



• **Blue Ribbon Review Committee**

9/27/2011 Committee Meeting

3a

Subject

Review of Blue Ribbon Committee Report Recommendations

Description

In April 2011, an independent Blue Ribbon Committee (BRC), established by Metropolitan's Board, presented their findings and recommendations on the future of Metropolitan and its member agencies in a report entitled, "Report of the Blue Ribbon Committee" (Report), available on MWDh2o.com ([BRC Report](#)) or going directly to <http://mwdh2o.com/BlueRibbon/pdfs/BRCreport4-12-2011.pdf>. This report included the BRC's vision for a Metropolitan business model in 2060. In July 2011, the Board established the Blue Ribbon Review Committee to discuss and respond to the BRC's report and recommendations.

Background

In November 2009, Metropolitan's Board held a retreat entitled "MWD 2060: Building a Sustainable Future" wherein those Board members present supported the establishment of the BRC. The BRC would be composed of experts who would provide insight into the global, natural, economic, and demographic changes that Metropolitan's service area would encounter in the future and assist Metropolitan in the development of a new business model and strategies for the future. In February 2010, the Board ratified the BRC membership and established the mission and focus for the BRC, specifically the following six focus areas as key components in Metropolitan's future:

- Developing new water options for Southern California
- Energy for the future
- Economic development and technologies
- Financial sustainability
- Workforce
- Communications

In March 2010, the Board entered into an agreement with the RAND Corporation to provide external expertise in facilitation and research to support the BRC. The BRC consisted of 27 experts from the region representing diverse fields and backgrounds, including the public sector, the private sector, research institutes, universities, environmental advocacy groups, business advocacy groups, labor advocacy groups, chambers of commerce, private citizens, and various interested nongovernmental organizations. The BRC met 17 times as a full group in open public meetings from March 2010 to April 2011, welcoming public comments on its deliberations and draft documents. Additionally, during the summer of 2010, the BRC divided into six working groups corresponding to the above noted six focus areas. Five of these six working groups produced written reports that were made available on the BRC Web page available on Metropolitan's website. Additionally, the BRC Web page provided links to all reference documents, meeting schedules, meeting materials, committee rosters, committee bios, contact information, and various Metropolitan position papers, as well as the final BRC report.

Purpose and Approach of the Blue Ribbon Committee

In February 2010, the Board adopted the following mission statement for the BRC:

“The mission of the Metropolitan Water District’s 2060 Blue Ribbon Committee (BRC) is to make recommendations for new business models and strategies to position Metropolitan to meet our region’s water related needs and to provide for sustainability for Southern California in coming decades. The Committee will consider the best practices in California, in our nation and around the world for innovatively and effectively managing energy and water infrastructure. The intent is to identify the best strategies and practices and to use them to foster environmental stewardship, water reliability and new sources of competitive advantage for Southern California.”

The Board requested the BRC to conceptualize a vision of Metropolitan’s business model in 2060 that would lead to continued success in the region over a range of possible futures. As stated in the Report, the Board specifically asked the BRC to do the following:

- Focus on the strategic trends likely to affect Metropolitan in the future and vital to the region’s sustainability.
- Consider best practices in California, in the nation, and around the world for innovatively and effectively managing energy and water infrastructure, with the intent of identifying the best strategies and practices and using them to foster environmental stewardship, water reliability, and new sources of competitive advantage for Southern California.
- Make recommendations for a new business model and strategies to position Metropolitan and its member agencies to meet the region’s water-related needs and provide for sustainability for Southern California in coming decades.

The BRC approach for the study included:

- reviewing Metropolitan’s current business model and Metropolitan’s current value to its member agencies
- identifying factors that could affect Metropolitan’s business model in the future
- developing a vision of Metropolitan’s business model in 2060 and Metropolitan’s value in 2060 to its member agencies under this 2060 business model
- comparing the 2011 and 2060 business models
- identifying the steps needed to get to the 2060 business model.

Blue Ribbon Committee Findings on Metropolitan’s Current Business Model

The BRC reiterated that Metropolitan was established to provide its member agencies with imported water from the Colorado River that the member agencies could not have obtained acting independently of one another – identifying this as Metropolitan’s “value proposition” to its members: “acting on member’s behalf to do what they could not do alone.” The BRC concluded that Metropolitan has implemented this value proposition, supporting dramatic growth in the population and economy of Southern California. Additionally, the BRC noted that Metropolitan has adjusted its business model and operations over the past 82 years to respond to and anticipate increasing demand for water from a growing population and economy, changes in the availability of water, and regulatory constraints on withdrawals from the Delta and Colorado River to conserve and protect ecological resources, and, in the process, ensure long-term reliability of water supplies. Nevertheless, the BRC noted that change and

variability over the next 50 years will substantially affect Metropolitan's ability to continue to remain a reliable provider of services to its members.

Blue Ribbon Committee Recommended 2060 Metropolitan Business Model

In the Report, the BRC recommended a 2060 Metropolitan business model envisioning that Metropolitan will serve as an integrator and manager of a complex regional water system that draws on local sources of water and imported sources of water, while mitigating the risks associated with each source and maintaining financial stability. The BRC identified the following key business model elements for Metropolitan in 2060:

- Customer demand – *helping customers become wise water users*
- Diversified water portfolio and investments – *security through diversity*
- Provider of integrated water services – *a “grid” for water*
- Finances and pricing – *conserve and sustain*
- Governance and operations
- Leadership in technology and workforce development – *catalyst for innovation*

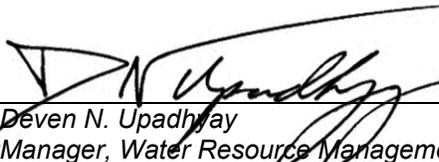
Within these business model elements, the BRC further identified the steps to help Metropolitan get to the 2060 business model. **Attachment 1** presents a summary of the BRC's findings and recommendations, including Metropolitan's current business model, the recommended 2060 Metropolitan business model, and the steps needed to get to 2060, organized by the key business model elements. This summary was developed from Table S.5 and Table S.6 in the Executive Summary of the Report.

Policy

By Minute Item 48164, dated February 9, 2010, the Board ratified the Blue Ribbon Committee membership and established its mission and focus.

Fiscal Impact

None

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Attachment 1 – BRC Report Findings and Recommendations

Report of the Blue Ribbon Committee, April 12, 2011 available at the following link:
<http://mwdh2o.com/BlueRibbon/pdfs/BRCreport4-12-2011.pdf>

Blue Ribbon Committee Report Findings and Recommendations

Key Business Model Elements	Metropolitan 2011	Metropolitan 2060	Next Steps
<p>Customer Demand <i>Helping customers become wise water users</i></p>	<ul style="list-style-type: none"> Develop new imported supplies to meet growing demand Moderate demand through conservation programs and subsidies to members 	<ul style="list-style-type: none"> Meet growing demand through co-development (with member agencies and private sector) of an increasingly diverse mix of water Moderate demand through proactive demand-management policies, including pricing and direct investment in efficiency programs 	<ul style="list-style-type: none"> Evaluate selected demand-management programs in the United States and abroad to assess efficacy for testing and possible deployment
			<ul style="list-style-type: none"> Develop and implement proactive communication strategies among members and the public to improve their understanding of the value of water and new actions to manage demand
			<ul style="list-style-type: none"> Expand public education through investment in long-term campaigns targeting youth over the span of a generation to increase knowledge and support workforce development
<p>Diversified water portfolio and investments <i>Security through diversity</i></p>	<ul style="list-style-type: none"> Provide imported water from CRA and SWP to supply about 50 percent of the region’s supplies Purchase supplemental supplies from agricultural users Provide 1.5 MAF of regional surface storage Subsidize local supply projects through the LRP 	<ul style="list-style-type: none"> Provide imported water from the CRA and the SWP Make additional purchases of imported water Increase region’s local supplies by more than 50 percent Increase Metropolitan investment in some local production Increase regional groundwater and small-scale surface storage Exploit energy resources through partnership or other means for cost savings and diversification of revenue 	<ul style="list-style-type: none"> Endorse Metropolitan’s continued lead role in development of the Bay Delta Conservation Plan and related processes
			<ul style="list-style-type: none"> Support California’s efforts to work collaboratively with others to use its full share of water from the Colorado River at the least cost
			<ul style="list-style-type: none"> Evaluate the LRP and consider its benefits and costs relative to alternative approaches for encouraging regional investments in local supplies; support the direction of the IRP in encouraging partnerships to increase local supply development

Note: Entries in **bold** represent enhancements or additions in the Metropolitan 2060 model.
 Source: Table S.5 and Table S.6 in Executive Summary of “Report of the Blue Ribbon Committee, The Metropolitan Water District of Southern California” April 12, 2011

Key Business Model Elements	Metropolitan 2011	Metropolitan 2060	Next Steps
			<ul style="list-style-type: none"> • Consider co-development of unsubsidized pilot projects demonstrating the viability of medium-scale local supply development • Accelerate assessments of costs and benefits of expanding small, distributed surface storage and expanded groundwater storage in the region • Invest in new out-of-basin agricultural water sources and water from conservation investments • Develop strategy for exploiting Metropolitan’s energy resources in the form of partnerships and funding opportunities for energy efficiency, energy reliability, and greenhouse-gas emission reductions
<p>Provider of integrated water services <i>A “grid” for water</i></p>	<ul style="list-style-type: none"> • Lead IRP process • Communicate with public • Develop workforce to meet projected needs 	<ul style="list-style-type: none"> • Lead IRP process • Increase communications with public and other audiences • Develop advanced workforce to meet needs of new model • Provide interregional storage and conveyance infrastructure • Facilitate transfers and trades • Co-finance conservation and local production 	<ul style="list-style-type: none"> • Identify potential major elements of a more-regionally connected system—including a review of previous studies of groundwater storage-system potential—and identify gaps in regional conveyance and storage capacity • Expand planning partners to include wastewater, flood control, and other agencies • Build capabilities to analyze the economics of integrated water-resource planning and management for the region • Evaluate the potential benefits, costs, and constraints for water trading among members, including the implementation of several pilot projects

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Key Business Model Elements	Metropolitan 2011	Metropolitan 2060	Next Steps
<p>Finances and pricing <i>Conserve and sustain</i></p>	<ul style="list-style-type: none"> • Generate 80 percent of revenues from water sales, 20 percent from fixed charges and property tax • Employ average-cost pricing • Apply limited two-tiered tariff • Offer limited unbundling • Subsidize conservation and some local production 	<ul style="list-style-type: none"> • Better align revenues with fixed and variable costs • Make revenue less dependent on sales of imports • Set prices to incentivize conservation and local production • Generate revenues from transfers, trading, and investments in local production 	<ul style="list-style-type: none"> • Develop an adaptive long-range financial plan as a complement to the IRP • Initiate a process to review the current pricing structure in comparison to potential alternatives, evaluating the sustainability of the various options under a range of scenarios • Review all major cost components and apply value-engineering principles to the process of identifying opportunities for cost savings
<p>Governance and operations</p>	<ul style="list-style-type: none"> • Operate as a cooperative among member agencies 	<ul style="list-style-type: none"> • Operate as a cooperative among member agencies • Enter into partnerships with small groups of members and other regional organizations • Lead in creating a new work force for 21st century • Lead proactive consumer-oriented communications to support conservation and efficiency 	<ul style="list-style-type: none"> • Initiate an external review of governance structure • Begin a process to considering changes to the existing vision and mission statements
<p>Leadership in technology and workforce development <i>Catalyst for innovation</i></p>	<ul style="list-style-type: none"> • Not an explicit part of the 2011 business model 	<ul style="list-style-type: none"> • Increase visibility and catalytic role in technology development for improved efficiency and other purposes • Lead regional efforts to develop, train, and retain a highly-skilled and flexible workforce that reflects the region’s diversity 	<ul style="list-style-type: none"> • Brand Metropolitan as a global leader on efficient and innovative water management and technologies • Consider different types of opportunities for taking a lead role in fostering a water service and technology innovative region • Begin a strategic planning process to assess needs and actions to shape a workforce that meets the

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Key Business Model Elements	Metropolitan 2011	Metropolitan 2060	Next Steps
			needs of new business model, including new training and development programs to increase qualified personnel to meet workforce needs and reflect the region's diversity

Note: Entries in **bold** represent enhancements or additions in the Metropolitan 2060 model.
 Source: Table S.5 and Table S.6 in Executive Summary of "Report of the Blue Ribbon Committee, The Metropolitan Water District of Southern California" April 12, 2011