



- Board of Directors
Water Planning and Stewardship Committee

11/8/2011 Board Meeting

8-8

Subject

Approve policy principles for a replenishment program

Description

Summary

The existing Replenishment Service Program provides a discounted water rate to agencies to increase purchase and delivery of imported water into local storage during periods of favorable supply. Under the program, Metropolitan has the ability to interrupt deliveries when needed. Revisions to the Replenishment Service Program are being discussed with the goal of further enhancing regional reliability benefits associated with the program. Since March 2011, Metropolitan staff has engaged in a workgroup process with the member agencies and groundwater basin managers to discuss potential revisions to the program. In October 2011, Metropolitan staff provided the Board with a board report that gave an overview of the current program along with draft policy principles. This letter presents policy principles for board consideration that would be used to guide development of a new program that could address broader issues than just groundwater replenishment. A new program may also include surface water storage or other means to improve management of imported supplies. Policy principles are recommended in the following areas:

- Regional Water Management Benefits
- Equity for Member Agencies
- Financial Integrity
- Operational Flexibility
- Complementary with Other Storage Programs

Revisions to the Replenishment Service Program

At its May 2011 meeting, the Board provided direction to the General Manager to exercise his discretion to make about 225,000 acre-feet of deliveries available under the existing Replenishment Service Program based on the supplies that were projected to be available at the time. Additionally, the Board directed staff by December 2011 to recommend options to reform the Replenishment Service Program in a manner that assures regional reliability benefits. Staff has worked with member agencies and groundwater basin managers to develop new program options. Through workgroup discussion, several factors were identified that should be considered in the development of these options, including:

- The potential for the program to provide regional water management benefits in dry years
- The frequency and magnitude of surplus conditions in the future
- The increased size and diversification of Metropolitan's regional storage portfolio
- The potential operational benefits of the program (e.g., interruptibility and system capacity benefits)
- The linkage between the level of regional water management benefits and any related financial incentives

Board Discussion of Draft Policy Principles

Taking these factors into consideration, staff drafted a set of policy principles for a new program that would replace the current Replenishment Service Program. At its October 2011 meeting, the Water Planning and Stewardship Committee provided feedback on the draft policy principles. Committee members directed staff to expand upon the draft principles with examples to help clarify the meaning of the principles and the intended role of the program. With respect to the scope of regional benefits being taken into account, staff has made the clarification that the program would be intended to pursue regional benefits related to water management, as opposed to other more general regional benefits. Committee discussion also emphasized the need to maintain Metropolitan's financial integrity, as well as concerns that any new program would ensure accountability for performance and provide value to the region. Staff has incorporated the Board comments into the current proposed policy principles. The principles are presented below for board consideration.

Proposed Policy Principles for a new program

Staff proposes the following set of policy principles be adopted to guide policy development of a new program:

Regional Water Management Benefits: The program should provide regional water management benefits, including: (1) dry-year supplies at Metropolitan's call, (2) flexibility to manage delivery of available supplies in a way that would provide additional storage beyond Metropolitan's regional storage capability, and (3) delivery of supplies available to Metropolitan that are otherwise at risk of spill or loss.

Equity for Member Agencies: The program will be available to all member agencies and provide quantifiable regional benefits.

Financial Integrity: The program options should support the stability of Metropolitan's revenues and coverage of costs. Program incentives should be based on sound economic principles and be proportional to the regional water management benefits provided.

Operational Flexibility: The program should enhance opportunities for Metropolitan to effectively manage water supplies under varied water supply conditions.

Complementary with Other Storage Programs: Features of the program should be complementary with existing storage programs, so that past investments continue to yield reliability benefits.

The proposed policy principles will guide staff as it works with the member agency workgroup to develop and refine program options. Program elements would be evaluated against the policy principles. Consistent with the proposed principles, a resulting program is intended to equitably encourage in-region storage activity using local facilities to complement Metropolitan's existing storage programs for regional water management benefits, while ensuring Metropolitan's financial integrity. Metropolitan's existing storage portfolio has a range of associated costs and constraints. A new program would have different characteristics of costs and constraints. Implementing such a program in concert with its existing regional storage portfolio would allow Metropolitan more flexibility to manage surplus and drought conditions.

Incorporation of Board Discussion

The table below shows changes that were made to address the feedback received from the Water Planning and Stewardship Committee discussion in October 2011. Two changes were made to the set of proposed principles. First, the principle that had been "Regional Benefits" was renamed to "Regional Water Management Benefits." Second, what formerly had been a principle called "Regional Value" was merged into the "Financial Integrity" principle. In addition, staff has provided clarifying descriptions and examples for the principles. These name changes and supplemental descriptions are intended to help give clarity to the proposed policy principles.

Modifications and Added Descriptions for Proposed Principles (since October 2011)

Proposed Principle	Modifications and Additional Descriptions
Regional Water Management Benefits	<ul style="list-style-type: none"> Renamed to “Regional Water Management Benefits” to help specify that the program would be intended to pursue regional benefits related to water management
Equity for Member Agencies	<ul style="list-style-type: none"> Program options should consider opportunities for both groundwater and surface storage.
Financial Integrity	<ul style="list-style-type: none"> Program incentives should be based on sound economic principles and be proportional to the regional water management benefits provided. Program deliveries should not be used by member agencies to reduce their full service purchases in the year that water is stored. Economic considerations should include anticipated effects on Metropolitan’s firm sales as well as opportunities for avoided costs.
Regional Value	<ul style="list-style-type: none"> This former principle was merged into the “Financial Integrity” principle, which incorporates the emphasis that program incentives should be based on sound economic principles and be proportional to the regional water management benefits provided.
Operational Flexibility	<ul style="list-style-type: none"> The program should allow for the interruptible delivery of water to storage when system capacity and supply are available, and as operational priorities allow. More storage options provide Metropolitan with operational flexibility due to an increased variety of program choices when there is a need to store or withdraw supplies.
Complementary with Other Storage Programs	<ul style="list-style-type: none"> Metropolitan has developed a diverse portfolio of storage options over the years to enhance dry-year reliability, including voluntary Central Valley storage and transfer programs, storage of Intentionally Created Surplus in Lake Mead, as well as in-region conjunctive use programs with participating member agencies. Capacity and infrastructure investments Metropolitan has made in the conjunctive use and other regional storage programs should not be rendered less effective by the program.

Recommendation

Staff recommends that the Board approve the proposed policy principles to guide the development of a new replenishment program. The policy principles will provide staff with a framework with which to work with the member agencies and basin managers to refine program options and recommendations for board consideration in December.

Next Steps

Options and recommendations for a new program will be presented for board consideration in December 2011.

Policy

Metropolitan Water District Administrative Code Section 4514: Replenishment Service

By Minute Item 48680, dated May 10, 2011, the Board provided direction to the General Manager to exercise his discretion to offer discounted replenishment in an amount limited to increases in supply above currently allocated

supplies and directed staff to make recommendations by December 2011 for options to reform the replenishment services program in a manner that assures regional reliability benefits.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because the proposed action involves continuing administrative activities such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, where it can be seen with certainty that there is no possibility that the proposed action in question may have a significant effect on the environment, the proposed action is not subject to CEQA (Section 15061(b)(3) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15378(b)(2) and 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the CEQA determination and approve the proposed policy principles for a replenishment program.

Fiscal Impact: None. A cost-effective program will be brought forward for board consideration that is consistent with these policy principles.

Business Analysis: This option will provide further clarity and direction to staff in the development of program options for a new program to provide regional water management benefits.

Option #2

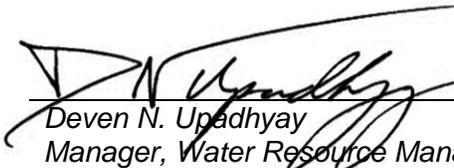
Do not approve the proposed policy principles.

Fiscal Impact: None

Business Analysis: No direct impact

Staff Recommendation

Option #1


 _____ 10/27/2011
 Deven N. Upadhyay Date
 Manager, Water Resource Management


 _____ 10/27/2011
 Jeffrey Lightlinger Date
 General Manager