



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

8/17/2010 Board Meeting

9-4

Subject

Policy principles on implementing Article 15(d) of Metropolitan's State Water Contract

Description

Background

In July 2010, the Water Planning and Stewardship Committee requested that staff develop policy principles that would address member agencies use of State Water Project (SWP) supplies. The request was prompted from discussions related to the coordinated operation agreement with the Municipal Water District of Orange County and Irvine Ranch Water District (IRWD). That agreement allows for the delivery of SWP supplies procured through unbalanced exchanges by IRWD. The terms for that agreement were approved by the Board; however, policy principles that would apply to other programs were not developed. In response, staff has developed these draft policy principles that are consistent with the previous board action and would facilitate potential SWP water acquisitions that provide regional benefits.

In the late 1950's, California began the planning and development of the SWP. After considerable statewide debate and discussion, the California Legislature adopted and the electorate later approved the Burns-Porter Act, which allowed issuance of bond funding for the SWP, to be repaid by the agencies that receive SWP water. In November 1960, Metropolitan entered into a long-term (75-year minimum) SWP contract with the state Department of Water Resources (DWR) to provide additional water supply for the region. This was an extraordinary financial commitment by Southern California to pay for roughly half of one of the world's largest and most complex water systems. Since 1960, Metropolitan has paid nearly \$9 billion in the SWP charges. In fiscal year 2010/11, staff projects our annual payment to be around \$500 million. Over the next 20 years, SWP expenditures are expected to reach an additional \$16.5 billion, with Metropolitan paying for almost half of that amount. The SWP is a major long-term investment that must be managed to benefit all of Metropolitan's member agencies.

Under Article 15(d) of the SWP contract, Metropolitan has the exclusive right to sell and distribute SWP supplies and Metropolitan's consent is required prior to delivery of non-Metropolitan SWP supplies to our member agencies. This contract provision protects Metropolitan's investment in the SWP and allows Metropolitan to fully manage SWP supplies within its service area without interference. The proposed policy principles would allow member agencies to benefit from securing SWP supplies that Metropolitan is not actively pursuing under very limited circumstances. The policy principles would ensure that all deliveries of SWP supplies within the service area ultimately would be managed and controlled by Metropolitan. The delivery of the water would be structured so as to be equitable to both the participating member agency and the region. Importantly, these principles would protect Metropolitan from any financial harm.

Existing Policy

Metropolitan's wheeling policy permits the General Manager to make a determination of available system capacity on a case-by-case basis and to charge the prevailing system access rate for wheeled water. Member agencies have used wheeling service to have non-SWP supplies delivered into Metropolitan's service area. While there is no specific policy related to the delivery of SWP supplies into Metropolitan's service area, Metropolitan

historically has not consented to delivery of non-Metropolitan SWP supplies to its members agencies. In fact, Metropolitan has taken legal action to block delivery of SWP supplies on occasion. Under the proposed policy, Metropolitan would retain its approval rights under Article 15(d), but would consider providing consent for programs that meet the proposed principles.

Policy Principles

The proposed policy principles ([Attachment 1](#)) would preserve Metropolitan's SWP contract rights, protect Metropolitan and non-participating member agencies financially, and require a regional benefit from any proposed arrangement. These principles also provide a sustainable framework for an individual member agency to improve its own water supply reliability while protecting the ongoing regional SWP investment. Water delivered under such a member agency program would qualify as an extraordinary supply when the program is operated consistent with the Water Supply Allocation Plan's requirements for extraordinary supply. The principles clarify that Metropolitan will maintain control of all SWP supplies delivered to Metropolitan's service area.

The proposed policy principles are consistent with Metropolitan's existing policies and practices. A member agency would obtain access to Metropolitan's unused capacity in the SWP conveyance and Metropolitan's distribution system as determined by the General Manager. Metropolitan's delivery of water in any year would be limited by the capacity of the system, operational constraints, and any requirements established by DWR for the introduction of the water into the California Aqueduct, including any water quality limitations. The member agency would pay Metropolitan's Full Service water rate at the time the water is delivered at the member agency's service connection. If the member agency is in Tier 2 at the time of delivery, then the member agency would pay the Tier 2 rate. Otherwise, the water would be billed at the fully bundled Tier 1 rate.

The member agency would be responsible for its costs associated with the water, including purchasing, storing, and recovering the water from a program and any conveyance or storage losses. Metropolitan would be responsible for the SWP costs to deliver the water to the member agency's service connection. By charging Metropolitan's Full Service water rate, Metropolitan would recover the full cost of delivering the water.

Regional Benefits

These policy principles could facilitate the delivery of additional SWP supply into the Metropolitan service area. A key principle would be a requirement to provide a regional benefit. The regional benefit could be unique to each transaction, but could include:

- Storage benefits – The member agency could provide Metropolitan with access to storage or the ability to borrow water out of storage.
- Water supply – The member agency could provide Metropolitan with an unbalanced exchange. (ex: member agency provides 10 acre-feet to Metropolitan and receives 9 acre-feet in return).

The regional benefit requirement ensures that member agencies not participating in the transaction derive a benefit from the use of the SWP facilities by another member agency.

The proposed policy principles have been structured to provide benefits to both the member agency and the region as a whole. The coordinated operation of the SWP supplies with member agency programs would allow Metropolitan another method to cost-effectively manage the region's limited resources, while protecting Metropolitan's and the region's financial interests.

Policy

Metropolitan Water District Administrative Code Section 4209: Agreements with member agencies

Metropolitan Water District Administrative Code Section 4405: Wheeling service

Metropolitan Water District Administrative Code Section 4905: Program reductions under a shortage

Contract between The Metropolitan Water District of Southern California and the State of California Department of Water Resources for a Water Supply and Selected Related Agreements, Article 15(d): Metropolitan's consent is required for State project water deliveries within its boundaries.

Fiscal Impact

None


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Manager, Water Resource Management

8/5/2010
Date


Jeffrey Sighting
General Manager

8/5/2010
Date

Attachment 1 – Policy Principles for implementing SWP Contract Article 15(d)

Ref# wrm12607212

Policy Principles for Implementing SWP Contract Article 15(d)

State Water Project Supplies

- Metropolitan maintains control of all State Water Project (SWP) supplies that enter into Metropolitan's service area.
- A member agency needs to acquire Metropolitan's consent before securing state project supplies to be moved into Metropolitan's service area.
- Metropolitan would have the option to take delivery of such water for current use or storage.
- The SWP supplies acquired by a member agency could not be SWP supplies Metropolitan is pursuing.
- The SWP supplies acquired by the member agency would qualify as extraordinary supply under Metropolitan's Water Supply Allocation Plan.
- Any agreement term cannot extend beyond the term of the current State Water Project contract of November 4, 2035.

Financial Protection

- Member agency shall pay the Metropolitan Full Service water rate at the time such water is delivered to the member agency. The water delivery would not count against the annual Tier 1 limit, but if member agency was in Tier 2 at the time of the delivery, the member agency shall pay the Tier 2 water rate.
- Member agency would obtain access to Metropolitan's unused capacity in SWP conveyance and Metropolitan's distribution system only as determined by Metropolitan and only in circumstances that ensure no risk to delivery of Metropolitan's supplies.
- Member agency would be responsible for all costs associated with its program.
- Metropolitan would be responsible for SWP costs when the water is moved into Metropolitan's service area. Metropolitan shall recover its costs through the payment of Metropolitan's Full Service water rate when the water is delivered.

Regional Benefits

- The member agency program must provide regional benefits.
- The regional benefit could be unique to each transaction, but may include benefits from storage programs, unbalanced exchanges, and water quality improvements.