

# Resource Options for the Future

IRP Steering Committee  
Maureen A. Stapleton  
June 22, 2010

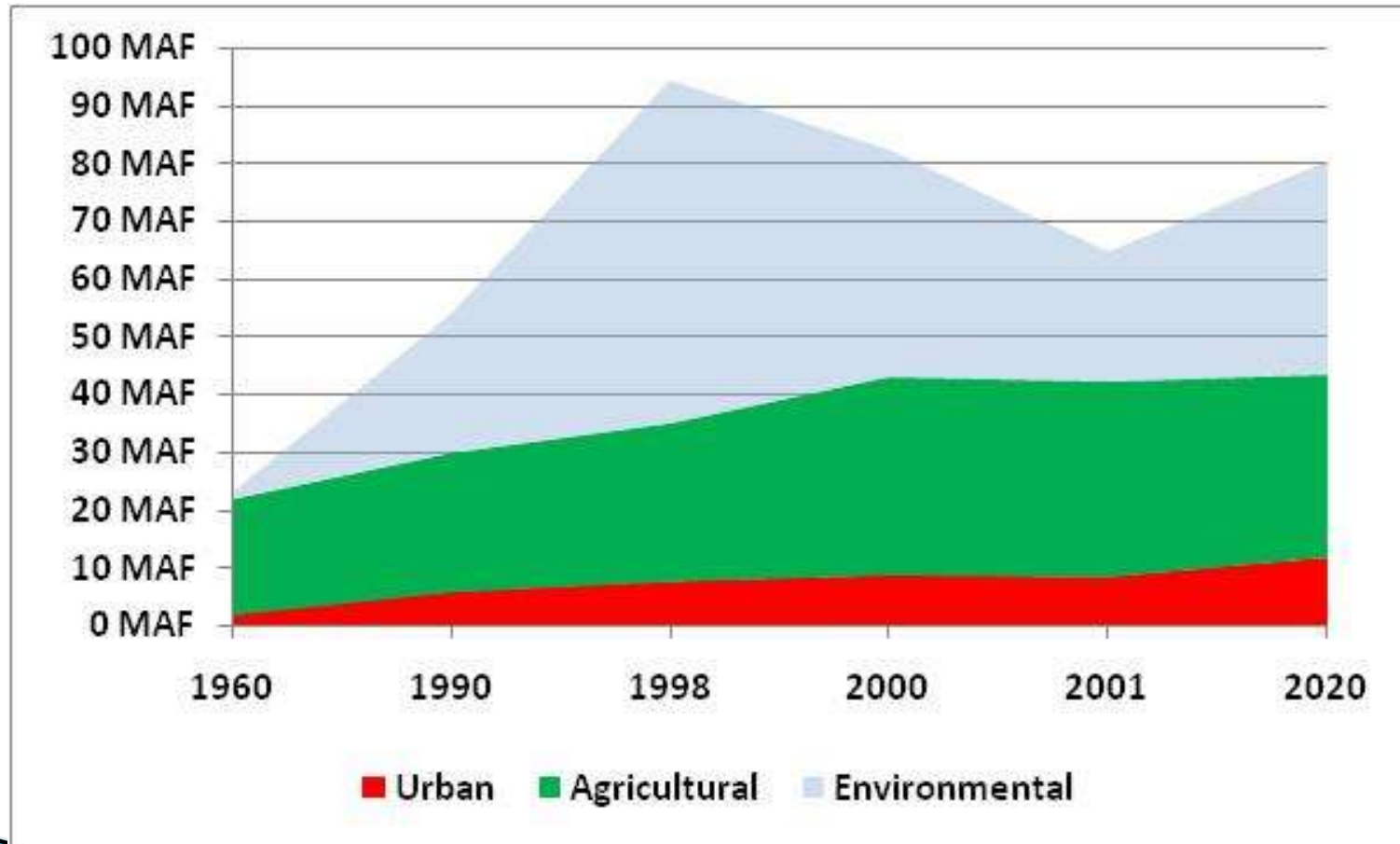


# MWD Resource Options of the Past Through the 1960's

- ▶ Imported water agency
  - Colorado River Aqueduct
  - State Water Project
- ▶ Supplemental water supplier
  - Most member agencies had/have alternative resources
- ▶ Institutional structure designed during a time of
  - Supply abundance
  - Low, stable water rates
- ▶ Generally a one-size-fits-all approach



# California Water Use 1960–2020



# 1996 Integrated Resources Plan

- ▶ Principal focus remained on imported water
- ▶ But also recognized need to diversify region's water supply portfolio
- ▶ LRP to support local projects that otherwise were not cost-effective
  - Recycled water, brackish water desalting
  - Based on premise these projects would not be constructed without a subsidy from MWD
  - Local agencies remained in charge of local projects
- ▶ Ever increasing focus on conservation



# Seawater Desalination at MWD

- ▶ In 1960's, considered direct investment and project development
- ▶ In 1980's, Board Policy changed to support R&D
- ▶ In 2001, special subsidy program developed to encourage member agency projects
  - Four agencies developing local projects
  - Premise (again) is that local water supply projects are not cost-effective without the subsidy
- ▶ In 2005, regional facilitator role added
  - To support member agency projects



# Today's Water Supply Realities

- ▶ Core Colorado River supply reduced to 550 TAF annually (exclusive of QSA transfers)
- ▶ Peripheral canal not yet built
  - Current projection is 10–15 years at best
- ▶ SWP contract supplies depend on Delta Fix
  - Storage strategy based on surplus 7 out of 10 years
  - Biological opinions result is surplus 3 out of 10 years
- ▶ Many member agencies are aggressively pursuing local supply projects
- ▶ 20% conservation by 2020 is mandatory
- ▶ MWD conveyance capacity is not the main challenge confronting us – water supply is

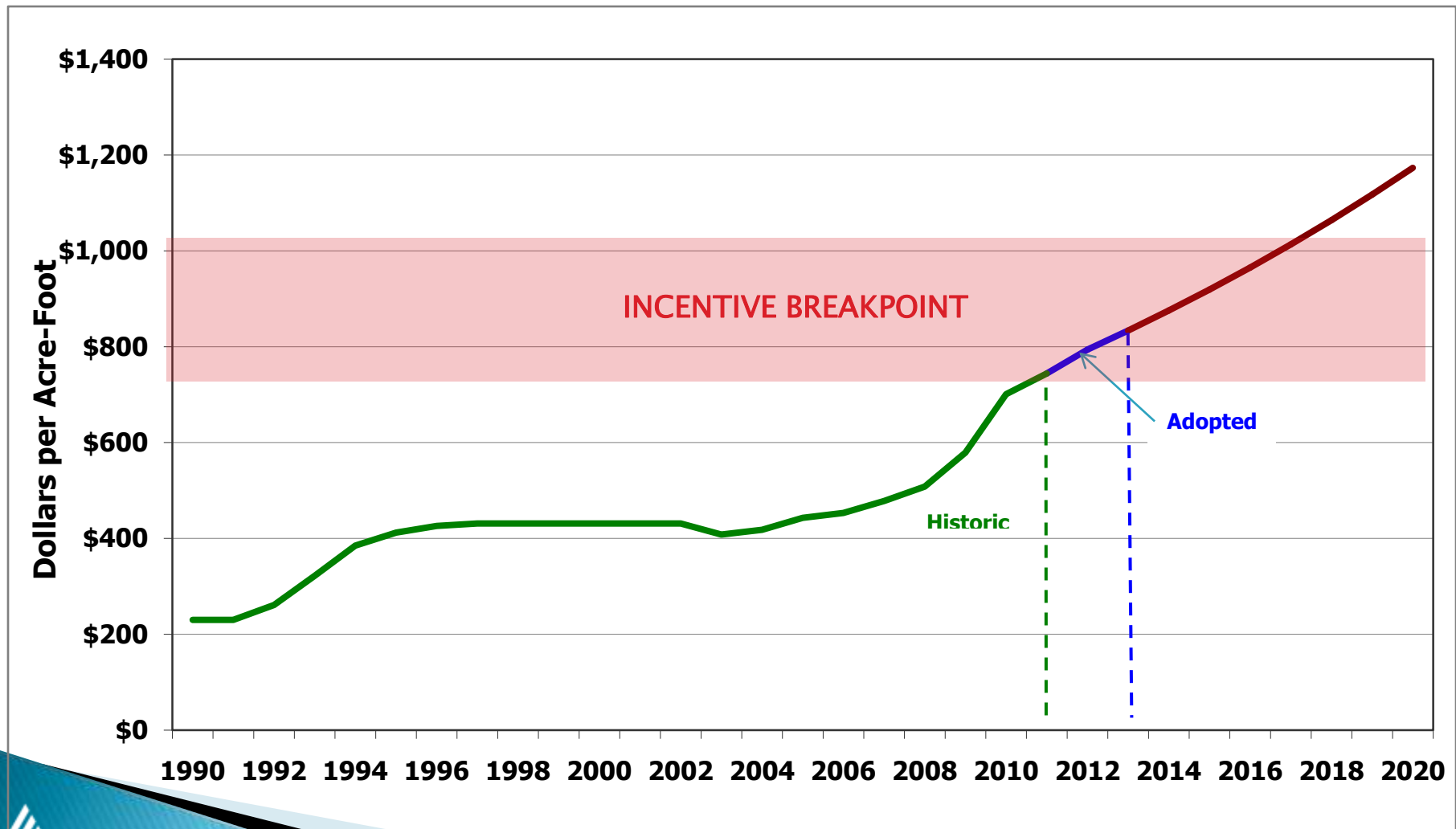


# Today's Water Rate Realities

- ▶ In the past, MWD's greatest rate challenges were
  - Variable sales due to weather
  - Fear of people "rolling off the system" causing reduced sales of *available supplies*
- ▶ Today and in the future, MWD's imported water supplies are and will remain constrained
  - Water supply costs and allocation levels will drive water rates
- ▶ The source of MWD revenues is its member agencies
  - MWD must decide its spending priorities
  - Conservation and many local projects *are cost-effective* without MWD subsidy



# MWD Treated Full Service Rates 1990-2020





# Where Do We Go From Here?

## Critical Resource Planning Objectives

- ▶ Focus on core competencies
- ▶ Financially sustainable business model
- ▶ Well accepted/desired (aka willingness to pay)
- ▶ Meets member agency/“customer” needs
  - Continues benefits of local autonomy
  - Protect financial investment/avoid stranded costs
  - Reliability levels can match local needs



# Why Delta Fix Must Remain MWD's Top Priority

- ▶ Take-or-pay contract – we pay no matter what
- ▶ Need 30 desal plants to make up loss of SWP water
- ▶ MWD and its member agencies have developed an interdependent relationship to take advantage of SWP's hydrologic cycles
- ▶ Since last drought, MWD has developed approximately 5 MAF of storage capability in support of its imported water strategy
  - 2.2 MAF stored by 2007, but 1 MAF left by 2010
- ▶ A broken Delta = stranded investments at MWD



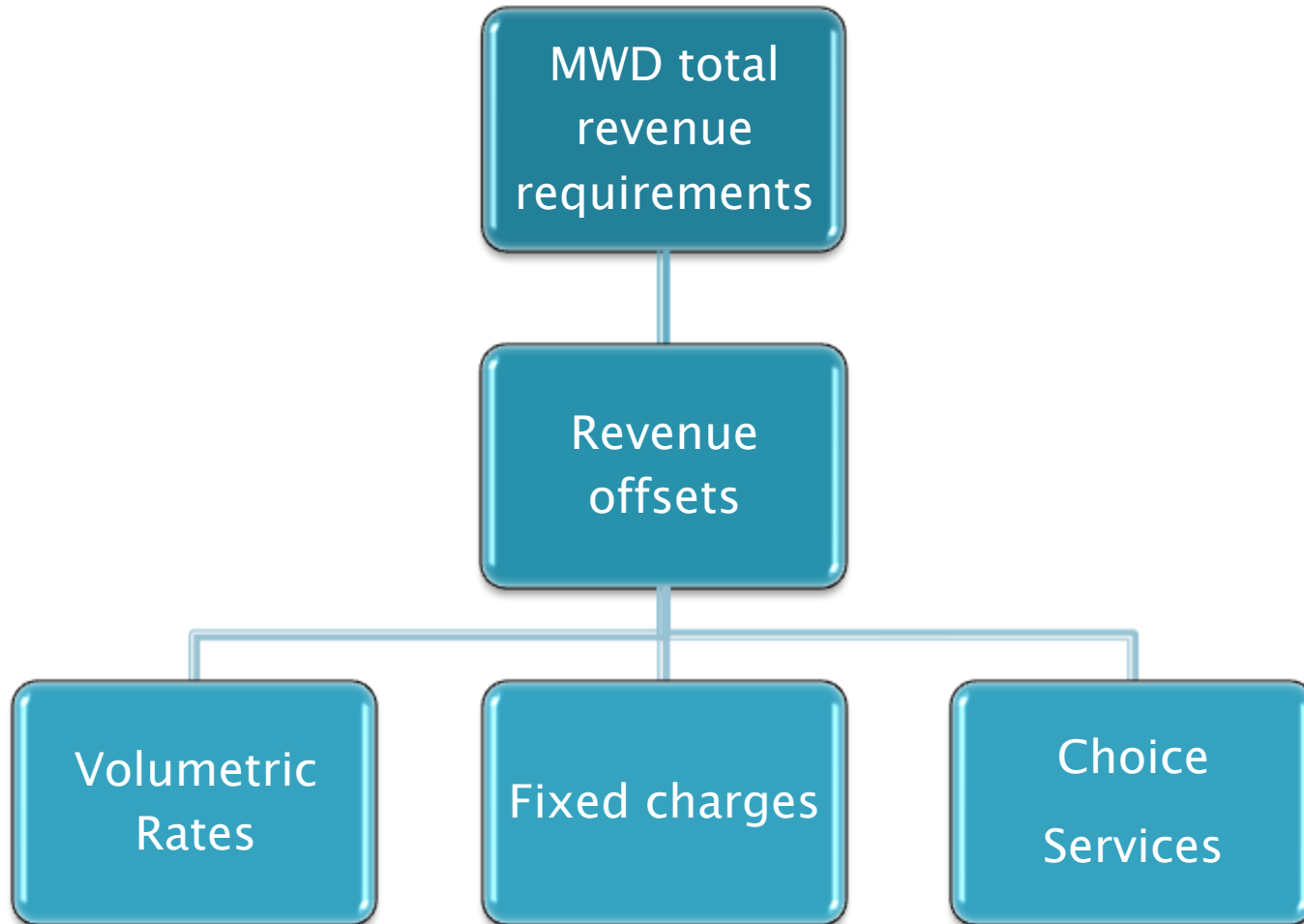
# Alternative Business Model

## Member Agency Choice

- ▶ Disaggregate costs based on core and choice options
  - Core services, e.g., imported water, water transportation, and storage
    - Subscribed by all member agencies with firm commitment to pay
  - Menu of optional services, e.g., treatment and “insurance” water supplies
    - Member agencies sign up and pay for services desired based upon individual needs and willingness to pay
    - MWD develops projects based on a defined set of member agencies’ commitment to pay



# Financial Sustainability



# Benefits of Choice Model

- ▶ Ensures payment of MWD's core supply obligations (e.g., SWP & CRA)
- ▶ Ensures MWD's optional services have firm financial backing before development
  - Avoids creating new stranded costs or parallel facilities
- ▶ Improves MWD's long-term financial sustainability
- ▶ Enables member agencies to control local investment decisions and opportunities for new partnerships
- ▶ Includes close correlation of services and costs with payment obligations



# Conclusion

- ▶ One size does not fit all – member agencies diverse
- ▶ MWD's water supply and finance plans were designed during a time of supply abundance and lower, stable water rates
- ▶ MWD is entering a prolonged era of constrained supplies and rapidly escalating costs/rates
- ▶ MWD needs to focus its money and efforts on the big picture objectives – Delta First
- ▶ MWD member agencies are stepping up to develop local supplies – MWD business plan must support change

