

The Metropolitan Water District of
Southern California

Final Draft Strategic Plan Policy Principles

December 14, 1999

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Preamble

Metropolitan is a voluntary cooperative of member public agencies created for the purpose of "developing, storing and distributing water." Metropolitan's Board is committed to providing a high quality, reliable supply of affordable water for the residents in its service area.

The strategic planning process was initiated in July 1998 in an effort to address the evolving needs of the member agencies and their retailers to effectively fulfill Metropolitan's mission over the long-term. These diverse needs focus on flexibility, certainty and public stewardship.

Flexibility: There are significant legislative and economic pressures to increase the flexibility and responsiveness of water services to meet changing demands through a competitive water market. Fair compensation for wheeling through Metropolitan's conveyance systems is an essential element of Southern California's developing market.

Certainty: Certainty in Metropolitan's supply reliability and cost of service is important to member agencies and retailers, particularly in their efforts to ensure value to their customers.

Public Stewardship: Metropolitan and its member agencies must ensure that water is available to meet the needs of the public in a cost-effective and environmentally sound manner.

The Board has been engaged in a strategic planning process for the past year and a half. This process identified areas of common interests that form the basic elements for Metropolitan's strategic plan. Issues related to cost allocation and rate structure require further discussion and resolution.

Statement of Common Interests

- **Regional Provider.** Metropolitan is a regional provider of water for its service area. In this capacity, Metropolitan is the steward of regional infrastructure and the regional planner responsible for drought management and the coordination of supply and facility investments. Regional water services should be provided to meet the needs of the member agencies. Accordingly, the equitable allocation of water supplies during droughts will be based on water needs and adhere to the principles established by the Water Surplus and Drought Management Plan.

- Financial Integrity. The Metropolitan Water District Board will take all necessary steps to assure the financial integrity of the agency in all aspects of its operations.
- Local Resources Development. Metropolitan supports local resources development in partnership with its member agencies and by providing its member agencies with financial incentives for conservation and local projects.
- Imported Water Service. Metropolitan is responsible for providing the region with imported water, meeting the committed demands of its member agencies.
- Choice and Competition. Beyond the committed demands, the member agencies may choose the most cost-effective additional supplies from either Metropolitan, local resources development and/or market transfers. These additional supplies can be developed through a collaborative process between Metropolitan and the member agencies, effectively balancing local, imported, and market opportunities with affordability.
- Responsibility for Water Quality. Metropolitan is responsible for advocating source water quality and implementing in-basin water quality for imported supplies provided by Metropolitan to assure full compliance with existing and future primary drinking water standards and to meet the water quality requirements for water recycling and groundwater replenishment.
- Cost Allocation and Rate Structure. The fair allocation of costs and financial commitments for Metropolitan's current and future investments in supplies and infrastructure may not be reflected in status quo conditions and will be addressed in a revised rate structure:
 - a) The committed demand, met by Metropolitan's imported supply and local resources program, has yet to be determined.
 - b) The framework for a revised rate structure will be established to address allocation of costs, financial commitment, unbundling of services, and fair compensation for services including wheeling, peaking, growth, and others.

Next Steps in the Strategic Planning Process

December 8, 1999

Outstanding Issues To Be Resolved

While the November workshop identified the common interests of the Metropolitan Board of Directors on the strategic plan, outstanding issues that require further discussion and resolution were also highlighted. These outstanding issues included the following:

- The baseline regional demand, which guides Metropolitan's delivery requirements, should be determined. Metropolitan is responsible for providing the region with imported water, meeting this projected baseline demand of its member agencies. Beyond this projected baseline demand, the member agencies may choose the most cost-effective additional supplies from either Metropolitan, local resources development, and/or market transfers.
- The process for selecting the most cost-effective local resources development projects for joint implementation by Metropolitan and its member agencies should be developed.
- A framework should be established to guide the design and implementation of a revised rate structure. The framework should address the following issues:
 - Fair allocation of costs and financial commitments for Metropolitan's current and future investments in imported water supplies, source water quality improvements, in-basin treatment, and infrastructure in consideration of regional water needs, past financial contributions, and other relevant factors;
 - The manner, in which Metropolitan pays for Local Resources Program projects and conservation;
 - Fixed revenues, including growth charges, property taxes, and standby charges;
 - Peaking charges;
 - Commodity rates;
 - Unbundling of services;
 - Fair compensation for replenishment and agricultural water deliveries;
 - Fair compensation for wheeling.

Schedule

In the next three months, the Board will have the opportunities to establish the Strategic Plan policy principles and successfully complete the development phase of the process. The meetings, deliverables and Board items are as follows:

<u>Meeting</u>	<u>Deliverables</u>	<u>Board Items</u>
December 14 Strategic Plan Workshop	Strategic Plan Steering Committee recommendation on policy principles and next steps. Member agency managers' presentation on rate structure framework.	Discussion of recommended policy principles.
December 14 Board Meeting	Strategic Plan Steering transmittal of recommended policy principles and next steps.	Board consideration and action recommended policy principles.
Early January Strategic Plan Steering Committee	Draft of the rate structure framework and guidelines. Preliminary determination of projected baseline demands and selection process for local resources projects.	Committee discussion on draft rate structure framework and guidelines.
January - February Board Meetings	Strategic Plan Steering Committee recommendation on rate structure framework and guidelines, and other outstanding issues.	Board consideration and action on recommended rate structure framework and guidelines.
February - March	Public meetings on proposed policies and guidelines.	Board receives and considers the input from public meetings.
March - April	Strategic Plan Steering Committee recommendation on implementation steps.	Board direction to staff to implement Strategic Plan according to approved principles and guidelines.

As Metropolitan proceeds with development of the Strategic Plan, the relationship between policy and implementation becomes important. The Board is responsible for establishing policy positions and guidelines regarding the responsibilities of Metropolitan as a public agency. The proposed policy principles provide such guidelines. Staff is then responsible for implementing these policies by developing specific programs and procedures, including rate structure development, project selection, and investment strategies for supplies and infrastructure improvements.