



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

6/8/2010 Board Meeting

8-6

Subject

Approve key principles to be considered in determining Extraordinary Supplies under Metropolitan's Water Supply Allocation Plan

Description

Background

Between July 2007 and February 2008, Metropolitan staff worked with the member agency managers and their 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. 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, an important element was identified that required clarification. Specifically, at the February 2010 Water Planning and Stewardship Committee meeting, the Board requested clarification on the definition of Extraordinary Supply in Metropolitan's Water Supply Allocation Plan.

In March 2010, an information letter was provided to the Board with a discussion of the issues and a potential recommendation for clarifying the definition of Extraordinary Supply. The Municipal Water District of Orange County submitted a comment letter regarding the potential definition, and raised key questions and issues. Since that time, staff has worked with the member agencies to discuss and address any outstanding comments and concerns with the potential definition. As a result of the extensive discussions with the member agencies, it was determined that, from a practical standpoint, a specific definition of Extraordinary Supply would not be able to address the range of potential projects and programs that may qualify. Because all requests and documentation of Extraordinary Supply programs would have to be reviewed by Metropolitan, staff is requesting that the Board approve a set of key principles that would be used to guide staff in determining the Extraordinary Supply status of member agency local supplies.

Benefit of Extraordinary Supply in the WSAP

Under the WSAP formula, local supply production in the Allocation Year can either be designated as a "planned" supply, or as an "Extraordinary" supply. This is an important designation for a member agency because the two types of supplies are accounted for differently in the WSAP formula. In essence, the WSAP is a "needs-based" methodology. A member agency's retail-level need for Metropolitan supplies is determined by estimating its total retail-level need and subtracting the local supplies provided by the member agency. Local supplies classified at Extraordinary Supply are only partially included (scaled depending on the WSAP Level) as local supplies, meaning that the member agency demands for Metropolitan supplies are not reduced accordingly, and their "need" for Metropolitan supplies are inflated. This has the effect of providing significantly more benefit to the member agency in terms of total water supply (local supply + MWD allocation + extraordinary supply) that is available to the retail customer.

Key Principles in Determining Status of Extraordinary Supply

The WSAP currently defines Extraordinary Supply 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."¹

The intent of the definition provided in the WSAP is clear: *Member agencies that take extraordinary steps to increase their water supplies in a WSAP allocation should see a significant benefit for doing so.* However, the definition provided in the WSAP as to what actions or programs would qualify as "Extraordinary" is not as clear. When considering the potentially large investments of time and money an agency may undertake to secure or produce Extraordinary Supply, additional clarity is of critical importance.

To guide staff in determining the Extraordinary Supply status of future member agency supply programs, staff recommends that the following principles be approved by the Board:

1. No Negative Impacts to Other Member Agencies – A potential Extraordinary Supply for a member agency should not decrease the amount of Metropolitan water supply that would be available to the other member agencies in a WSAP. Programs that utilize Metropolitan supplies as a primary or in-lieu source or as a means of payback or future replenishment may have the effect of decreasing supplies, available to other agencies, if designated as Extraordinary Supply.
2. Provides Supply in Addition to Existing Regional Supplies – A potential Extraordinary Supply should provide a water supply that increases the overall water supplies that are available to the region in a WSAP. A program that is designed to move existing regional supplies from year to year would not qualify.
3. Specifically Designed Program or Supply Action – A potential Extraordinary Supply must be intentionally created and operated to provide additional supply yield. Normal variations in existing and planned local supply programs would not qualify.
4. Intended for Consumptive Use in a WSAP – A potential Extraordinary Supply should be designed with the primary intention to deliver water supply to a member agency only at a time when Metropolitan is allocating supplies. Programs designed to deliver water on a regular basis would not qualify. Exceptions for reasonable use of a supply program for emergency or other extenuating local circumstances should be considered.
5. Fully Documented Resource Management Actions – A potential Extraordinary Supply should have a full description as to the source, transmission, distribution, storage, and delivery of the water supply.

These principles are intended to identify deliberate actions taken by member agencies to augment supplies only when Metropolitan is allocating supplies through the WSAP. Production from existing local supplies, programs that are operated on an ongoing basis, and incidental increases in water supply would not qualify as Extraordinary Supply. The intent of the Extraordinary Supply designation is to recognize programs and actions that are additive to the total regional water supply as the region continues to confront the water supply challenges from drought and regulatory conditions. To that end, any supply actions taken after the initial implementation of the WSAP in July 2009 that utilize Metropolitan supplies either as a primary source, or to refill or replenish an incurred obligation or deficit at a future date would not qualify as Extraordinary Supply.

¹ Water Supply Allocation Plan, p. 9.

The principles provide consistent criteria for determining whether a particular supply should be considered as Extraordinary Supply and has given an extra benefit during a WSAP. Member agencies can take resource management actions that maximize their availability of local supplies at any time. Additional local supply production provides a retail level benefit for the member agency in that it reduces their need for Metropolitan supplies during a WSAP and thus reduces the retail-level shortage impacts resulting from an allocation of Metropolitan supplies.

The principles also provide clear guidance as to the type of documentation that would be needed in order for a supply to be qualified as Extraordinary, and allows for consideration if the supply program needed to be used by the member agency in a non-WSAP year for unforeseen circumstances. Based upon this definition, the following lists show examples of programs and actions that would and would not qualify as Extraordinary Supply. These lists are meant to provide examples, and are not to be considered comprehensive.

Examples of programs that may qualify as Extraordinary Supply:

- Single and multi-year transfers
- Defined/planned storage accounts
- Accelerated or enlarged local facilities or programs

Examples of programs that would not qualify as Extraordinary Supply:

- Core-type transfers used in non-WSAP years
- Overproduction of storage that is not defined/planned
- Planned increases in existing facilities or programs
- Hydrologic-based increases in existing local supplies

Extraordinary Supply Documentation

The WSAP includes a comprehensive "Appeals Process" for managing requested changes in member agency data and subsequent supply allocations. The WSAP Appeals Process will be used to determine if programs or actions taken by member agencies qualify as Extraordinary Supply, using the guidance from the proposed key principles. As stated in the definition of Extraordinary Supply, documentation as to the source, transmission, storage, and delivery of that supply must be provided to show that the program or action qualifies as extraordinary. Appeals for consideration of Extraordinary Supply may be submitted at any time within the WSAP allocation year. However, if the appeal is made after a supply program or action has been implemented, the member agency assumes the risk that it may not qualify as Extraordinary Supply.

WSAP 12-Month Formal Review Process

As a reminder, staff is also currently engaged with the member agencies in the WSAP 12-month formal review process. 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. Since the review process began in January 2010, the member agency managers have participated in a series of six workshops; additional workshops are scheduled for later this spring. The focus of these 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 have generally fallen into the following categories:

- Groundwater basin management
- Local supply production
- Demand hardening
- Growth adjustments

Recommendations on how to deal with these issues are being developed in conjunction with the member agency managers for board direction. The current schedule is to provide an information letter addressing these issues in July 2010, with potential board consideration in August.

Policy

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

California Environmental Quality Act (CEQA)

The project previously was determined to be categorically and statutorily exempt under the provisions of CEQA and State CEQA Guidelines. Specifically, the WSAP was found to be exempt under 15301 (Class 1), 15307 (Class 7), 15308 (Class 8) and 15378(b)(4) of the State CEQA Guidelines. In addition, the WSAP was found to be exempt pursuant to Water Code Section 10652, to the extent this plan serves as the basis for the urban water shortage contingency analysis required under Water Code Section 10631 and is incorporated into Metropolitan's Regional Urban Water Management Plan (RUWMP). These determinations were made on February 12, 2008 and a Notice of Exemption (NOE) was filed shortly thereafter. With the current board action, there is no substantial change proposed to the project. Hence, the previous environmental documentation prepared in conjunction with the project fully complies with CEQA and the State CEQA Guidelines. Accordingly, no further CEQA documentation is necessary for the Board to act with regard to the proposed action.

The CEQA determination is: Determine that the proposed action has been addressed previously in the original NOE and that no further environmental analysis or documentation is required.

Board Options

Option #1

Adopt the CEQA determination and approve the key principles to guide staff when determining the status of Extraordinary Supply in Metropolitan's Water Supply Allocation Plan.

Fiscal Impact: None

Business Analysis: Implementing the key principles would provide clarity for member agencies when considering the potentially large investments of time and money an agency may undertake to secure or produce Extraordinary Supply. Appropriate determination of Extraordinary Supply status ensures that member agencies who take extraordinary steps to increase their water supplies in a WSAP allocation would see a benefit for doing so without negatively impacting other agencies.

Option #2

Do not approve the key principles.

Fiscal Impact: None


Business Analysis: Not approving the key principles maintains the current definition of Extraordinary Supply in the WSAP, which may not provide enough clarity to member agencies considering taking extraordinary steps to increase their water supplies in a WSAP allocation. This could potentially lead to inefficient water management investments by the member agencies.

Staff Recommendation

Option #1


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5/26/2010
 Date


 Jeffrey Knightlinger
 General Manager

5/27/2010
 Date