



- Board of Directors  
*Water Planning and Stewardship Committee*

11/5/2012 Board Meeting

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9-1

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## Subject

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Proposal to eliminate the Replenishment Service program and adjust Member Agency Tier 1 limits

## Executive Summary

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In April 2012, Metropolitan's Board adopted rates for Calendar Years 2013 and 2014 that have no discounted rates for long-term replenishment or Interim Agricultural Water Program (IAWP) purchases. When the IAWP was eliminated, adjustments were made to Member Agency Tier 1 limits to account for the elimination of the program. No similar action has been taken with regard to discounted replenishment supplies.

Staff is developing an approach to adjust Member Agency Tier 1 limits to reflect the historical demand for water used for the purposes of long-term groundwater and surface storage replenishment. This adjustment will accommodate ongoing purchases of water for local storage management at the Tier 1 Supply Rate and limit a member agency's exposure to Tier 2 Supply Rates for these purposes. The proposed Tier 1 adjustment would be made through amendments to the Administrative Code. The proposed Tier 1 adjustment is consistent with the methodology used to phase out the IAWP.

## Description

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### Background

In the past, Metropolitan's water rates and charges included a water rate for providing interruptible water supplies for the purposes of storage in local groundwater and surface water reservoirs. This rate, under various names including "Replenishment Service" and "Seasonal Storage Service," made water supplies available for local storage management purposes at a discount to the full service rate. The basic justification for the discounted rate was the benefits to Metropolitan because the water supply provided was interruptible by Metropolitan, and that the water was being stored within local groundwater or surface storage for later use. The water supplies purchased by participating member agencies were also used for ongoing management of groundwater and surface water supplies produced locally.

Two events have occurred that make it necessary to address local storage replenishment demands in the service area. First, starting in 2013, Metropolitan's rates and charges will not include a water rate for the Replenishment Service. There has been significant discussion over the past several years as to whether or not to continue offering the historically available discounted water rate for replenishment purposes, culminating in the Board's decision not to adopt a Replenishment Service Rate for 2013 and 2014. Second, at the October 2012 Metropolitan Board Meeting, the Board approved a two-year extension of the Member Agency Purchase Orders. The language of the Purchase Order extensions uses a calculation for Tier 1 limits, which includes firm water purchases from 1990 through 2002 but does not include water purchases that were for long-term replenishment purposes.

An unintended consequence of these two events is that member agencies that are responsible for purchasing water used for the management of local groundwater and surface water facilities. Essentially, these member agencies may need to pay Tier 2 Supply Rates for ongoing purchases of this water. It was envisioned that a more comprehensive update of the Member Agency Purchase Orders and Tier 1 limits would address the ongoing need

for replenishment supplies to be purchased at full service rates. It was not proposed or determined that member agencies should pay the Tier 2 Rate for replenishment supplies that were formerly available at a discounted rate.

### **Proposed Adjustment**

Staff recommends that an administrative adjustment be made to the Tier 1 amounts for each member agency to account for historical purchases of long-term replenishment supplies. The adjustment would be calculated in the same manner used to adjust the Tier 1 amounts for the elimination of the IAWP, using the same base period of fiscal year 1990 through 2002.

The Tier 1 adjustment would be calculated as follows:

1. Add the annual sales of applicable Seasonal Storage Service and Cyclic Storage water from 1990 through 2002 to each Member Agency's Initial Base Firm Demand Post IAWP.
2. Calculate what a member agency's Tier 1 limit would be with annual sales of applicable Seasonal Storage Service and Cyclic storage water added to the data used in calculating that Member Agency's Initial Base Firm Demand Post IAWP.
3. Determine the increase in Tier 1 limits for each member agency, if any, and provide the additional amount as an administrative adjustment to existing Tier 1 limits.

**Attachment 1** shows the existing Tier 1 limits and additional Tier 1 amounts for calendar year 2013 that would result from the methodology above. The variation in adjustment amounts between member agencies results from their historical range of actual replenishment purchases, and whether those purchases were coincident with historical peak Firm demands. Amounts in future years may be reduced due to a Member Agency's Ten-Year Rolling Average of firm sales and its impact on Base Firm Demand calculations.

Along with this adjustment, changes would need to be made to the Administrative Code to discontinue the Replenishment Service rate. Once the Replenishment Service Program is formally eliminated, the new Tier 1 adjustments will allow member agencies to purchase water for replenishment purposes at full service rates with reduced exposure to the higher Tier 2 Supply Rates.

### **Next Steps**

Staff will take input from the Water Planning and Stewardship Committee and develop a final recommendation for action at the December Board Meeting. The action will also seek approval of needed Administrative Code changes.

### **Policy**

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Metropolitan Water District Administrative Code Section 4514: Replenishment Service.

By Minute Item 43189, dated September 15, 1998, the Board approved the Water Surplus and Drought Management (WSDM) Plan Principles as guidelines for development of the WSDM Plan.

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.

**Fiscal Impact**

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None

  
Deven N. Upadhyay  
Manager, Water Resource Management

10/25/2012

Date

  
Jeffrey Kightlinger  
General Manager

10/25/2012

Date

**Attachment 1 – Estimated Additional Tier 1 Amounts For Calendar Year 2013**

Ref# wrm12621112

### Estimated Additional Tier 1 Amounts For Calendar Year 2013

<b>Agency</b>	<b>Current Tier 1 Limits*</b>	<b>Increase in Tier 1 Limit*</b>
Anaheim	22,240	2,198
Beverly Hills	13,380	-
Burbank	16,336	440
Calleguas	110,248	0
Central Basin	72,360	35,295
Compton	3,372	-
Eastern	84,691	7,733
Foothill	10,997	776
Fullerton	11,298	-
Glendale	26,221	-
Inland Empire	59,792	33,491
Las Virgenes	20,699	-
Long Beach	39,471	12,333
Los Angeles	304,970	30,693
MWDOC	228,130	52,462
Pasadena	21,180	-
San Diego	587,901	2,411
San Fernando	630	-
San Marino	1,199	-
Santa Ana	12,129	7,489
Santa Monica	11,109	-
Three Valleys	70,474	4,450
Torrance	20,967	-
Upper San Gabriel	17,128	50,100
West Basin	156,874	648
Western	85,110	-

\*Assumes member agencies execute the Amended and Restated Purchase Order, except Compton, San Fernando, and San Marino.