



**Special Board of Directors Meeting - Final -
Revised 1**

November 23, 2021

2:00 PM

Tuesday, November 23, 2021 Meeting Schedule
09:00 a.m. - A&E
10:00 a.m. - IRP
11:30 a.m. - Break
12:00 p.m. - Exec
12:30 p.m. - Bay-Delta
02:00 p.m. - Special BOD Mtg

Teleconference meetings will continue through the end of the year. Live streaming is available for all board and committee meetings on mwdh2o.com ([Click Here](#))

A listen only phone line is also available at 1-800-603-9516; enter code: 2176868#. Members of the public may present their comments to the Board on matters within their jurisdiction as listed on the agenda via teleconference only. To participate call (404) 400-0335 and enter Code: 9601962.

MWD Headquarters Building - 700 N. Alameda Street - Los Angeles, CA 90012

1. **Call to Order**
2. **Roll Call**
3. **Determination of a Quorum**
4. **Opportunity for members of the public to address the Board on matters within the Board's jurisdiction. (As required by Gov. Code § 54954.3(a))**
5. **OTHER MATTERS AND REPORTS**

- A. Induction of new Director Marty Miller from the San Diego County Water Authority [21-650](#)

- (a) Receive credentials
- (b) Report on credentials by General Counsel
- (c) File credentials
- (d) Administer Oath of Office
- (e) File Oath

**** CONSENT CALENDAR ITEMS -- ACTION ****

6. **CONSENT CALENDAR OTHER ITEMS - ACTION**

- A.** Adopt resolution to continue remote teleconference meetings pursuant to the Brown Act Section 54953(e) for meetings of Metropolitan's legislative bodies for a period of 30 days; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [21-652](#)

Attachments: [11232021 Sp BOD 6A Resolution re Teleconference.pdf](#)

- B.** Nomination and Election for nonofficer member of the Executive Committee for the completion of a two-year term effective November 23, 2021 and ending at the January 2023 Board Meeting [21-651](#)

7. CONSENT CALENDAR ITEMS - ACTION

- 7-1** Direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA. [SUBJECT REVISED] [21-656](#)

Attachments: [11232021 Sp BOD 7-1 B-L.pdf](#)
[11232021 Sp BOD 7-1 Presentation.pdf](#)

- 7-2** Consider and adopt the Board's Principles of Governance Statement; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA (Exec) [21-721](#)

Attachments: [11232021 Exec 7-2 B-L.pdf](#)

- 7-3** Approve recommendation for changes in committee structure and direct staff to return to the December Board meeting with Administrative Code language consistent with the changes as recommended; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA [21-722](#)

Attachments: [11232021 Sp BOD 7-3 B-L.pdf](#)

**** END OF CONSENT CALENDAR ITEMS ****

8. OTHER MATTERS

- A. Update on Arvin-Edison Groundwater Banking Program [21-725](#)
[Conference with legal counsel—potential litigation; portion of presentation concerning potential litigation may be heard in closed session pursuant to Gov. Code Section 54956.9(d)(2)]

Attachments: [11232021 Sp BOD 8A Presentation.pdf](#)

9. FOLLOW-UP ITEMS

None

10. FUTURE AGENDA ITEMS

None

11. ADJOURNMENT

NOTE:

At the discretion of the Board, all items appearing on this agenda and all committee agendas, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

Each agenda item with a committee designation will be considered and a recommendation may be made by one or more committees prior to consideration and final action by the full Board of Directors. The committee designation appears in parenthesis at the end of the description of the agenda item e.g. (E&O, BF&I). Committee agendas may be obtained from the Executive Secretary.

Requests for a disability related modification or accommodation, including auxiliary aids or services, in order to attend or participate in a meeting should be made to the Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION NO. XXXX

**RESOLUTION OF THE BOARD OF DIRECTORS OF
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
RELYING ON GOVERNOR NEWSOM’S MARCH 4, 2020 PROCLAMATION OF A
STATE OF EMERGENCY
AND RE-AUTHORIZING REMOTE TELECONFERENCE MEETINGS OF THE
LEGISLATIVE BODIES OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA FOR THE PERIOD OF 30 DAYS FROM
NOVEMBER 23, 2021 TO DECEMBER 23, 2021 PURSUANT TO BROWN ACT
PROVISIONS**

WHEREAS, The Metropolitan Water District of Southern California (“Metropolitan”) is committed to preserving and nurturing public access and participation in meetings of the its legislative bodies; and

WHEREAS, all meetings of Metropolitan’s legislative bodies are open and public, as required by the Ralph M. Brown Act (Cal. Gov’t Code Sections 54950 – 54963), so that any member of the public may attend, participate, and watch the Metropolitan’s legislative bodies conduct their business; and

WHEREAS, the Brown Act, Government Code Section 54953(e), makes provisions for remote teleconferencing participation in meetings by members of a legislative body, without compliance with the requirements of Government Code Section 54953(b)(3), subject to the existence of certain conditions; and

WHEREAS, a required condition is that a state of emergency is declared by the Governor pursuant to Government Code Section 8625, proclaiming the existence of conditions of disaster or of extreme peril to the safety of persons and property within the state caused by conditions as described in Government Code Section 8558; and

WHEREAS, a proclamation is made when there is an actual incident, threat of disaster, or extreme peril to the safety of persons and property within the jurisdictions that are within the Metropolitan’s boundaries, caused by natural, technological, or human-caused disasters; and

WHEREAS, it is further required that state or local officials have imposed or recommended measures to promote social distancing, or, the legislative body meeting in person would present imminent risks to the health and safety of attendees; and

WHEREAS, the Board of Directors previously adopted Resolution Number 9285 on September 28, 2021, finding that the requisite conditions exist for the legislative bodies of Metropolitan to conduct remote teleconference meetings without compliance with paragraph (3) of subdivision (b) of section 54953; and

WHEREAS, as a condition of extending the use of the provisions found in section 54953(e), the Board of Directors must reconsider the circumstances of the state of emergency, and the Board of Directors has done so in a subsequent Resolution Number 9287 on October 12, 2021 and Resolution Number 9288 on November 9, 2021; and

WHEREAS, such conditions now persist at Metropolitan, specifically, Governor Newsom's March 4, 2020 Proclamation of A State of Emergency caused by the COVID-19 pandemic; and

WHEREAS, meeting in person would create conditions that would present imminent risks to the health and safety of the attendees due to the fact that that: (1) the community transmission rates and spread of the COVID-19 Delta variant remain high or substantial, both nationally and locally throughout Metropolitan's service area, (2) the Delta variant is highly contagious, more than two times as contagious as previous variants, (4) data suggests that the Delta variant might cause more severe illness than previous variants, and (5) the Centers for Disease Control and Prevention is recommending that everyone wear a mask in public and in indoor settings; and

WHEREAS, state or local officials continue to impose or recommend measures to promote social distancing, including County of Los Angeles Department of Public Health Order issued September 28, 2021, providing guidance for indoor masking and implementation of policies and practices that support physical distancing where possible; and

WHEREAS, the Board of Directors does hereby find that the conditions described above has caused, and will continue to cause, conditions of peril to the safety of persons within Metropolitan that are likely to be beyond the control of services, personnel, equipment, and facilities of Metropolitan; and

WHEREAS, as a consequence of the state of emergency, the Board of Directors does hereby find that the legislative bodies of Metropolitan shall conduct their meetings without compliance with paragraph (3) of subdivision (b) of Government Code Section 54953, as authorized by subdivision (e) of Section 54953, and that such legislative bodies shall continue to comply with the requirements to provide the public with access to the meetings as prescribed in paragraph (2) of subdivision (e) of Section 54953; and

WHEREAS, Metropolitan is providing call-in telephonic access for the public to make comment and to listen; and providing livestreaming of the meetings over the internet to ensure access for the public.

NOW, THEREFORE, the Metropolitan Board of Directors does hereby resolve as follows:

Section 1. Recitals. The Recitals set forth above are true and correct and are incorporated into this Resolution by this reference.

Section 2. Reconsider the Circumstances of the State of Emergency Persists. The Board of Directors hereby reconsiders the conditions of the state of emergency and the Board of Directors hereby continues to rely on the Governor of the State of California's Proclamation of State of Emergency, effective as of its issuance date of March 4, 2020.

Section 3. State of Emergency Directly Impacts the Ability to Meet Safely in Person and Presents Imminent Risks. The Board hereby proclaims that the State of Emergency continues to directly impact the ability of members to meet safely in person and create conditions that would present imminent risks to the health and safety of the attendees due to the fact that: (1) the community transmission rates and spread of the COVID-19 Delta variant continue to remain high or substantial, both nationally and locally throughout Metropolitan's service area, (2) the Delta variant is highly contagious, more than two times as contagious as previous variants, (3) data suggests that the Delta variant might cause more severe illness than previous variants, and (4) the Centers for Disease Control and Prevention is recommending that everyone wear a mask in public and in indoor settings.

Section 4. State or Local Officials Continue to Impose or Recommend Measures to promote social distancing. The Board hereby acknowledges that state or local officials continue to impose or recommend measures to promote social distancing, including County of Los Angeles Department of Public Health Order issued September 28, 2021, providing guidance for indoor masking and implementation of policies and practices that support physical distancing where possible.

Section 5. Remote Teleconference Meetings. The General Manager and legislative bodies of Metropolitan are hereby authorized and directed to take all actions necessary to carry out the intent and purpose of this Resolution including, conducting open and public meetings in accordance with Government Code Section 54953(e) and other applicable provisions of the Brown Act.

Section 6. Effective Date of Resolution. This Resolution shall take effect immediately upon its adoption and shall be effective until the earlier of (i) December 23, 2021, or such time the Board of Directors adopts a subsequent resolution in accordance with Government Code Section 54953(e)(3) to extend the time during which the legislative bodies of Metropolitan may continue to teleconference without compliance with paragraph (3) of subdivision (b) of section 54953.

I HEREBY CERTIFY that the foregoing is a full, true, and correct copy of a resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California at its meeting held on November 23, 2021.

Secretary of the Board of Directors of
The Metropolitan Water District
of Southern California



- Board of Directors

11/23/2021 Special Board Meeting

7-1

Subject

Direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

Metropolitan's demand management program consists of the Conservation program, the Local Resources Program (LRP), and the Future Supply Actions program. For the past five years, the total annual demand management revenue requirement budget has averaged \$96 million, made up of approximately \$34 million for conservation, \$38 million for LRP, \$2 million for Future Supply Actions, and \$23 million for departmental operations & maintenance net of interest income. The ten-year forecast in the current biennial budget projects those costs to increase to \$151 million by fiscal year (FY) 2030/31, which does not include the potential increase in conservation due to the present drought emergency. While the Board has the discretion to increase or decrease the budget for conservation (except any contractual commitments), Future Supply Actions, and planned LRP that are not yet approved, Metropolitan has a nondiscretionary obligation to make payments under LRP agreements that are already in place. Therefore, Metropolitan must collect funds to at least pay for its nondiscretionary LRP funding commitments.

Currently, Metropolitan is not collecting revenues to fund its demand management costs. Based on prior board direction, those costs are being paid from reserves in the Water Stewardship Fund, which will run out by mid-FY 2022/23. While the Board, staff, and member agency representatives participating in a rate refinement workgroup have undergone various processes to evaluate the most appropriate cost recovery method to fund demand management going forward, and considered various alternatives, consensus on one method had not yet been reached as of the September Finance & Insurance (F&I) Committee meeting. Subsequently, on September 21, a new appellate court decision held Metropolitan's demand management costs cannot be recovered through transportation rates charged under Metropolitan's (now repealed) rate for wheeling service (wheeling rate) and the San Diego County Water Authority (SDCWA)-Metropolitan Exchange Agreement. As a result, staff has removed from the alternatives for the Board's review the alternatives that included an allocation to transportation rates. Since then, the Board and the rate refinement workgroup have reviewed and discussed the remaining alternatives, with a consensus formed in the rate refinement workgroup for use of the alternative based on a 100 percent allocation to supply ("100 percent Supply Alternative"). Accordingly, following the member agency recommendation in this letter, staff recommends that the Board direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges for the Board's consideration.

Details

Metropolitan's Process to Revise Demand Management Cost Recovery

Metropolitan allocated demand management costs to the transportation operational functions since the unbundling of its rate structure in 2001, which was implemented in January 2003. The functionalization of the costs was supported by the 1996 Integrated Resources Plan's (IRP) 25-year capital and resource planning, which expired this year. SDCWA challenged that allocation in court beginning in June 2010, alleging the Water Stewardship Rate could not be collected as part of Metropolitan's pre-set wheeling rate or the transportation rates charged under the SDCWA-Metropolitan Exchange Agreement. On June 21, 2017, the Court of Appeal entered a decision

in *SDCWA v. Metropolitan*, 12 Cal. App. 5th 1124. The appellate court ruled Metropolitan may collect State Water Project transportation costs as part of Metropolitan's System Access Rate and System Power Rate in the wheeling rate and the Exchange Agreement price. However, the appellate court found the administrative record before it for the rates in calendar years (CYs) 2011 through 2014 did not support Metropolitan's inclusion of the Water Stewardship Rate in the wheeling rate or the transportation rates charged under the Exchange Agreement, but the opinion did not address the allocation in subsequent years based on a different record.

In April 2018, the Board directed staff to undertake a process with input from member agencies to study and determine the most appropriate allocation of demand management costs based on the review of all available information. The cost allocation study was undertaken by staff in two phases. The first phase determined an appropriate functional assignment of Metropolitan's demand management costs. Mr. Peter Mayer, P.E., principal at Water DM, made presentations to the F&I Committee and the member agency managers, and also provided a report entitled "Report on Functional Assignment of Metropolitan's Demand Management Costs" (WaterDM Report) to the Board in August 2019.

In the second phase, consideration was given to incorporating the functionalization recommendations into Metropolitan's cost-of-service process to recover demand management costs through the existing rate structure or through the development of a new rate and/or charge. Mr. Rick Giardina, Senior Vice President at Raftelis, a public utility and public agency management consulting firm, provided presentations to the F&I Committee and member agency managers, and provided a report entitled "Demand Management Cost Recovery Alternatives" (Raftelis Report). However, the Board did not come to a consensus on a cost recovery method for demand management, and it directed staff on the manner of temporarily funding demand management costs while member agency representatives further evaluated the options.

In December 2019, the Board directed staff: (1) to incorporate the use of the 2019/20 fiscal-year-end balance of the Water Stewardship Fund to fund all demand management costs in the proposed FYs 2020/21 and 2021/22 Biennial Budget; and (2) to not include the Water Stewardship Rate, or any other rates or charges to recover demand management costs, with the proposed rates and charges for CYs 2021 and 2022. Since then, the member agencies participated in a rate refinement process in which they prioritized the review of alternatives for demand management cost recovery. In September 2021, staff presented to the F&I Committee the Demand Management Cost Recovery Alternatives being discussed by the rate refinement workgroup.

On September 21, 2021, the Court of Appeal issued a new appellate decision in which it interpreted its 2017 appellate decision. The Court of Appeal clarified that its 2017 decision regarding the Water Stewardship Rate was not limited to 2011-2014, and that it prohibits the inclusion of the Water Stewardship Rate in transportation rates charged under Metropolitan's wheeling rate and in the price term of the SDCWA-Metropolitan Exchange Agreement from 2015 forward. Accordingly, staff removed all Demand Management Cost Recovery Alternatives that include transportation rate elements for the Board Workshop on November 8, 2021. The remaining cost recovery alternatives are described in **Attachment 1 (Demand Management Cost Recovery Alternatives and Member Agency Impacts)**.

The rate refinement workgroup met to discuss the remaining alternatives on November 18, 2021. At the meeting, member agency staff recommended presenting the 100 percent Supply Alternative to the Board for its consideration. For purposes of computing estimated member agency impacts, staff used a five-year average of total sales to smooth the year-to-year variability that may occur, rather than data for one specific year, for the 100 percent Supply Alternative. Table 1 below presents the impacts to each member agency of the 100 percent Supply Alternative.

Table 1: Estimated Member Agency Impacts of 100 percent Supply Alternative.

In thousands of dollars, based on hypothetical \$100 million demand management revenue requirement.

100% Supply	
Anaheim	\$ 988
Beverly Hills	724
Burbank	1,005
Calleguas MWD	6,387
Central Basin MWD	2,741
Compton	0
Eastern MWD	6,447
Foothill MWD	564
Fullerton	479
Glendale	1,082
Inland Empire	3,875
Las Virgenes MWD	1,395
Long Beach	2,114
Los Angeles	17,616
MWDOC	14,754
Pasadena	1,295
SDCWA	16,491
San Fernando	1
San Marino	64
Santa Ana	626
Santa Monica	256
Three Valleys MWD	4,370
Torrance	1,087
Upper San Gabriel	2,837
West Basin MWD	8,045
Western MWD	4,756
Total	\$ 100,000

Financial Outlook for Demand Management Funding

Demand management has been funded by the Water Stewardship Fund for the present biennial budget cycle. However, based on the financial outlook of demand management costs, that is not sustainable for the next biennial budget cycle. To determine the financial outlook of demand management funding, it is important to review the projected fund balance for the Water Stewardship Fund.

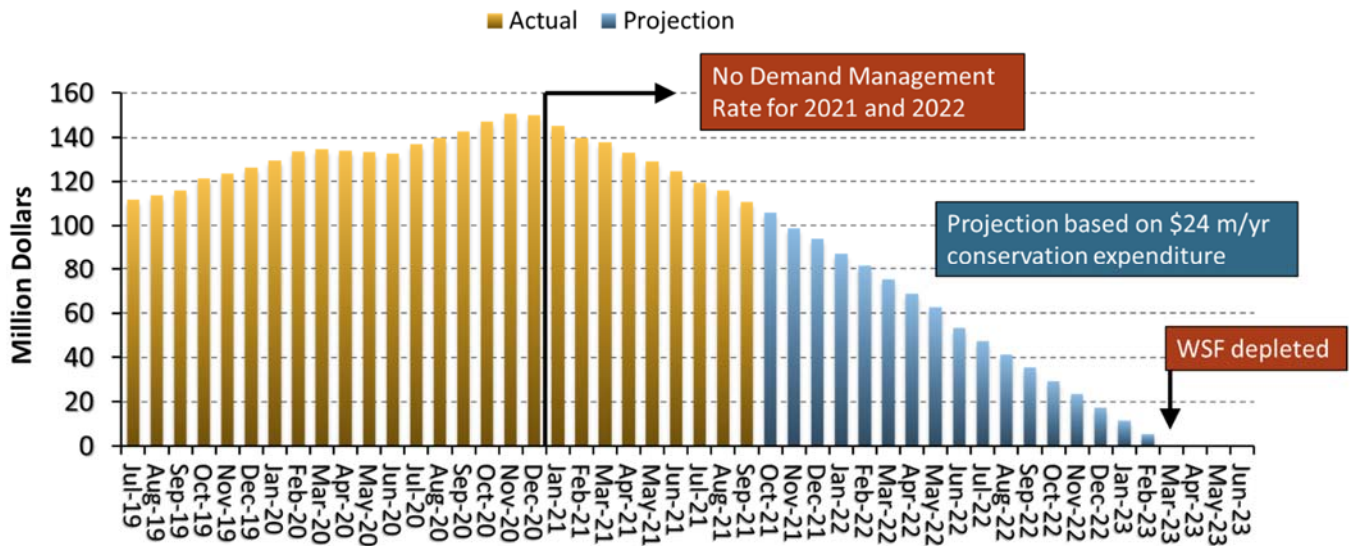
Chart 1. Historical and Projected Monthly Water Stewardship Fund Balance

Chart 1 shows the historical monthly Water Stewardship Fund balance in orange bars from August 2019 through September 2021. In January 2021, rates and charges went into effect without a rate to recover demand management costs for CY 2021 and beyond. Consequently, the fund started to draw down in January 2021. In blue bars starting in October 2021, staff has projected the fund balance until the Water Stewardship Fund is depleted by March 2023 based on an estimate of \$24 million per year in conservation funding, compared to \$43 million currently appropriated per year. If the conservation funding increases above \$24 million per year, the Water Stewardship Fund will be depleted earlier.

Next Steps

Metropolitan's robust demand management programs have been enormously successful and important, having helped build Southern California's current high degree of water reliability and resilience. Additionally, the successful implementation of demand management has been cost-effective and reduced the need for Metropolitan to spend on more costly infrastructure and supplemental water resources. Continuation of these successful programs will require the adoption of a funding mechanism before the existing funding runs out in FY 2022/23. Staff is requesting that the Board approve the 100 percent Supply Alternative as the demand management cost recovery method to be incorporated into the proposals for rates and charges. Staff will continue to review the rate structure with the rate refinement workgroup to bring any proposed changes to rates and charges for board consideration and incorporation into future rates and charges.

Policy

Metropolitan Water District Act Section 134: Adequacy of Water Rates; Uniformity of Rates

Metropolitan Administrative Code Section 5107: Biennial Budget Process

Metropolitan Administrative Code Section 5108: Appropriations

Metropolitan Administrative Code Section 5109: Capital Financing

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

By Minute Item 51164, on April 10, 2018, the Board approved the suspension of billing and collection of the Water Stewardship Rate on exchange agreement deliveries to San Diego County Water Authority for (a) CYs 2019 and 2020 during the Demand Management cost allocation study period, and (b) CY 2018.

By Minute Item 51828, on December 10, 2019, the Board directed staff: (1) to incorporate the use of the 2019/20 fiscal-year-end balance of the Water Stewardship Fund to fund all demand management costs in the proposed fiscal years 2020/21 and 2021/22 Biennial Budget; and (2) to not incorporate the Water Stewardship Rate, or any

other rates or charges to recover demand management costs, with the proposed rates and charges for CYs 2021 and 2022.

By Minute Item 51962, on April 14, 2020, the Board approved the biennial budget for FYs 2020/21 and 2021/22; adopted resolutions fixing and adopting the water rates and charges for CYs 2021 and 2022; and adopted the resolution finding that for FYs 2020/21 and 2021/22, the ad valorem property tax rate limitation of Metropolitan Water District Act Section 124.5 is not applicable because it is essential to Metropolitan's fiscal integrity to collect ad valorem property taxes in excess of the limitation.

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); the creation of government funding mechanisms or other government fiscal activities, which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State of CEQA Guidelines); and organizational or administrative activities of governments that will not result in direct or indirect physical changes in the environment (Section 15378(b)(5) of the State of CEQA Guidelines). Additionally, where it can be seen with certainty that there is no possibility that the proposed action may have a significant impact on the environment, the action is not subject to CEQA pursuant to Section 15061(b)(3) of the State CEQA Guidelines.

CEQA determination for Option #2:

None required

Board Options

Option #1

Direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges.

Fiscal Impact: The future proposed rates and charges will recover the revenue requirement as set forth by the General Manager and adopted by the Board in the future Biennial Budgets.

Business Analysis: This would enable Metropolitan to provide funding for ongoing and future demand management programs.

Option #2

Do not direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method in the proposals for rates and charges.

Fiscal Impact: The future proposed rates and charges will not recover the revenue requirement as set forth by the General Manager in the future proposed Biennial Budgets.

Business Analysis: This would not enable Metropolitan to provide funding for ongoing and future demand management programs, requiring further board review and the selection of an alternative demand management cost recovery method prior to adoption of the budget and rates in April 2022.

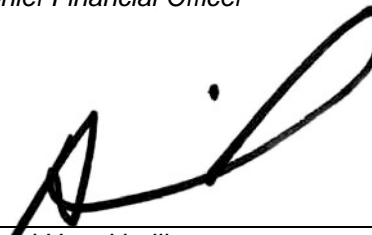
Staff Recommendation

Option #1



11/19/2021

Katano Kasaine
Assistant General Manager/
Chief Financial Officer

Date

11/19/2021

Adel Hagekhalil
General Manager

Date**Attachment 1 – Demand Management Cost Recovery Alternatives and Member Agency Impacts**

Ref# cfo12685842

Attachment 1 - Demand Management Cost Recovery Alternatives and Member Agency Impacts

Table 1. Demand Management Cost Recovery Alternatives for Board Consideration (Remaining after September 21, 2021 Court of Appeal Decision)

Cost Recovery Component	Approx % of DM Costs	Billing Determinant	Charge / Rate
100% Supply Supply	100%	Sales	\$/AF
Alt 3A – Functionalized Fixed Charge (revised to 100% supply) New sales-based fixed charge	100%	10-yr Avg Sales	Fixed \$
Alt 3B – Non-Functionalized Fixed Charge based on Population New DM fixed charge	100%	Population	Fixed \$
Alt 3B – Non-Functionalized Fixed Charge based on Assessed Valuation New DM fixed charge	100%	Assessed Valuation	Fixed \$
Alt 3B – Non-Functionalized Fixed Charge based on 50/50 Pop/AV New DM fixed charge	50% 50%	Population Assessed Valuation	Fixed \$

¹ Using a hypothetical Revenue Requirement share; the actual relative shares will be calculated as a part of each cost of service analysis and will differ.

Alternative: 100 percent Supply (Recovered on volumetric sales)

This alternative functionalizes all demand management costs to the supply function. This option excludes all other functions from demand management programs, which is not consistent with Metropolitan's consultants' analysis and conclusions regarding cost of service principles. However, it is consistent with the recent appellate court ruling. Under this option, member agencies that purchase water would incur all the costs of demand management. There would be no cost recovery from current wheeling or exchange transactions.

Alternative #3A: Revised Functionalized Fixed Charge (Recovered based on ten-year rolling average sales)

Demand management costs are largely fixed in nature. The LRP incentives are provided under contractual commitments with terms from 15 to 25 years, and the Board has stated a desire that conservation programs (incentives and messaging) should be funded on a consistent basis, and not ramped up and down. Following the September 21st appellate court ruling, staff modified the original Alternative 3A developed by Raftelis that is now solely collected on sales and functionalized to supply.

Under the modified Alternative #3A functionalized to Supply, Metropolitan would follow its cost-of-service process to functionalize demand management costs solely to Supply. Those costs could then be aggregated and apportioned to member agencies based on selected metrics, or billing determinants. Under Alternative #3A, the costs are recouped through fixed charges, not volumetric rates. In Tables 1 and 2, costs functionalized as supply have been apportioned to member agencies based on each member agency's ten-year rolling average of all sales.

Under Alternative #3A, those member agencies that have purchased relatively more full service water over the last ten years will pay more of the demand management costs through their fixed charges, as their averages increase.

Alternative #3B: Non-Functionalized Fixed Charge (Recovered as fixed charge based on AV, population, or other metric)

Alternative #3B highlights that demand management costs are a necessary and legislatively directed activity that improves reliability for all water systems in Metropolitan's service area. By providing conservation incentives that reduce the use of imported resources and LRP incentives that improve the reliability of local resources, offsetting the need to import water, even water systems without a physical connection to Metropolitan benefit. Therefore, Alternative #3B proposes a fixed charge to member agencies that aligns with the benefits of demand management for all member agencies based on use and potential use in their service areas.

In the three examples for Alternative #3B, demand management costs are aggregated and apportioned to member agencies based first on population and then on assessed valuation or a mix of both. Both metrics provide a measure of the reliance—and potential reliance—for water service on Metropolitan. Other metrics, or a combination of metrics, could be used instead.

The approximate percentages of demand management costs recovered in the alternatives are hypothetical as the actual functionalization of costs is dependent on the prospective cost-of-service analyses and budgeted expenditures. The approximate percentages are provided so member agencies can get a sense of how the alternatives might impact them. Importantly, when the Board approves one of the alternatives, it will approve a methodology, not explicit percentages or budgeted demand management expenditures.

For purposes of computing estimated member agency impacts, staff used a five-year average of total sales to smooth the year-to-year variability that may occur, rather than data for one specific year, for the 100 percent Supply Alternative.

Table 2: Estimated Member Agency Impacts of Demand Management Cost Recovery Alternatives.
In thousands of dollars, based on hypothetical \$100 million demand management revenue requirement.

	100% Supply	Alt 3A - Functionalized Fixed Charge (100% Supply)	Alt #3B - Fixed Charge, Population	Alt #3B - Fixed Charge, AV	Alt #3B - 50/50 AV/Pop
Anaheim	\$ 988	\$ 1,201	\$ 1,920	\$ 1,578	\$ 1,749
Beverly Hills	724	690	230	1,188	709
Burbank	1,005	907	570	810	690
Calleguas MWD	6,387	6,635	3,338	3,495	3,416
Central Basin MWD	2,741	2,907	8,247	5,056	6,651
Compton	0	51	483	158	321
Eastern MWD	6,447	6,022	4,355	2,720	3,537
Foothill MWD	564	555	433	634	533
Fullerton	479	541	715	680	697
Glendale	1,082	1,092	979	1,091	1,035
Inland Empire	3,875	3,962	4,534	3,883	4,209
Las Virgenes MWD	1,395	1,350	371	850	610
Long Beach	2,114	2,084	2,506	1,724	2,115
Los Angeles	17,616	17,803	21,258	20,730	20,994
MWDOC	14,754	14,264	12,447	17,067	14,757
Pasadena	1,295	1,244	877	1,049	963
SDCWA	16,491	17,744	17,009	17,368	17,188
San Fernando	1	2	129	66	98
San Marino	64	55	70	222	146
Santa Ana	626	736	1,756	902	1,329
Santa Monica	256	364	495	1,276	885
Three Valleys MWD	4,370	4,144	2,741	2,341	2,541
Torrance	1,087	1,056	721	992	856
Upper San Gabriel	2,837	2,213	4,587	3,580	4,084
West Basin MWD	8,045	7,614	4,301	6,929	5,615
Western MWD	4,756	4,765	4,931	3,610	4,271
Total	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000



Direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges

Special Board Meeting
Item 7-1
November 23, 2021

Background

- Over the past 11 months, the Rate Refinement Workgroup has met 13 times and has reviewed 11 alternatives.
- In August, the Rate Refinement Workgroup reduced the alternatives to 8 which were forwarded to the Board.
- Only 5 of the 11 alternatives remained after the September 2021 court decision, which included some alternatives previously eliminated by the Rate Refinement Workgroup.
- Per Board direction, the Rate Refinement Workgroup met on November 18, 2021 to review the remaining alternatives.
- The Rate Refinement Workgroup formed a consensus to recommend the 100% Supply Alternative.

Estimated 2021 Member Agency Impacts of Demand Management Cost Recovery Alternative

Based on Hypothetical \$100M Demand Management Revenue Requirement

Thousand of Dollars

	100% Supply
Anaheim	\$ 988
Beverly Hills	724
Burbank	1,005
Calleguas MWD	6,387
Central Basin MWD	2,741
Compton	0
Eastern MWD	6,447
Foothill MWD	564
Fullerton	479
Glendale	1,082
Inland Empire	3,875
Las Virgenes MWD	1,395
Long Beach	2,114
Los Angeles	17,616
MWDOC	14,754
Pasadena	1,295
SDCWA	16,491
San Fernando	1
San Marino	64
Santa Ana	626
Santa Monica	256
Three Valleys MWD	4,370
Torrance	1,087
Upper San Gabriel	2,837
West Basin MWD	8,045
Western MWD	4,756
Total MWD	\$ 100,000

100% Supply based on average sales from FY 2015 to FY 2019.

Requested Action

- Direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges

Board Options

- Option #1
 - Adopt CEQA determination
 - Direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges.
- Option #2
 - Do not direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method in the proposals for rates and charges.

Staff Recommendation

- Option #1
 - Adopt CEQA determination
 - Direct staff to incorporate the 100 percent Supply Alternative as the demand management cost recovery method used in the proposals for rates and charges.

Additional Information requested by the Board: Metropolitan's Reserve Policy

MWD Administrative Code § 5202

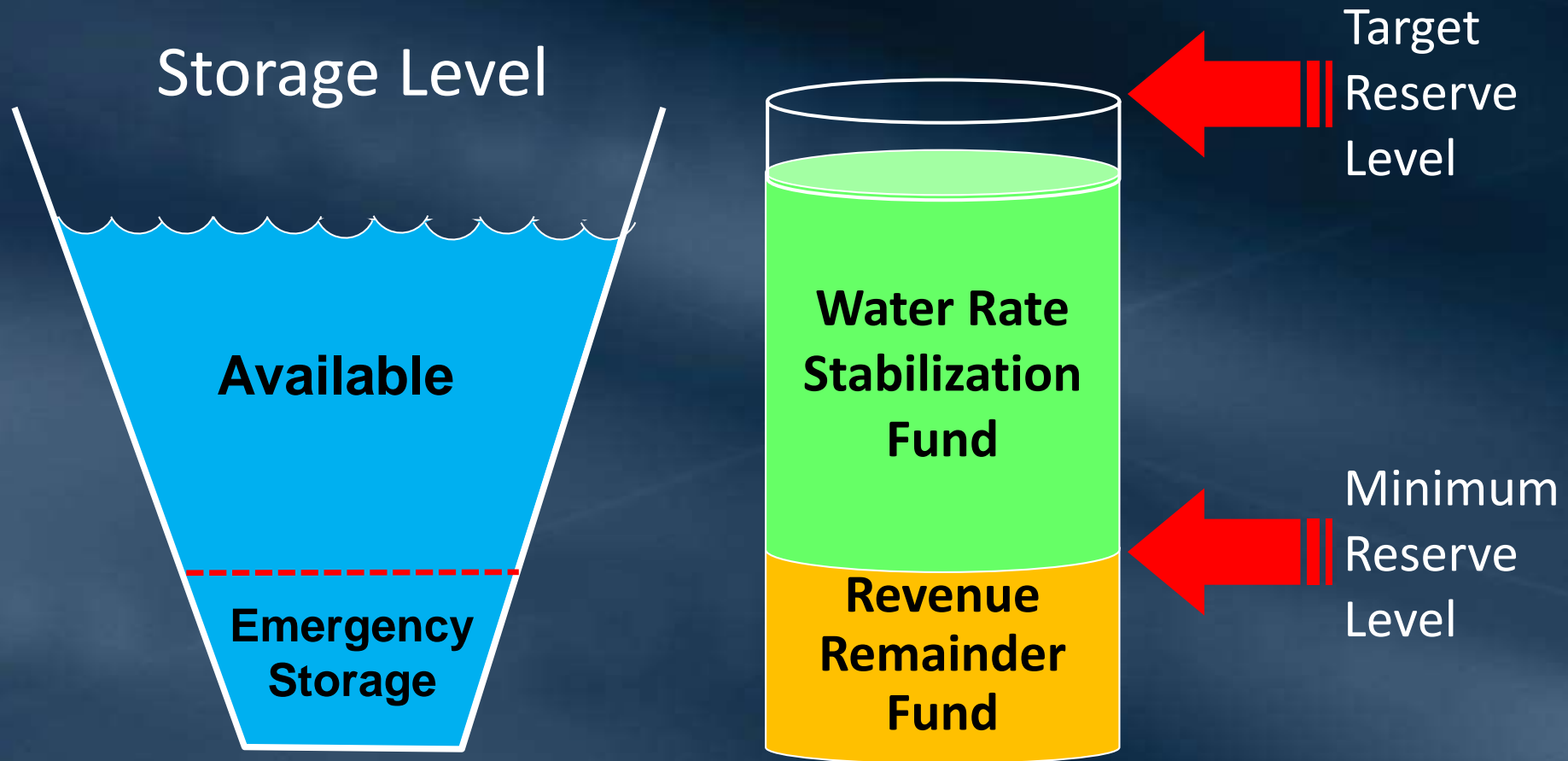
§ 5202. Fund Parameters.

- (a) For the Revenue Remainder Fund cash and securities on hand as of June 30 of each year shall be equal to the portion of fixed costs of the District estimated to be recovered by water sales revenues for the eighteen months beginning with the immediately succeeding July. ...
- (e) Amounts in the Water Rate Stabilization Fund shall be held for the principal purpose of maintaining stable and predictable water rates and charges. The amount to be held in the Water Rate Stabilization fund shall be targeted to be equal to the portion of the fixed costs of the District estimated to be recovered by water sales revenues during the two years immediately following the eighteen-month period referenced in Section 5202(a). ...

Reserve Fund Principles

- Established to smooth out and/or mitigate future water rate increases
- Provides funds to cover revenue shortfall resulting from low water sales
 - Minimum fund level provides 18 months of rate protection
 - Target fund level provides additional 2 years of rate protection for a total of 3.5 years
- Provide stable & predictable water rates
- Provide stable rates for local water resource investment planning
 - MWD rate used as a benchmark

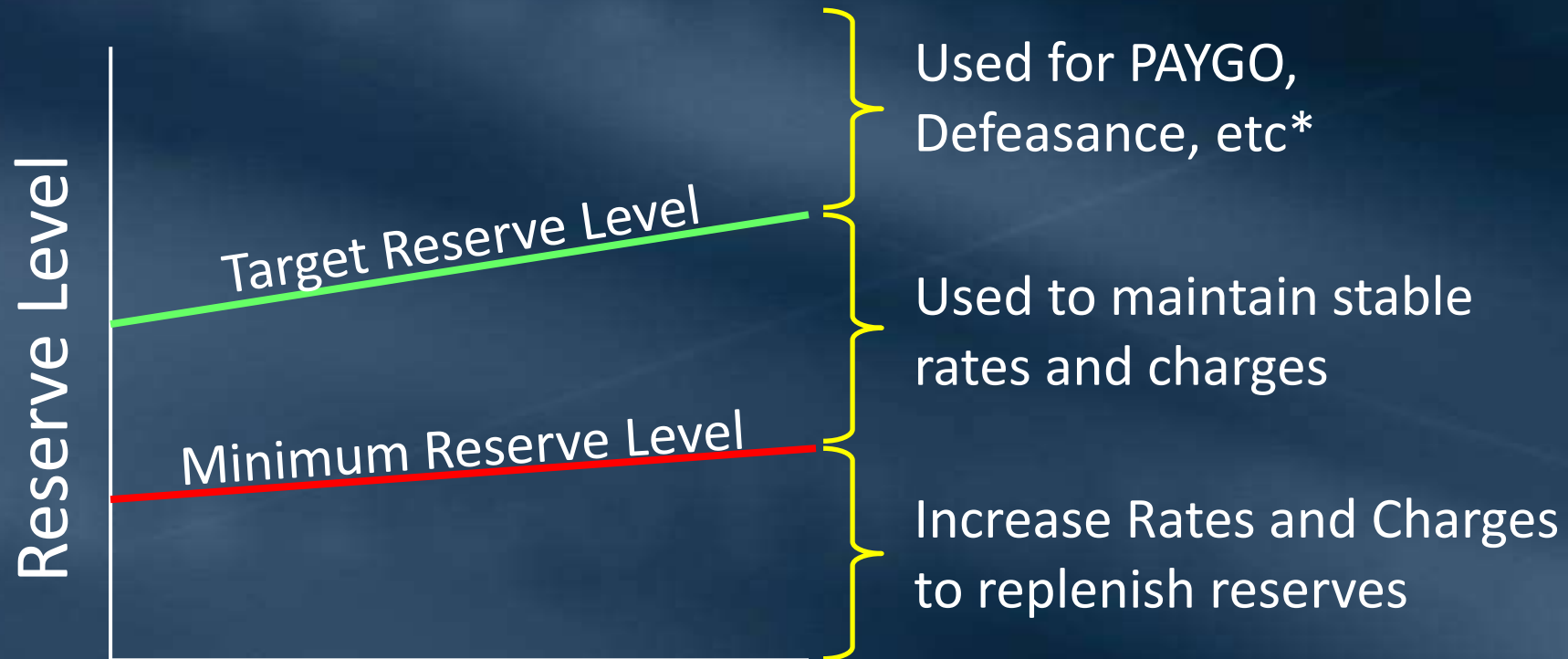
Reserve Fund



Reserve Policy

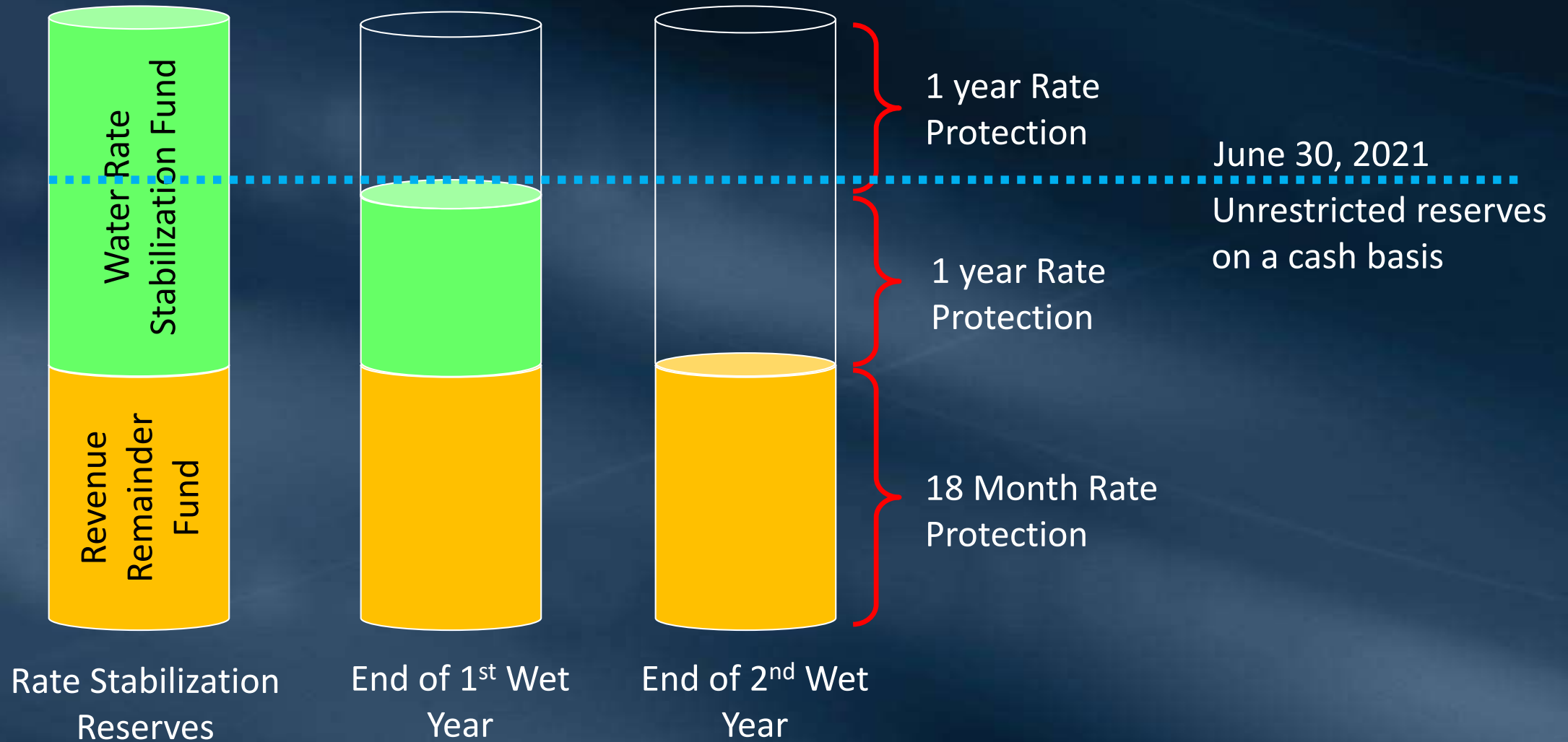
Reserve Fund Principle:

Provide stable & predictable water rates



* if fixed charge coverage ratio > 1.2x

Use of Reserve Fund







- Board of Directors
Executive Committee

11/23/2021 Special Board Meeting

7-2

Subject

Consider and adopt the Board's Principles of Governance Statement; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

This board letter presents the Board's Principles of Governance Statement for consideration as recommended by Chairwoman Gray for the Board of Directors' review and adoption.

Details

As a follow-up item from the September 29-30, 2021 Board of Directors Retreat, the attached proposed Statement of Metropolitan's Board Principles of Governance (Attachment 1) is for the Board's consideration and adoption. Rhonda Hilyard, who facilitated the discussion with the Board at the Retreat, assisted with the preparation of the proposed Statement. Adoption of the Statement is an intentional commitment by the Board that will provide the Board guidance and support to recognize and value the diversity of the Board members' backgrounds, experiences, skills, styles, perspectives, and interests. These principles of governance are supplemental to the current governing policies set forth for Directors in Metropolitan's Act and Administrative Code.

Policy

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves legislative proposals that do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment (Public Resources Code Section 21065 and Section 15378(b)(1) of the State CEQA Guidelines). The proposed action is also 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).

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the Board's Principles of Governance Statement.

Fiscal Impact: None

Business Analysis: Adoption of the Statement is an intentional commitment by the Board that will provide guidance and support to recognize and value the diversity of the Board members' backgrounds, experiences, skills, styles, perspectives, and interests.

Option #2

Do not adopt the Board's Principles of Governance Statement.

Fiscal Impact: None

Business Analysis: Absence of the adoption of the Board's Principles of Governance Statement could encumber the Board's ability to work together with mutual understanding, respectful discourse, and productive deliberations.

Staff Recommendation

Option #1



Gloria D. Gray
Chairwoman of the Board

11/19/2021

Date

Attachment 1 – Statement of Metropolitan's Board Principles of Governance

Ref# bd12681230

Statement of Metropolitan's Board Principles of Governance

PREAMBLE:

Metropolitan Board members recognize and value the diversity of their respective backgrounds, experiences, skills, styles, perspectives, and interests. Board members will not always agree, but will work together in the following ways to enhance mutual understanding, respectful discourse, and productive deliberations:

RESPECTFUL CONDUCT

Directors will express views in a professional manner and with consideration for one another.

Directors will respect differing opinions and ensure all views are heard.

Directors will treat each other with dignity and respect, according to the Golden Rule. (Treat others as you wish to be treated).

PARTICIPATION and INCLUSION

Directors will actively listen to better understand one another, while maintaining an open mind and seeking common ground.

Adequate airtime will be afforded to all.

When conducting meetings, the Chairs will be afforded respect in carrying out their responsibilities.

CONSENSUS and COMPROMISE

Directors will maximize opportunities to build trust and to reach timely agreements based on compromise or consensus.

They will do so by:

1. Being open, honest, and consistent in words and actions.
2. Seeking to understand one another and the source of differing views.
3. Being patient.
4. Expressing interests rather than positions.
5. Seeking the facts.
6. Avoiding blame.
7. Maintain a Metropolitan perspective that values win-win outcomes.

EFFECTIVENESS and EFFICIENCY

Directors will enhance the success of their deliberations by coming prepared, staying on task, being focused, and clearly communicating their interests.

Directors will address questions to the Chair to prevent misunderstandings of intent.

Directors will strive to determine the will of the group while being considerate of different interests.

These principles of governance are supplemental to the current governing policies set forth for Directors in Metropolitan's Act and Administrative Code.



- Board of Directors

11/23/2021 Special Board Meeting

7-3

Subject

Approve recommendation for changes in committee structure and direct staff to return to the December Board Meeting with Administrative Code language consistent with the changes as recommended; the General Manager has determined that the proposed action is exempt or otherwise not subject to CEQA

Executive Summary

In light of the priorities established by the Board at the recent Board retreat, I have reviewed the current committee structure and recommend the following changes to conform to the Board's priorities and to respond to the major challenges currently facing Metropolitan.

The recommended changes to the Board committee structure are:

1. Establish a new Underserved Communities standing committee.
2. Establish a new Imported Water standing committee.
3. Delete the Bay-Delta Committee.
4. Establish the Conservation and Local Resources Committee as a standing committee and re-name as the Conservation and Local Resources One Water Committee; and
5. Establish a new Diversity, Equity, and Inclusion Committee as a standing committee.

Details

Background

At the recent Board retreat, the Board discussed and provided information to the Chairwoman regarding the Board's current priorities. Metropolitan is also facing challenges from the consequences of the extended drought/climate change impacts on imported water supplies. In order to have appropriate forums for discussion and action on both the Board's priorities and current water supply challenges, I am proposing the following changes to the Board committee structure.

The recommended changes are:

1. Establish a new Underserved Communities standing committee. This committee will address the ways that Metropolitan can better serve disadvantaged and underserved communities by developing appropriate programs that Metropolitan can offer to provide assistance.
2. Establish a new Imported Water standing committee. This committee will address issues relating to the State Water Project, including Bay-Delta issues, the Colorado River, and any future matters relating to imported water from any source or supply. As the work of the current Bay-Delta will be handled in this committee, the Bay-Delta Committee will be deleted.
3. Establish the Conservation and Local Resources Committee as a standing committee and re-name it as the Conservation and Local Resources One Water Committee. In addition to the current conservation and local resources handled by this committee, it will be the home committee for our Regional Recycled Water Program and other new and innovative investments in, and sources of, local supply.

4. Establish a new Diversity, Equity, and Inclusion Committee as a standing committee. This committee will make recommendations to the full Board to address Diversity, Equity, and Inclusion (DE&I) issues and will be the home committee for reports of the DE&I Officer.

Policy

Metropolitan Water District Administrative Code Section 2400: Identification of Standing Committees

Metropolitan Water District Administrative Code Section 11104: Delegation of Responsibilities

California Environmental Quality Act (CEQA)

CEQA determination for Option #1:

The proposed action is not defined as a project under CEQA because it involves organizational or administrative activities that will not result in direct or indirect physical changes in the environment. (Section 15378(b)(5) 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 of CEQA Guidelines.)

CEQA determination for Option #2:

None required

Board Options

Option #1

Adopt the recommendations for changes in the Board committee structure as set forth in this letter.

Fiscal Impact: No fiscal impact

Business Analysis: Modifications of the committee structure will facilitate the work of the Board consistent with the Board's priorities and the current challenges facing Metropolitan.

Option #2

Do not adopt the recommendations for changes in the Board committee structure

Fiscal Impact: No fiscal impact

Business Analysis: The committee structure will remain the same and will not reflect the Board priorities

Staff Recommendation

Option # 1



Gloria D. Gray
Chairwoman of the Board

11/19/2021

Date

Ref# I12681001



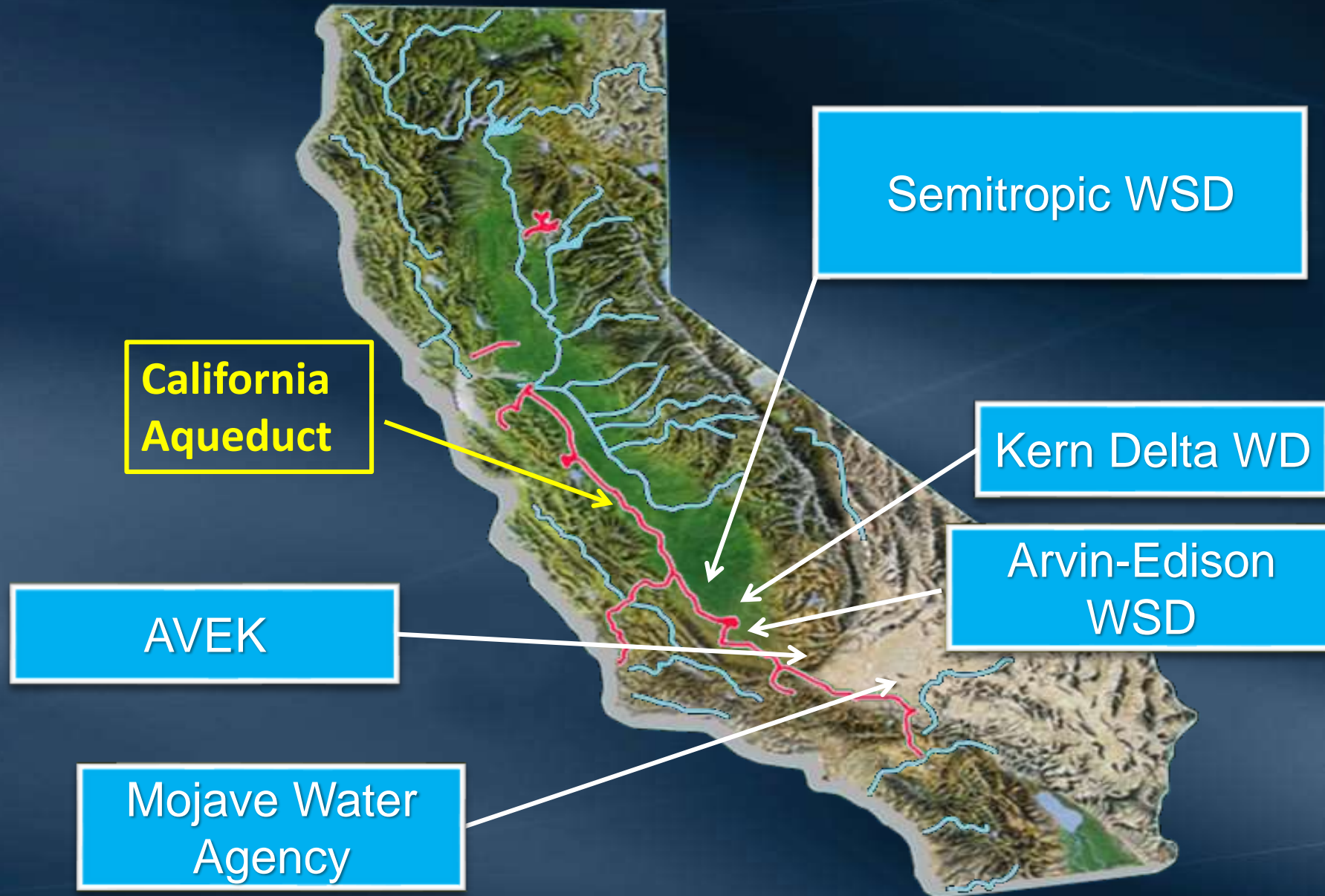
Update on Arvin-Edison Groundwater Banking Program

Special Board Meeting
Item # 8.A
November 23, 2021

Arvin-Edison Storage Program Introduction

- Arvin-Edison Program has been an important part in managing Metropolitan's water during surplus and drought conditions
- Arvin-Edison Program has been negatively impacted by the 1,2,3-Trichloropropane (TCP) detected in groundwater
- Staff continues to work with Arvin-Edison on a solution
- Arvin-Edison filed a lawsuit on Oct. 22, 2021 against Dow Chemical Company, et al.
- Discussion in closed session regarding potential litigation

SWP Groundwater Storage Programs



SWP Groundwater Storage Programs

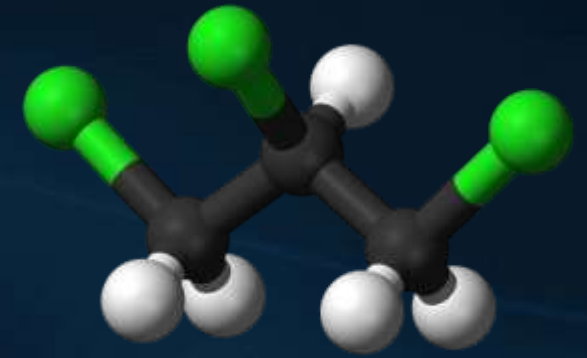


Arvin-Edison Storage Program Description

- Started: 1997
- Termination: 2035
- Storage Capacity: 350,000 AF
- Loss Factor: 10% One-Time on Put
- Put Capacity: Minimum 45,000 AFY
- Take Capacity: 40,000 AFY to 75,000 AFY
- Maximum Put (2000): 132,000 AF
- Maximum Take: (2009): 82,000 AF
- Balance in Storage: 138,000 AF



1,2,3-TCP



- Early 2018 learned that many Arvin-Edison wells were impacted by TCP
- TCP MCL: 5 ppt or 0.00000000000005 grams/liter
- MCL applies to public water systems, not farming
- Carcinogenic
- DWR Pump-In Policy prohibits return of water above MCL
- Metropolitan suspended delivery of water to storage and recovery of groundwater from the program.

Arvin-Edison Storage Program

- The reduced operation of the Arvin-Edison Program has contributed to the current serious water supply condition
- Metropolitan has worked with Arvin-Edison on exchanges involving Friant surface water supplies to exchange around 15,000 AF since 2018
- Arvin-Edison and Metropolitan continue to look for approaches that provide mutual benefits



