and return in April 2010 with an action item to implement the recommended modifications.

Staff is currently engaged with the member agencies in the WSAP 12-month formal review process. During the months of January and February, the member agency managers participated in a series of three workshops. The purpose of the 12-month review is to collaborate with the member agencies to identify potential modifications to the WSAP and to recommend changes, if any, for board consideration. The focus of the workshops has been to facilitate in-depth discussions on WSAP-related issues that had been identified by Metropolitan staff and by member agencies since the WSAP was implemented in July 2009. The main topics of discussion in the 12-month review process generally fall into the following categories:

- Groundwater basin management
- Local supply production
- Demand hardening

Recommendations on how to deal with these issues will be developed in conjunction with the member agency managers for board direction. The current schedule is to provide an information letter addressing outstanding issues in July, with potential board consideration in August.

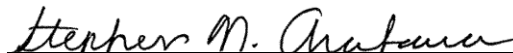
Policy

By Minute Item 47393, dated February 12, 2008, the Board adopted the Water Supply Allocation Plan.

By Minute Item 43514, dated April 13, 1999, the Board adopted the Water Surplus and Drought Management Plan.

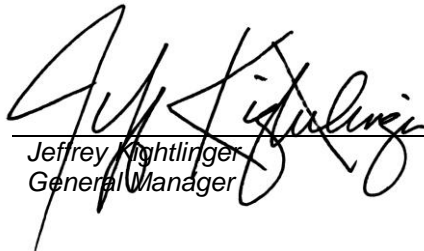
Fiscal Impact

None


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2/24/2010

Date


 Jeffrey Nightlinger
 General Manager

2/25/2010

Date