



- Board of Directors
Water Planning and Stewardship Committee

9/13/2011 Board Meeting

8-3

Subject

Approve adjustments to Metropolitan's Water Supply Allocation Plan Formula

Description

Background and Process

Between July 2007 and February 2008, Metropolitan staff worked with the member agency managers and the Board to develop a Water Supply Allocation Plan (WSAP). The WSAP includes formulas for calculating member agency supply allocations and the key elements needed for administering an allocation. The WSAP was adopted at the February 12, 2008 board meeting. As part of that action, the Board directed staff to review the WSAP formula 12 months following an implementation of the WSAP, and three years following the adoption of the WSAP.

In April 2009, the Board voted to implement the WSAP for the first time. In January 2010, Metropolitan staff and the member agency managers commenced the WSAP 12-Month Review process. The focus of this review process was to facilitate in-depth discussion on WSAP-related issues and lessons learned during the first year of implementation. In August 2010, the Board adopted staff recommendations for modifications to the WSAP identified in the 12-Month Review process. February 2011 marked the three-year period since the adoption of the WSAP and staff initiated the Three-Year Review Process. The purpose of the Three-Year Review Process was to provide an opportunity for Metropolitan staff and the member agencies to re-evaluate the plan and recommend appropriate changes for board consideration.

Metropolitan staff engaged the member agencies in a formal review of the WSAP that began in February 2011. Since the review process began, the member agency managers participated in a series of eleven workshops that ended in early August 2011. [Attachment 1](#) shows a listing of the WSAP Three-Year Review process meetings that were held.

Issues and Recommended Adjustments

The following section summarizes the issues that were discussed in the workgroup process which resulted in proposed changes to the WSAP. Detailed descriptions of all of the issues that were identified by the member agencies and Metropolitan, and the major points of discussion that took place during the Three-Year Review process are found in [Attachment 2](#).

Baseline Inflation

- Issue – Baseline inflation has the effect of inflating the estimated demand for water in the Allocation Year. This occurs in the current WSAP formula whenever non-potable recycling or conservation is developed after the Base Period (2004-2006). Increases in non-potable recycling and conservation savings from Active, Code-Based, Code-Based Originated as Active, Rate Structure, and System Losses are currently excluded from the WSAP formula to address associated demand hardening issues associated with these supplies. However, this accounting causes estimated demands for water in the Allocation Year to be higher than the actual demand for water because the development of these supplies offsets the need for water; this is further compounded by the growth adjustment. The workgroup determined that baseline

inflation distorts agencies' true need for water, and potentially leads to more frequent and deeper allocations.

- Recommendation – Staff proposes to address Baseline Inflation by reflecting the increases in non-potable recycling and conservation from the Base Period forward consistently with other increases in local supplies. Baseline inflation can be minimized, and actual needs for water can be better reflected by reducing the Allocation Year demands by the increases in these supplies, and then applying the annual population growth rate. Demand hardening will continue to be addressed through the appropriate hardening credits.

In addition, if an agency ends up in allocation penalty, a penalty reduction will be applied in an amount equal to the Code-Based and Rate Structure conservation savings that were removed from the WSAP baseline. The proposed penalty reduction, which would only occur after an agency actually incurs a WSAP penalty, recognizes that these types of conservation savings are more difficult to quantify than Active device and program-based savings. This helps to balance the regional impacts of Baseline Inflation with the local issues of quantifying and complying with an allocation of water supply.

Growth Adjustment Methodology

- Issue – Discussion on this topic focused on developing a revised growth adjustment. Workgroup participants raised concerns that the existing growth adjustment rewarded agencies that had high water use in the Base Period. There were also concerns that a one-size-fits-all approach may not be appropriate for a geographically diverse set of agencies; for instance, the coastal urban communities have favorable conditions for low per capita usage, while inland agencies tend to have higher Evapotranspiration (ETo) rates. A technical sub-workgroup was formed that formulated a methodology for adjusting individual member agency's growth based on ETo.
- Recommendation – Staff proposes that the growth adjustment be limited to Metropolitan's IRP planning goals of 158 Gallons Per Capita Per Day (GPCD) in 2015 and 141 GPCD in 2020. For Allocation Years up to and including 2015, the cap will be 158 GPCD. For years beyond 2015, the cap will linearly reduce from the 2015 goal of 158 GPCD to the 2020 goal of 141 GPCD.

In addition, staff proposes a penalty reduction to help recognize member agency differences in geography and climate. A penalty reduction would be given to any agency that exceeds its WSAP allocation based on either of two alternative GPCD caps.

- The IRP planning cap adjusted for the member agency's ETo, or
- The member agency's certified and documented 20x2020 targeted GPCD

If either of these alternative caps is greater than the IRP planning cap, the equivalent difference in acre-feet would be subtracted from any overuse to reduce the member agency's total penalty.

WSAP Exit Strategy

- Issue – Discussion on this topic focused around solidifying a policy for exiting a WSAP implementation prior to the end of the Allocation Year. An established exit strategy would serve to streamline the Board decision on WSAP implementation that takes place each April, and help ensure consistent messaging while transitioning between Allocation Years. The workgroup determined that in an Allocation Year when the Board determines that the WSAP will not be implemented in the following year, the current allocation will be terminated at that time.
- Recommendation – Staff proposes that the following two-part exit strategy be added to the WSAP implementation procedures:
 - If the Board decides to implement the WSAP for the following Allocation Year, then the current WSAP allocation remains in place.
 - If the Board decides not to implement the WSAP for the following Allocation Year, then the current WSAP allocation is terminated concurrent with the Board decision.

Regional Benefits of Proposed Adjustments

The proposed modifications to the WSAP were developed through a comprehensive, collaborative process that included Metropolitan and member agency staff. Each of these proposed adjustments contributes to a more efficient and effective WSAP. The proposed exit strategy helps streamline the Board decision process that takes place in April of each year, and the proposed adjustments to address baseline inflation and the growth adjustment methodology serve to reduce the WSAP baseline. Reducing the WSAP baseline is important in that it better reflects the region's actual needs for water in the Allocation Year, and makes it less likely that the WSAP will be unnecessarily implemented. The likelihood of implementing the WSAP at deeper Regional Shortage Levels is also reduced.

The following table summarizes the estimated reductions in the WSAP baseline that would be achieved with the proposed adjustments, based on 2010/11 WSAP data. These reductions, which total nearly 200,000 acre-feet, would have a real and significant impact on future allocations. As a general guideline each Regional Shortage Level reduces the amount of supplies allocated through the WSAP by about 100,000 acre-feet. Based on this guideline, these adjustments could reduce a deeper WSAP implementation by nearly two Regional Shortage Levels. Likewise, shallower supply allocations could potentially be avoided all together.

Proposed Adjustment	Baseline Reduction (Acre-Feet)
Baseline Inflation	150,000
Growth Adjustment	47,000
Total	197,000

Any modifications to the WSAP adopted by the Board at this time are intended to be in place the next time the WSAP is implemented.

Policy

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

By Minute Item 48376, dated August 17, 2010, the Board adopted proposed adjustments to the Water Supply Allocation Plan, and approved the allocation of seawater barrier supplies for 2010/11.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

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 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.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and approve the proposed adjustments to Metropolitan's Water Supply Allocation Plan.

Fiscal Impact: None

Business Analysis: Approving the proposed adjustments would address the major issues identified for refinement in the 3-year review process. Specifically the proposed adjustments would: help reduce the impacts of Base Period inflation due to growth in conservation and non-potable recycling, help better reflect the regions' commitment to water use efficiency through a revised growth adjustment, and clarify a strategy for exiting a WSAP implementation.

Option #2

Do not approve the proposed adjustments to Metropolitan's Water Supply Allocation Plan.

Fiscal Impact: None

Business Analysis: Not approving the proposed adjustments maintains the existing Water Supply Allocation Plan formula. The existing WSAP formula would continue to overestimate needs for water supply in an Allocation Year, which could lead to more frequent or deeper water supply allocations.

Staff Recommendation

Option #1


 Deven N. Upadhyay
 Manager, Water Resource Management

8/24/2011
 Date


 Jeffrey Lightlinger
 General Manager

8/30/2011
 Date

[Attachment 1 – WSAP Three-Year Review Process Meeting Summary](#)

[Attachment 2 – WSAP Three-Year Review Process Workshop Outcomes](#)

WSAP 3-Year Review Process Meeting Summary

Meetings with Member Agencies to Discuss and Consider Improvements to the Water Supply Allocation Plan

Date	Meeting	Description
February 23, 2011	WSAP 3-Year Review Workshop #1	First meeting of the WSAP 3-Year Review process; review of the existing WSAP policy and formula; review of the process timeline; and focused discussion of WSAP issues identified by Metropolitan staff and by member agencies since the WSAP's adoption in February 2008
March 14, 2011	WSAP 3-Year Review Workshop #2	Discussion of issues related to local supplies and baseline inflation due to adjustments for recycling in the WSAP formula
March 25, 2011	WSAP 3-Year Review Workshop #3	Continuation of prior workshop
April 8, 2011	WSAP 3-Year Review Workshop #4	Discussion of issues and alternatives related to base period selection and baseline inflation in the WSAP formula
April 27, 2011	WSAP 3-Year Review Workshop #5	Discussion of recommendations to address baseline inflation in the WSAP formula
May 6, 2011	WSAP 3-Year Review Workshop #6	Discussion of issues and alternatives for the growth adjustment methodology in the WSAP formula
May 25, 2011	WSAP 3-Year Review Workshop #7	Continuation of prior workshop
June 9, 2011	WSAP 3-Year Review Workshop #8	Continuation of prior workshop, discussion of WSAP implementation exit strategy
June 30, 2011	WSAP 3-Year Review Workshop #9	Continuation of exit strategy discussion, discussion of baseline inflation due to conservation and related conservation demand hardening issues
July 14, 2011	WSAP 3-Year Review Workshop #10	Continued discussion of baseline inflation and conservation issues, and discussion of sharing allocations between agencies with common local resources
August 1, 2011	WSAP 3-Year Review Workshop #11	Discussion of WSAP Allocation Year timing vs. Tier 1-Tier 2 rate cycle timing, discussion of approaches for encouraging completion of WSAP local supply certifications
August 19, 2011	Review WSAP with Member Agency Managers	Discussion of proposed WSAP adjustments to address baseline inflation issues, revise the growth adjustment methodology, and establish a WSAP exit strategy.

WSAP Three-Year Review Process Workshop Outcomes

This document provides a summary of the activities and outcomes of the WSAP Three-Year Review Process. For the purposes of this summary, the topics that were reviewed during the workgroup process are categorized in the following manner:

- Issues resulting in recommended modifications
 - Baseline Inflation
 - Growth Adjustment
 - Exit Strategy
- Issues that do not require changes to the WSAP
 - Local Resources Recognition
 - Base Period Selection
 - Conservation Hardening Credit
 - Local Supply Certification
 - Sharing Allocation between Agencies with Common Local Resources
- Issues that are being addressed in other venues
 - Tier 1-2 Timing
 - Replenishment Issues

Each issue is described in detail below; each description includes a discussion of the issue, a review of the major points of discussion and comments received, and an explanation of the final resolution.

Issues resulting in Recommended Modifications

Baseline Inflation

Issue Description

Baseline inflation occurs when new local non-potable recycling or conservation is developed after the 2004-2006 Base Period. Non-potable recycling and conservation savings from Active, Code-Based, Code-Based Originated as Active, Rate Structure, and System Losses are excluded from the WSAP formula to address associated demand hardening issues. When these supplies are excluded from the formula, they have the effect of inflating the estimated demand for water in the Allocation Year; this is further compounded by the growth adjustment. Moreover, proactive conservation and recycling before and during the Base Period are penalized relative to savings that occur after the Base Period.

As an example to illustrate baseline inflation from conservation, assume a given agency's average annual retail demand during the Base Period was 10,000 AF. Since 2006, the agency implemented new conservation to reduce its Allocation Year Retail Demand by 1,000 AF, to 9,000 AF. However, the agency's allocation is still calculated from the 10,000 AF Base Period average. The WSAP formula also applies a demand hardening credit for the 1,000 AF of wet water demand that no longer exists.

Major Discussion and Comments

With regard to adjusting non-potable recycled water, some agencies expressed a perception that they were losing benefits of developing recycled water, and that it would be difficult to explain the concept to member agency boards. It was clarified that baseline inflation from the current method is an unintended error in the WSAP formula that incorrectly incentivizes recycled water and conservation over other local

supplies. Others expressed support for a formula adjustment to remove non-potable recycling and conservation from the WSAP baseline to be consistent with Metropolitan's policy of allocating potable water in an equitable way. They argued for an adjustment to prevent agencies being rewarded by coincidence (i.e., simply for completing a recycled water project during an allocation).

With regard to conservation, a key concern was to ensure that agencies would not be penalized for efficient activities or for conserving proactively during the base period. Another concern was raised about potential for abuse of the "needs-based" allocation formula; it becomes a problem for the region if individual agencies boost their "needs" by becoming complacent in their conservation efforts. Implicitly, agencies may be discouraged to conserve going forward if they expect Metropolitan to penalize future conservation by reducing their retail baseline demands the next time the WSAP base period is adjusted. This would have the unintended consequence of reducing regional reliability by increasing overall wet water demand. If conservation is treated as a local supply, then it should be subtracted to reflect reduced dependence upon Metropolitan. However, to the extent that there are actual conservation savings, it is appropriate to keep the Conservation Demand Hardening Credit in the formula.

Resolution

The workgroup determined that the issue of baseline inflation distorts agencies' true need for water and potentially leads to more frequent and deeper allocations. Staff proposes to address baseline inflation by removing non-potable recycling and conservation from the WSAP baseline. Increases in recycling and conservation would be subtracted annually from the Base Period forward, and the annual population growth rate would be applied after deducting the annual increases in recycling and conservation. If an agency ends up in allocation penalty, a penalty reduction will be applied in an amount equal to the Code-Based and Rate Structure conservation savings that were removed from the WSAP baseline. The proposed penalty reduction recognizes that some types of conservation savings are more difficult to quantify; the actual amount of savings that are occurring and in turn contributing to baseline inflation are less certain. Annual conservation savings estimates for Active, Code-Based, Code-Based Originated as Active, and System Loss savings are calculated using Metropolitan's Conservation Savings Model. Annual non-potable local production data would also be needed from the member agencies in order to quantify the amount of existing potable demands that have been offset.

With these adjustments, demand hardening impacts are still addressed; non-potable demands and supplies are held separately from the WSAP formula, and non-potable demands are met 100 percent by non-potable supplies. This prevents undue impacts on potable customers, who must otherwise share allocation with non-potable customers.

Growth Adjustment Methodology

Issue Description

The WSAP formula recognizes that growth in water demand takes place after the Base Period historical baseline. Currently, the WSAP uses historical average water demand as the basis for growth. The rate of annual population growth is used as a proxy for increasing water demands. In the WSAP formula, growth is estimated using the annual rate of county-level population growth, or an average of the three most recent years if complete data is not available. Alternatively, member agency level population or a weighted combination of population and employment growth rates may be used if requested and sufficiently documented.

Major Discussion and Comments

Workgroup participants raised concerns that the existing growth adjustment rewards agencies that had high water use in the Base Period as growth is applied at the per-capita levels of water use established in the Base Period. There were also concerns that a one-size-fits-all approach may not be appropriate for a geographically diverse set of agencies that range from coastal urban communities with favorable conditions for low per capita usage, to inland agencies with relatively large lot sizes and higher evapotranspiration (ETo) rates. The key questions posed by the workgroup were:

- (1) how much water should be given in recognition of growth?
- (2) how can growth adjustments be tied to an acceptable benchmark for efficient water use?

Over several workshops, the workgroup considered several alternatives, including:

- No change from current method
- No growth after 2007
- Apply growth at city level where available
- Apply growth at one of the several 20x2020 GPCD standards

In addition, a technical sub-workgroup was formed to evaluate potential methodologies for adjusting individual member agency growth rates for ETo. The workgroup formulated an acceptable method for adjusting for ETo that utilizes Metropolitan's existing Geographic Information System (GIS) and demand forecasting tools.

Resolution

A proposal for an alternative growth methodology was developed where growth would be limited to Metropolitan's IRP planning goal of 141 GPCD in 2020. Growth would be allocated based on historical per capita water use during the Base Period, with a cap equal to MWD's IRP Target for Water Use Efficiency. For allocation years up to and including 2015, the cap will be 158 GPCD, and for allocation years 2016-2020, the cap will linearly reduce from 158 to 141 GPCD. This proposal is intended to better reflect the region's goals for water use efficiency and is consistent with Metropolitan's IRP and the Long Term Conservation Plan.

In addition, the workgroup proposed a penalty reduction that will be applied in recognition of member agency differences in geography and climate. A penalty reduction will be given to any agency that exceeds its WSAP allocation if the agency qualifies in either of two ways. The first option is to calculate the difference between MWD's target GPCD cap and the target GPCD cap adjusted for the ETo of the member agency. If the ETo adjusted cap is greater than the MWD target cap, the equivalent difference in acre-feet would be subtracted from any overuse to reduce the total penalty. The second option is to calculate the difference between the MWD target GPCD cap and the agency's certified and documented 20x2020 targeted GPCD. Again, if the 2020 target GPCD is greater than the MWD target, the difference would be subtracted from the agency's overuse. The proposed penalty reduction would not result in any additional water being used during the allocation year because it would be applied only after the close of the Allocation Year; all of the water for that year will have already been used.

Exit Strategy

Issue Description

Discussion on this topic focused around solidifying a policy for exiting a WSAP implementation prior to the end of the Allocation Year. The Board normally decides whether or not to declare an allocation for the next year at its April meeting. However, the WSAP currently does prescribe a procedure for lifting an allocation that has already been declared. During the most recent 2010/11 Allocation Year, the Board established a precedent by terminating the current year allocation at the same time it decided not to implement the WSAP for 2011/12.

Major Discussion and Comments

The workgroup discussed whether to recommend adopting an exit strategy in the WSAP procedures. A concern was raised about putting constraints on the Board's ability to lift a WSAP implementation; however, the Board has discretion to lift an allocation at any time. Lifting an allocation before April is unlikely not so much due to procedural constraints, but because of uncertainties in current-year water demand, supply, and storage conditions. Also, lifting an allocation before April could contribute to inconsistent or confusing public messaging. Another concern was if an agency is obviously exceeding its allocation and already in penalty for the year, it might be better to keep the allocation in place (because penalties are used to invest in the conservation programs for the violating agency). However, because of local supply and other reconciliation issues, an agency cannot be "clearly in penalty" before the end of the year unless it is 100 percent dependent upon Metropolitan supplies.

Resolution

The workgroup determined that in an Allocation Year when the Board determines that the WSAP will not be implemented in the following year, the current allocation will be terminated at that time. The proposed exit strategy has two parts:

- If the Board decides to implement the WSAP for the following Allocation Year, then the current WSAP allocation remains in place.
- If the Board decides not to implement the WSAP for the following Allocation Year, then the current WSAP allocation is terminated concurrent with the Board decision.

The group expressed general support for the simplicity of the exit strategy.

Issues that do not require changes to the WSAP

Local Resources Recognition

Issue Description

The local resources discussion focused on different approaches for recognizing member agency investments in local projects. The workgroup debated whether the WSAP should continue to be based on the needs of the member agencies, or whether it should instead provide greater incentives for new local supply development.

Major Discussion and Comments

The discussion on this topic was centered on an issue raised by the Municipal Water District of Orange County (MWDOC) regarding incentivizing investments in seawater desalination. MWDOC pointed out that the current WSAP formula does not recognize ocean desalination as either having demand hardening impacts, or as an extraordinary supply. MWDOC felt that new, large, and potentially expensive local supply developments such as desalination should receive additional incentive because of the benefits they provide to the region. To address this issue MWDOC presented a proposal to the workgroup titled “Large Project Investment Adjustment”. The program would have the following criteria to qualify a project as a “large project investment”:

- New Local Supply
 - Production after the Base Years (2004-2006)
- Project must produce over 10,000 AFY
- Potable Water
- Metropolitan staff review process
- Metropolitan-subsidized projects would qualify

Many workgroup participants felt that agencies should develop new projects as they see financially fit, not based on receiving an incentive through the WSAP. The consensus was that no particular type of local supply should receive an incentive through the WSAP over any other type of local supply. Other local supplies that provide a regional benefit are not given special incentives through the WSAP formula. It was also noted that any credit given under the “Large Project Investment Adjustment” would fail to recognize projects developed before 2004, and incentives would vanish if the WSAP baseline were ever moved forward in time. Additionally, it was noted that providing an incentive only for large projects would only benefit large member agencies, putting smaller agencies at a disadvantage.

Resolution

The workgroup determined that the purpose of the WSAP is to allocate supplies in times of shortage based on need, and that it is not designed to be a tool for incentivizing local investment. Therefore, the workgroup decided not to recommend the “Large Project Investment Adjustment” proposal and not to change how the WSAP accounts for local resources.

Base Period Selection**Issue Description**

The WSAP formula builds upon a historical base period with established water supply and data. Currently, the WSAP formula uses data from the three most recent non-shortage years 2004-2006. During the WSAP review process, questions were raised whether the 2004-2006 Base Period should be updated to a more recent time period.

Major Discussion and Comments

Discussion on this topic focused on the potential benefits and difficulties of moving the 2004-2006 WSAP Base Period forward in time. The Workgroup determined that the Base Period must include years in which extraordinary conservation efforts and/or the WSAP were not implemented. Through the discussion, it became clear that time periods after 2006 were not appropriate representations of average imported supply demands because of several supply constraining events. Since the WSAP was

implemented in FY 2009/10 and FY 2010/11 and the phasing out of the Interim Agricultural Water Program began in 2007, the workgroup agreed that the current Base Period of 2004-2006 was the most recent representative set of years. Alternative Base Periods raised several concerns and highlighted difficulties in accounting for changed conditions and variations. The workgroup could not determine a reasonable way to account and adjust for these issues.

Resolution

The workgroup decided not to change the Base Period in the WSAP, and instead focused its attention on Baseline Inflation and the Growth Adjustment. The workgroup's recommended modifications for Baseline Inflation and Growth Adjustment will address many of the concerns while avoiding complications associated with changing the historical baseline. (See **Baseline Inflation** and **Growth Adjustment Methodology**)

Conservation Demand Hardening Credit

Issue Description

The Conservation Demand Hardening Credit in the WSAP formula addresses the increased difficulty in achieving additional water savings at the retail level that comes as a result of successful implementation of water conserving devices and conservation savings programs. The Conservation Demand Hardening Credit provides an agency with additional allocation credit based on the current Allocation Year conservation savings. In the existing WSAP formula, providing a Conservation Demand Hardening Credit adds to the problem of baseline inflation resulting from new conservation.

Major Discussion and Comments

Discussion on this issue was incorporated into the discussion on baseline inflation (see **Baseline Inflation**).

Resolution

The workgroup concluded that issues related to conservation demand hardening were sufficiently addressed in the baseline inflation conversation. Staff does not recommend making a change to the Conservation Demand Hardening Credit at this time.

Local Supply Certification

Issue Description

Member agencies are required to complete and submit local supply certification forms at the end of each allocation year. These forms must be signed by each agency's respective General Manager. Local supply certifications are necessary in order for the WSAP formula to accurately calculate allocations and determine penalties. Metropolitan calculates each member agency's total portable water use based on local supply certifications and actual sales data for the allocation year of July through June. Penalties are assessed for usage above a given member agency's final adjusted allocation, reflecting the actual local supply and imported water use that occurred in the allocation year.

Not all member agencies submitted local supply certifications at the end of the 2009/10 WSAP Allocation Year. No reconciliations were done for the 2010/11 WSAP Allocation because the implementation was terminated by the Board in April. Currently, the WSAP does not provide Metropolitan with an explicit mechanism to ensure compliance.

Major Discussion and Comments

Discussion on this topic focused on potential approaches for encouraging member agencies to complete their Allocation Year Local Supply certifications following a WSAP implementation. As an alternative, staff offered a proposal whereby Metropolitan would calculate each agency's default WSAP allocations based on local supply, and then reduce that allocation by 20 percent. This would give member agencies an incentive to certify their actual local production in order to avoid an increased risk for penalty under artificially low default allocations. The workgroup proposed that staff instead produce a summary report for the Board at the end of each WSAP implementation, allowing for a reasonable time for agencies to comply. This report would include a list of agencies that did not submit local supply certifications. There was broad support for this approach for purposes of transparency and minimal additional burdens or changes to WSAP procedure.

Resolution

The workgroup concluded that Metropolitan staff should address Local Supply Certification by reporting to the Board following each complete WSAP allocation year.

Shared Allocation between Agencies with Common Local Resources**Issue Description**

This topic focused on issues that occur when agencies share a local supply source, such as a common groundwater basin, and when supplies are exported and imported across member agency service areas. The topic had been originally raised by Upper San Gabriel Valley Municipal Water District (USGVMWD). There are water purveyors with groundwater rights in the Main San Gabriel Basin that export water from USGVMWD's territory into other Metropolitan member agency service areas. Because the WSAP is a needs-based plan, local supplies are calculated based on place of use rather than place of origin. An unintended consequence is that importing agencies receive water reliability benefits under the WSAP, but exporting agencies from the area of origin are burdened with responsibility for maintaining the source basin without receiving comparable relief during an allocation.

Major Discussion and Comments

USGVMWD initially proposed a penalty reduction credit, to allow a member agency that is benefiting from imports to voluntarily transfer a portion of its unused WSAP allocation to the agency whose service area was the origin of the export water, if the exporting agency finds itself in a WSAP penalty situation.

During workgroup discussion, several participants raised concerns that allocations should not be tradable between agencies because bilateral reallocations would conflict with the needs-based philosophy of the WSAP. There was no expressed desire to change fundamental aspects of the WSAP over this issue.

Resolution

Because this issue was raised in a specific case context, it was suggested that the situation might be investigated and addressed on an individual-agency basis, possibly through the WSAP Appeals Process. Metropolitan agreed to continue working with USGVMD staff to resolve the issue.

Issues to be addressed in other venues**Tier 1 and Tier 2 Rate Cycle Timing****Issue Description**

Discussion of this topic focused around the potential for shifting the timing of either the WSAP Allocation Year or the Tier 1-2 rate cycle so that they coincide. The difference in timing between the two processes creates difficulty in accounting and tracking for the member agencies. Tier 1 / Tier 2 limits are set on a calendar year basis (January-December), while the WSAP allocation year is on a fiscal year basis (July-June).

Major Discussion and Comments

The WSAP allocation year had been deliberately established on a fiscal year basis in order to be related to the hydrology of a given water year. Making a decision to implement the WSAP in January would not allow the Board the benefit of assessing the current years' water supply, demand, and storage conditions.

Resolution

The workgroup determined that the timing of the WSAP Allocation Year is based on the availability of crucial water supply, demand, and storage information and therefore should not be moved. The group agreed a discussion of changing the timing of the Tier 1-2 rate cycle should be moved into the ongoing Rate Refinement Process with the member agencies.

Replenishment**Issue Description**

Questions were raised over how historical replenishment deliveries are accounted for in the WSAP formula and whether adjustments in the formula should reflect needs for replenishment water.

Major Discussion and Comments

Replenishment issues are currently being addressed by staff and the member agencies in a separate Replenishment Workgroup Process. The Replenishment Workgroup Process will bring forward alternatives for a revised Replenishment Service Program for board consideration by the end of 2011.

Resolution

Because terms for a revised Replenishment Service Program have not been finalized, the group agreed that it would make sense to defer further WSAP discussion on replenishment issues until after board adoption.