



- Board of Directors
Water Planning and Stewardship Committee

12/11/2012 Board Meeting

8-1

Subject

Approve adjustments to member agency Tier 1 limits and eliminate the Replenishment Service program; and authorize amendments to the Administrative Code

Executive Summary

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 recommending adjusting 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 Full Service Tier 1 Supply Rate and limit a member agency's exposure to Tier 2 Supply Rates for water used for these purposes. The recommended Tier 1 adjustment would be made through amendments to the definition of Base Firm Demand in the Administrative Code. The proposed Tier 1 adjustment is consistent with the methodology used to phase out the IAWP and was presented in an information board letter and reviewed at the WP&S Committee in November 2012.

Details

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 that 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 appropriate to address local storage replenishment demands in the service area. First, starting in 2013, Metropolitan's Board approved rates and charges will not include a water rate for Replenishment Service. Second, at the October 2012 Metropolitan board meeting, the Board approved a two-year extension of the Member Agency Purchase Orders and the associated definitions of how Tier 1 limits are calculated. Tier 1 limits are calculated using historical water purchases from 1990 through 2002 but those amounts do not include historical water purchases that were for long-term replenishment purposes. A consequence of these two events is that member agencies that have historically purchased water for use for the management of local groundwater and surface water facilities at a discounted rate would now be exposed to Tier 2 rates for the same purpose.

Proposed Adjustment

Staff recommends that an Administrative Code amendment be made to provide additional Tier 1 amounts for each member agency to account for historical purchases of long-term replenishment supplies. The adjustment would be made by modifying the definition of Base Firm Demand, which is used to determine member agency Tier 1 limits. "Base Firm Demand" for each member agency is the greater of its Initial Base Firm Demand (IBFD) Post IAWP or its ten-fiscal-year rolling average of firm deliveries from Metropolitan, as provided in Section 4122 of the Administrative Code. The modification would include historical purchases of long-term replenishment supplies made in fiscal years 1990 through 2002 as part of the calculation of each member agency's Initial Base Firm Demand Post IAWP. The result may provide additional Tier 1 limits for member agencies that purchased water for long-term replenishment purposes during the base period and cannot negatively impact any member agency's Tier 1 limits calculated using the current definition of IBFD Post IAWP.

Attachment 1 shows the existing Tier 1 limits and additional Tier 1 amounts for calendar year 2013 that would result from the recommended amendment 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.

Attachment 2 includes proposed amendments to the Administrative Code in underline format. The proposed amendments will formally eliminate the Replenishment Service program and revise the definition of Initial Base Firm Demand Post IAWP as described above. References and definitions associated with the Replenishment Service program will need to remain in the Administrative Code until the expiration date for errors and omissions for any sales that have occurred under the program in the past three years.

Policy

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 Service 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 it 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 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

- a. Approve adjustments to member agency Tier 1 limits and elimination of the Replenishment Service program; and
- b. Authorize amendments to the Administrative Code as shown in **Attachment 2**.

Fiscal Impact: None. Metropolitan’s budget, revenue requirement, and rates are not set using replenishment sales or Tier 2 sales as a required source of revenues.

Business Analysis: Additional Tier 1 amounts will facilitate water management and storage actions formerly associated with the Replenishment Rate. These same actions may have been hindered in the future by exposure to the higher Tier 2 supply rate.

Option #2

Do not approve adjustments to member agency Tier 1 limits or elimination of the Replenishment Service program, or authorize the proposed amendments to the Administrative Code.

Fiscal Impact: None

Staff Recommendation

Option #1


 _____ 11/27/2012
 Deven N. Upadhyay Date
 Manager, Water Resource Management


 _____ 11/28/2012
 Jeffrey Hightlinger Date
 General Manager

Attachment 1 – Estimated Additional Tier 1 Amounts for Calendar Year 2013

Attachment 2 – Proposed Amendments to the Administrative Code

Estimated Additional Tier 1 Amounts for Calendar Year 2013

Agency	Current Tier 1 Limits*	Increase in Tier 1 Limit*
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.

Proposed Amendments to the Administrative Code

§ 4122. Base Firm Demand; Initial Base Firm Demand.

“Base Firm Demand” shall mean the greater of a) the member agency’s Initial Base Firm Demand or b) the member agency’s ten-fiscal year rolling average of deliveries of water from the District for the most recent ten fiscal year period, excluding, in either case, water delivered under Long-Term Seasonal Storage Service or Replenishment Service, whichever is applicable, and Interim Agricultural Water Program Service, and “Initial Base Firm Demand” shall mean the member agency’s highest annual delivery of water from the District, excluding water delivered under Long-Term Seasonal Storage Service, Interruptible Service, and Interim Agricultural Water Program Service, during any fiscal year from fiscal year 1989/90 through fiscal year 2001/02.

Effective as of January 1, 2013, “Base Firm Demand” shall mean the greater of a) the member agency’s Initial Base Firm Demand Post IAWP or b) the member agency’s ten-fiscal year rolling average of deliveries of water from the District for the most recent ten fiscal year period, excluding water delivered under Interim Agricultural Water Program Service and any other non-firm water delivery, and “Initial Base Firm Demand Post IAWP” shall mean the member agency’s highest annual delivery of water from the District, excluding water delivered under the Long-Term Seasonal Storage Service and Interruptible Service programs but including water delivered under Interim Agricultural Water Program Service, during any fiscal year from fiscal year 1989/90 through fiscal year 2001/02.

Effective as of January 1, 2013, each member agency's Initial Base Firm Demand Post IAWP (further adjusted for elimination of Replenishment Service after 2012) is as follows:

<u>Member Agency</u>	<u>IBFD Post IAWP</u>
<u>Anaheim</u>	<u>27,154</u>
<u>Beverly Hills</u>	<u>14,867</u>
<u>Burbank</u>	<u>18,640</u>
<u>Calleguas</u>	<u>122,498</u>
<u>Central Basin</u>	<u>119,617</u>
<u>Compton</u>	<u>5,620</u>
<u>Eastern</u>	<u>102,694</u>
<u>Foothill</u>	<u>13,081</u>
<u>Fullerton</u>	<u>12,554</u>
<u>Glendale</u>	<u>29,135</u>
<u>Inland Empire</u>	<u>103,648</u>
<u>Las Virgenes</u>	<u>22,999</u>
<u>Long Beach</u>	<u>57,560</u>
<u>Los Angeles</u>	<u>372,959</u>
<u>MWDOC</u>	<u>311,769</u>

<u>Pasadena</u>	<u>23,533</u>
<u>San Diego</u>	<u>655,903</u>
<u>San Fernando</u>	<u>1,049</u>
<u>San Marino</u>	<u>1,998</u>
<u>Santa Ana</u>	<u>21,797</u>
<u>Santa Monica</u>	<u>12,344</u>
<u>Three Valleys</u>	<u>83,248</u>
<u>Torrance</u>	<u>23,297</u>
<u>Upper San Gabriel</u>	<u>74,698</u>
<u>West Basin</u>	<u>175,024</u>
<u>Western</u>	<u>94,567</u>

§ 4401. Rates.

(a) The rates per acre-foot for water sold and delivered for each class of service on order of any member public agency for use therein shall be as follows:

. . . . (2) For Replenishment Service (All water delivered for Replenishment Service as described in this Division and the most current User Handbook for Replenishment Service.)

Effective Date: 01/01/2012 **Untreated Water:** \$442.00

01/01/2012 **Treated Water:** \$651.00

Replenishment Service will be eliminated after 2012.

§ 4514. Replenishment Service.

. . . . (e) Termination - Replenishment Service will be eliminated after December 31, 2012.