San Diego County Water Authority

Proposed Staff Recommendation Consent Calendar for February 24, 2011

WATER PLANNING COMMITTEE

9- 1. Adopt a resolution to endorse the submittal of a WaterSMART Program funding application for the Camp Pendleton Seawater Desalination Project Technical Studies.
Adopt Resolution No. 2011-_____ endorsing the submittal of a U.S. Department of the Interior WaterSMART Program funding application for Camp Pendleton Seawater Desalination Project Technical Studies.

ADMINISTRATIVE AND FINANCE COMMITTEE

9- 2. Treasurer's report.
Note and file the monthly Treasurer's report.

9- 3. Adopt revised record retention schedule and authorize destruction of records consistent with the schedule.
Approve Resolution 2011-__ to adopt the revised record retention schedule and authorize the General Manager, in concurrence with General Counsel, to authorize the destruction of Water Authority records in accordance with the record retention schedule.

ENGINEERING AND OPERATIONS COMMITTEE

9- 4. Notice of Completion for San Vicente Pump Station pumps, motors, and variable frequency drives.
Authorize the General Manager to accept the equipment constructed by Gierlich-Mitchell for the San Vicente Pump Station and record the Notice of Completion.

9- 5. Change Orders to Archer Western for the ESP-Lake Hodges Pump Station and Inlet/Outlet Structure project.
Accept Archer Western Change Orders 43 through 45 for $451,503 increasing the contract amount to $75,308,929.

9- 6. Change Orders to Shimmick/Obayashi Joint Venture for the San Vicente Dam Raise Package 3 – Roller Compacted Concrete Dams and Appurtenant Facilities project.
Accept Shimmick/Obayashi Joint Venture Change Orders 1 through 4 for $380,229; increasing the contract amount from $140,206,050 to $140,586,279.

LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

9- 7. Adopt a position of Oppose on AB 134.
Adopt a position of Oppose on AB 134 (Dickinson).

San Diego County Water Authority

Pick-up Packet
Item III. 1-B

February 24, 2011

Attention: Water Planning Committee

Fiscal Year 2011 water supply allocations monitoring (Information)

Purpose

This report provides monthly and cumulative deliveries for fiscal year 2011 compared to allocation targets for the three classes of service: Municipal and Industrial (M&I), Special Agricultural Water Rate (SAWR), and Metropolitan Water District's (MWD's) Interim Agricultural Water Program (IAWP). The report also discusses total water use including local supplies produced and used by member agencies.

Discussion

Water Allocation and Delivery Tracking

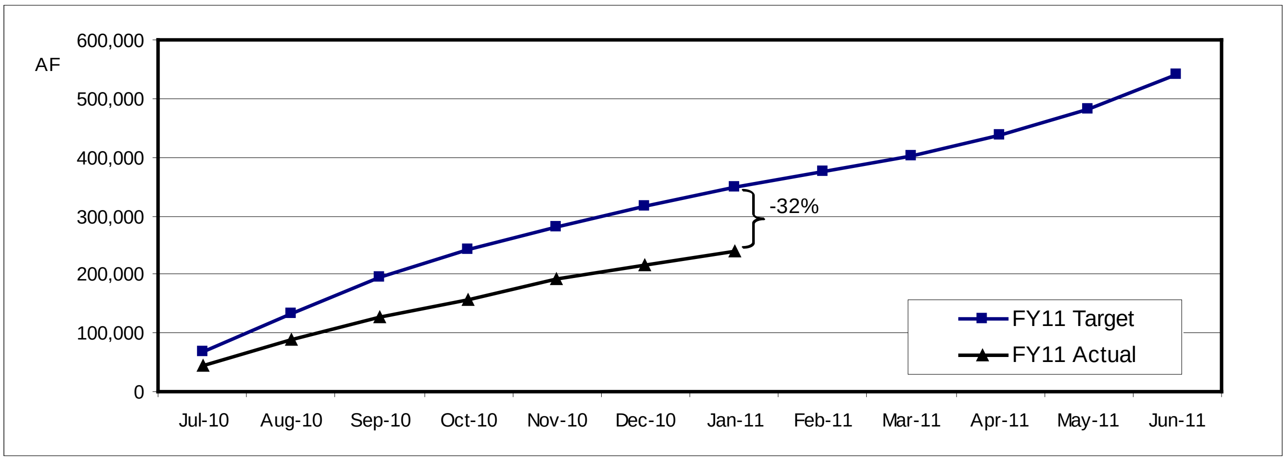
The Water Authority monitors monthly member agency water deliveries compared to allocation targets for the three classes of water service: M&I, SAWR and IAWP. To assist with tracking performance, each member agency received a monthly delivery target for the three classes of service. The targets are based upon historical monthly delivery patterns. Similar to fiscal year 2010 tracking, monthly targets for IAWP and SAWR participants were established based upon fiscal year 2007 deliveries, consistent with MWD's IAWP guidelines. Member agencies are not subject to penalties for exceeding monthly targets. Any financial penalties would be assessed at the end of the fiscal year, and only if the Water Authority exceeds its allocation from MWD.

It should be noted that the fiscal year 2011 M&I targets are preliminary and used for tracking purposes. The targets are based on estimated local production data for surface water and groundwater provided by the member agencies. The final allocation targets will be derived after the allocation period is complete and based on actual local production data. Final targets will be utilized as a basis for potential financial penalties.

Fiscal Year 2011 Member Agency Water Deliveries

Figure 1 shows cumulative Water Authority M&I deliveries for the first seven months compared with a cumulative target. M&I deliveries for the month of January 2011 is also compared with the January 2011 allocation target. Actual January 2011 M&I water deliveries were 23,400.8 AF, which is 27.1 percent less than the target of 32,114.1 AF. Cumulative deliveries for first seven months of the fiscal year were 238,299.0 AF, which is 31.6 percent less than the cumulative target of 348,189.2 AF.

Figure 1
Fiscal Year 2011 Water Authority M&I Allocation vs. Actual Deliveries
Cumulative and Monthly Performance



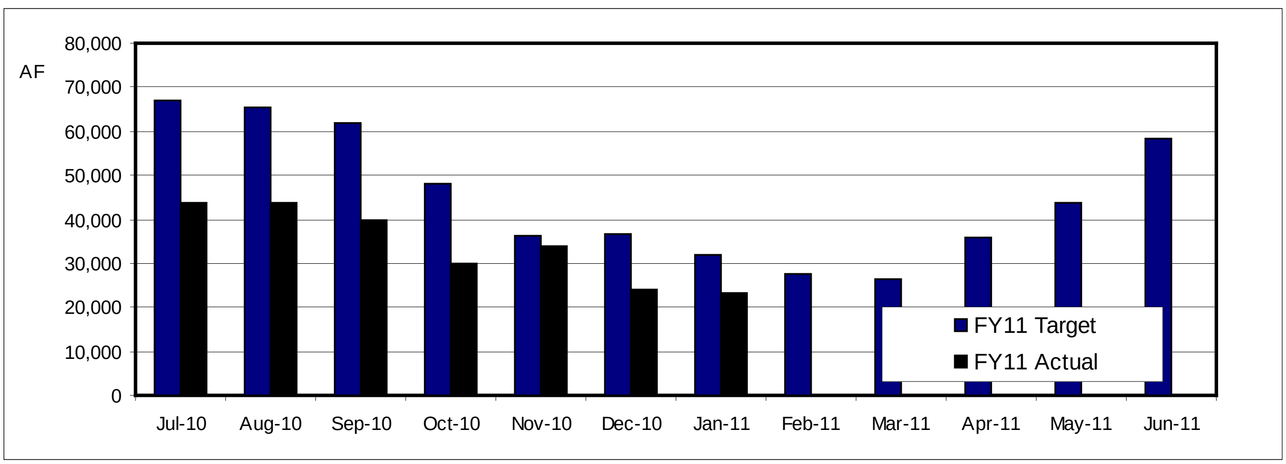


Table 1 provides the same information as Figure 1, except it is provided by member agency and shows the variances between actual deliveries and targets in acre-feet. This chart also provides information for cumulative M&I deliveries as a percentage of the annual allocation for each agency.

Table 1
Fiscal Year 2011 Allocation Tracking
Water Authority Member Agency M&I Target Vs Actual M&I Deliveries

San Diego County Water Authority M&I Allocation Performance
FY 2011 Actual Deliveries Compared to Allocation Targets (AF)
January 2011

All figures in acre-feet except where noted.	Current Month			Fiscal Year to Date			Total Allocation	
Agency	**Monthly Target**	**Monthly Actual**	**Variance**	**Cumulative Target**	**Cumulative Actual**	**Variance**	**FY11 M&I Allocation**	**% Allocation Delivered To Date**
Carlsbad M.W.D.	1,367.2	943.6	(423.6)	13,362.4	9,276.2	(4,086.2)	21,401.0	43.3%
Del Mar, City of	82.2	62.9	(19.3)	823.4	662.8	(160.6)	1,304.5	50.8%
Escondido, City of	1,516.0	321.8	(1,194.2)	14,143.6	6,549.5	(7,594.1)	22,375.1	29.3%
Fallbrook P.U.D.	604.0	461.4	(142.6)	6,202.8	4,843.3	(1,359.5)	10,042.1	48.2%
Helix W.D.	1,829.1	2,051.8	222.7	21,241.8	11,771.0	(9,470.8)	32,932.2	35.7%
Lakeside W.D.	215.8	160.0	(55.8)	2,668.0	1,917.2	(750.8)	4,136.8	46.3%
Oceanside, City of	1,832.2	1,241.5	(590.7)	18,077.1	12,339.8	(5,737.3)	29,301.5	42.1%
Olivenhain M.W.D.	1,097.5	1,020.6	(76.9)	13,603.1	11,006.7	(2,596.4)	21,818.3	50.4%
Otay W.D.	2,386.5	1,966.2	(420.3)	24,924.0	18,232.8	(6,691.2)	39,680.6	45.9%
Padre Dam M.W.D.	924.6	700.6	(224.0)	9,309.1	6,797.2	(2,511.9)	14,881.4	45.7%
Pendleton M. R.	39.4	1.6	(37.8)	460.2	35.7	(424.5)	753.0	4.7%
Poway, City of*	695.1	395.8	(299.3)	9,098.4	7,015.2	(2,083.2)	14,167.5	49.5%
Rainbow M.W.D.	1,108.8	618.4	(490.4)	10,746.9	7,379.2	(3,367.7)	17,061.7	43.3%
Ramona M.W.D.	473.2	220.6	(252.6)	5,274.4	2,120.6	(3,153.8)	7,974.6	26.6%
Rincon Del Diablo MWD*	463.8	276.0	(187.8)	4,902.0	3,364.8	(1,537.2)	7,624.9	44.1%
San Diego, City of*	13,515.8	9,511.3	(4,004.5)	142,814.0	109,006.9	(33,807.1)	220,143.8	49.5%
San Dieguito W.D.	196.4	119.4	(77.0)	3,738.5	1,124.5	(2,614.0)	5,531.6	20.3%
Santa Fe I.D.	301.3	91.2	(210.1)	6,602.9	2,529.7	(4,073.2)	9,758.8	25.9%
South Coast W.D.**	58.7	63.8	5.1	394.8	441.2	46.4	691.6	63.8%
Sweetwater Authority	386.7	490.2	103.5	10,415.4	1,078.5	(9,336.9)	11,994.1	9.0%
Vallecitos W.D.	1,055.7	866.3	(189.4)	11,089.4	8,802.7	(2,286.7)	17,869.0	49.3%
Valley Center M.W.D.	737.9	664.7	(73.2)	7,248.5	5,969.5	(1,279.0)	11,175.8	53.4%
Vista I.D.*	1,223.8	1,149.0	(74.8)	11,011.8	5,985.9	(5,025.9)	17,543.6	34.1%
Yuima M.W.D.	2.4	2.1	(0.3)	36.7	48.1	11.4	53.6	89.7%
Totals	32,114.1	23,400.8	(8,713.3)	348,189.2	238,299.0	(109,890.2)	540,217.1	44.1%

Notes:
FY 2011 allocation targets are preliminary for tracking purposes.
Monthly allocation delivery targets "shaped" in same proportion as average of actual FY2005-2007 monthly M&I deliveries.
*M&I water use is estimated because agricultural deliveries for current month have not been reported.
**Includes deliveries through Metropolitan Water District and South Coast Water District to the following entities within the Water Authority's service area: San Onofre Nuclear Generating Station (61.2 AF), San Mateo Point Housing on Camp Pendleton (1.8 AF) and San Onofre State Park (0.8 AF). Respective deliveries shown in parentheses for current month.

Table 2 shows the monthly and cumulative comparison of deliveries versus target along with total allocation delivered to date for agencies participating in the SAWR. January 2011 deliveries for the agencies that have reported totaled 505.5 AF, or 76.7 percent less than those agencies' combined monthly target. Cumulative SAWR deliveries for the first seven months of the fiscal year for those agencies having reported were 11,102.3 AF, or 38 percent less than their cumulative target of 17,894.1 AF.

Table 2
Fiscal Year 2011 SAWR Allocation Vs Actual Deliveries

San Diego County Water Authority SAWR Allocation Performance
FY 2011 Actual SAWR Deliveries Compared to Allocation Targets (AF)
January 2011

All figures in acre-feet except where noted.	Current Month			Fiscal Year to Date			Total Allocation	
Agency	**Monthly Target**	**Monthly Actual**	**Variance**	**Cumulative Target**	**Cumulative Actual**	**Variance**	**FY11 SAWR Allocation**	**% Allocation Delivered To Date**
Escondido, City of	292.4	14.6	(277.8)	1,498.9	845.3	(653.6)	2,848.4	29.7%
Fallbrook P.U.D.	252.2	97.0	(155.2)	2,099.7	1,352.1	(747.6)	3,343.1	40.4%
Oceanside, City of	85.4	n.r.	-	619.3	n.r.	-	1,010.4	-
Otay W.D.	1.8	0.0	(1.8)	31.4	8.9	(22.5)	43.2	20.6%
Padre Dam M.W.D.	0.0	0.0	0.0	1.1	0.4	(0.7)	1.6	25.0%
Rainbow M.W.D.	463.2	138.4	(324.8)	4,210.5	2,646.8	(1,563.7)	6,783.2	39.0%
Ramona M.W.D.	2.3	0.1	(2.2)	13.3	7.5	(5.8)	22.4	33.5%
Rincon Del Diablo M.W.D.	0.9	n.r.	-	10.2	n.r.	-	16.1	-
Vallecitos W.D.	50.6	20.9	(29.7)	435.9	308.7	(127.2)	653.1	47.3%
Valley Center M.W.D.	1,102.2	233.4	(868.8)	9,564.9	5,902.4	(3,662.5)	14,839.6	39.8%
Vista I.D.	1.7	n.r.	-	18.2	n.r.	-	33.5	-
Yuima M.W.D.	3.1	1.1	(2.0)	38.4	30.2	(8.2)	55.3	54.6%
Totals	2,255.8	505.5	(1,662.3)	18,541.8	11,102.3	(6,791.8)	29,649.9	38.8%

Notes:
1. FY2011 member agency monthly allocation delivery targets "shaped" in same proportion as actual FY2007 monthly IAWP deliveries.
2. Agencies that have not yet reported are shown as "n.r." Totals for actuals, variance and "Percentage Allocation Delivered to Date" exclude those agencies that have not yet reported for the current month.

Table 3 shows the monthly and cumulative comparison of deliveries versus target along with total allocation delivered to date for agencies participating in the IAWP for calendar year 2011. The targets have been updated to reflect the customers that opted out of IAWP at the end of calendar year 2010. Participating agencies that have reported for January were delivered 414.3 AF of IAWP water, which is 85 percent below those agencies' monthly target of 2,789.4 AF. Note that not all agencies reported the January delivery data in time for this report. Effective January 1, 2011, the IAWP cutback rate was reduced from 25 percent to 20 percent per the phase-out by MWD of IAWP.

Table 3
Calendar Year 2011 Allocation Tracking
IAWP Target Vs Actual Deliveries

San Diego County Water Authority IAWP Allocation Performance
CY 2010 Actual IAWP Deliveries Compared to Allocation Targets (AF)
January 2011

All figures in acre-feet except where noted.	Current Month			Calendar Year to Date			Total Allocation	
Agency	Monthly Target	Monthly Actual	Variance	Cumulative Target	Cumulative Actual	Variance	CY11 IAWP Allocation	% Allocation Delivered To Date
Escondido, City of	145.2	5.9	(139.3)	145.2	5.9	(139.3)	1,415.1	0.4%
Fallbrook P.U.D.	348.7	54.3	(294.4)	348.7	54.3	(294.4)	4,621.8	1.2%
Olivenhain M.W.D.	6.4	4.2	(2.2)	6.4	4.2	(2.2)	134.6	3.1%
Padre Dam M.W.D.	0.7	4.7	4.0	0.7	4.7	4.0	1,019.5	0.5%
Poway, City of	15.9	n.r.	-	15.9	n.r.	-	435.7	-
Rainbow M.W.D.	324.1	79.1	(245.0)	324.1	79.1	(245.0)	4,746.1	1.7%
Ramona M.W.D.	464.5	56.8	(407.7)	464.5	56.8	(407.7)	4,479.6	1.3%
Rincon Del Diablo M.W.D.	32.2	n.r.	-	32.2	n.r.	-	546.3	-
San Diego, City of	11.4	n.r.	-	11.4	n.r.	-	195.7	-
Santa Fe I.D.	2.8	0.2	(2.6)	2.8	0.2	(2.6)	68.7	0.3%
Vallecitos W.D.	74.7	18.7	(56.0)	74.7	18.7	(56.0)	964.8	1.9%
Valley Center M.W.D.	1,190.1	159.5	(1,030.6)	1,190.1	159.5	(1,030.6)	16,021.5	1.0%
Vista I.D.	5.3	n.r.	-	5.3	n.r.	-	103.7	-
Yuima M.W.D.	167.4	30.9	(136.5)	167.4	30.9	(136.5)	2,923.1	1.1%
Totals	2,789.4	414.3	(2,310.3)	2,789.4	414.3	(2,310.3)	37,676.2	1.1%

Notes:
1. CY2011 member agency monthly allocation delivery targets "shaped" in same proportion as actual CY2007 monthly IAWP deliveries and include CY2009, CY2010 and CY2011 opt-out volumes.
2. Agencies that have not yet reported are shown as "n.r." Totals for actuals, variance and "Percentage Allocation Delivered to Date" exclude those agencies that have not yet reported for the current month.

Total water use

In addition to tracking imported deliveries, this report includes monitoring of monthly total water usage, which takes into account local production. Table 4 below provides a comparison of monthly and fiscal year cumulative water use. More detailed information on water use, including use by agency, is contained each month in the Water Resources report prepared for the Board's Water Planning Committee.

Table 4
Comparison Estimated Total Water Use*

Monthly (AF)		Cumulative to Date (Jul-Jan) (AF)	
January 2010	31,500	Fiscal Year 2010	344,100
January 2011	32,200	Fiscal Year 2011	308,800
Difference (%)	+2%	Difference (%)	-10%

*Excludes recycled water use

Prepared by: Stu Williams, Water Resources Specialist
Reviewed by: Ken Weinberg, Director of Water Resources

San Diego County Water Authority

February 24, 2011

Attention: Imported Water Committee

Metropolitan Water District Delegates' Report (Information)

Background
The MWD committees and board met on February 7 and 8. The next regular MWD board and committee meetings are scheduled for March 7 and 8.

Discussion
This section summarizes discussions held and key decisions made at the March MWD committee and board meetings, as reported by the MWD delegates. Attachment 1 is a copy of MWD's March board meeting agenda.

Engineering and Operations Committee
The committee and board approved three items, including an item that authorizes design of Colorado River Aqueduct rehabilitation projects. Staff also presented to the committee the Corporate Resources Group's (CRG) and Water Systems Operations Group's (WSO) proposed biennial budget but noted that due to an upcoming MWD reorganization (effective February 1) the budgets do not reflect the impending program changes resulting from the reorganization. The CRG biennial budget includes a Capital Investment Program (CIP) of $327.9 million in 2011/12, then increasing to a proposed $397.0 million in 2012/13. Director Steiner questioned a number of projects, totaling about $202 million, that were included in the CIP, such as, the Hayfield Groundwater Storage Program, Mills Water Treatment Capacity Upgrade, Pipeline 6, Seawater Desalination, and the Power Reliability and Energy Conservation Program. Staff responded that the Hayfield project involves a single well to recover water previously stored at the site. Chief Operating Officer Debra Man confirmed that Mills Capacity Upgrade and Pipeline 6 were deferred and will review why funds were budgeted for the project. Man added that the desalination budget is to study at the water quality impacts of integrating desalination with MWD's system; she said the budget also included a demonstration project and water quality assessments. In response to the power reliability programs, Man said that these are for solar projects and funds were set aside for MWD to build the projects on a bid/build basis. Steiner suggested that staff continue to scour the projects for deferment or alternate solutions. Director Blake (Fullerton) commented that the CIP budget should include acquiring the necessary rights-of-way for the future Central Pool Augmentation sites because real estate costs are low. Man assured the committee that MWD has secured potential sites and the critical rights-of-way for the project to preserve MWD's options.

The WSO biennial budget includes $197.6 million in 2011/12 and then increasing to a proposed $203.2 million in 2012/13.

Finance and Insurance Committee

There were no action items on the agenda. The committee heard a report on forward energy purchases. The committee also went into closed session to receive an oral report on a request to modify annexation charges for the 21st Fringe Area Annexation.

Staff also reported on investment and financial activity. Interim Chief Financial Officer Tom DeBacker said the January preliminary water sales estimates are about 25,000 acre-feet (af) lower than budgeted. The year-end deliveries, inclusive of sales and the Water Authority's transfers, are projected to be about 1.70 million acre-feet (maf), or about 200,000 af below budget. As a result of the projected lower water sales, MWD expects its revenue to be about $150 million under budget; $161 million is attributed to lower water sales, which is offset by about $11 million received from Proposition 13 refunds.

DeBacker lead into the biennial budget explaining that MWD's total Operation & Maintenance budget is 25 percent of MWD's expenditures (excluding the bond funded Capital Investment Program). He pointed out that 60 percent of the O&M budget is labor related, including medical insurance and employee merit items. DeBacker then reported on the CFO's biennial budget. The CFO's biennial O&M budget is $8.26 million in 2011/12 increasing to a proposed $8.39 million in 2012/13, mainly due to labor (benefit) cost increases.

Legal and Claims Committee

The committee and board authorized settlement on a closed session item and approved an increase for legal services related to the ongoing consolidated Delta smelt litigation. Staff also reported on the General Counsel's biennial 2011/12 and 2012/13 budget. The projected General Counsel's O&M budget is $12.55 million in 2011/12, decreasing to a proposed $12.54 million in 2012/13. General Counsel Karen Tachiki reported that the 2011/12 budget is about $1.5 million higher than 2010/11 due to increases in Bay-Delta legal costs and the rates litigation with the Water Authority. Tachiki noted that of the 17 attorneys on staff, nine are eligible to retire. As a result, the budget also includes two new positions (an attorney and administrative staff) in 2011/12 to provide additional in-house expertise and succession planning. If the positions are not approved, the budget could be reduced by about $400,000. The decrease from the 2011/12 to the 2012/13 budget is due to a decrease in projected need for Bay-Delta legal services. Tachiki also indicated that staff projects the current 2010/11 budget will be exceeded by about $1.7 million primarily due to expenses on the Endangered Species Act/Bay-Delta cases, which would be partially offset by a litigation reimbursement of about $700,000.

Tachiki announced that she will be retiring at the end of March. The process for filling the General Counsel position is forthcoming. Director Dick (MWDOC) requested that a one-page summary of the previous General Counsel search be provided to the committee.

Legislation Committee

The committee and board approved two legislative items related to the implementation of treatment upgrades at the Sacramento Regional County Sanitation District wastewater treatment plant. Prior to the board taking a "watch" position on SB 52 (Steinberg, D-Sacramento), Kightlinger reported that MWD would consider a position change on SB 52 to "support if amended," if clarifications were made and the objectionable bill language stating that the Sanitation District's discharge cleanup is a statewide responsibility were removed. Director

Lewinger suggested moving the location of the Sanitation District's outfall to south of the projected tunnel intake as an option to work into the bill language. This could realize savings because moving the outfall south is potentially less than moving the tunnel intake farther north. Kightlinger responded that staff will look for opportunity to amend the bill as Lewinger suggested. The committee and board also took an oppose position on AB 134 (Dickinson, D-Sacramento and Steinberg, D-Sacramento) because the bill would allow the Sanitation District to obtain a water right to its treated effluent and sell it outside of its service area without going through the normal process to obtain water rights. Staff originally recommended an "oppose, unless amended" position, but the committee and later the board voted simply to "oppose" the bill due to significant concerns with the bill circumventing the State Water Resources Control Board change of use process and thus eliminating consideration of downstream impacts. Staff also reported on state and federal legislative issues.

Joint Meeting of the Communications and Education Committee and Legislation Committee
Staff reported on the biennial 2011/12 and 2012/13 External Affairs budget. The projected budget is $16.0 million in 2011/12 increasing to a proposed $16.2 million in 2012/13. The increase from 2011/12 to 2012/13 budget is attributed to merit and benefit cost increases.

Organization and Personnel Committee
The committee received a report on the biennial 2011/12 and 2012/13 budget for the Human Resources Group. The biennial budget is $11.48 million in 2011/12 increasing to a proposed budget of $11.67 million in 2012/13. Staff described rising cost trends to merit and benefits, insurance premiums, and tuition benefits as the source of the increase. In closed session, the committee discussed employee negotiations.

Water Planning and Stewardship Committee
The committee and board approved an item that provides Central Basin Municipal Water District with an adjustment under MWD's Water Supply Allocation Plan. The committee also received a report on MWD's Draft Long-Term Conservation Plan (LTCP). Staff said that with the passing of the 2010 Integrated Resources Plan last fall, MWD set a goal of 20 percent reduction per capita for the region. Steiner commented that the 20x2020 is an obligation of the member agencies, and pointed out that the difference between the member agency conservation goal and the regional goal set by MWD should be the focus of the LTCP and this amount should be characterized as supply. Lewinger suggested that to complement the "market transformation" identified in the LTCP, MWD should include an end-game plan (exit strategy) as an integral part of the incentive program development. He also advocated that MWD have a policy discussion on whether to provide the same level of incentives to those member agencies that choose not to try to meet the 20x2020 goals. Director Lowenthal (Long Beach) commented that an example to encourage member agencies to comply the 20x2020 retail goal is to set a standard by which member agencies must accomplish in order for them to obtain the MWD incentives, similar to what MWD had done under the Public Sector Program.

Staff also briefly reviewed the Water Surplus and Drought Management Plan for calendar year (CY) 2011. While precipitation in January was below normal, the accumulated precipitation remains above normal and reservoir conditions continue to improve. Staff reported one significant supply change was DWR's increase of the Table A allocation from 50 percent to 60 percent. As a result MWD will receive 190,000 af of additional State Water Project water for a total of 1.294

maf. The Colorado River supplies are projected to be 1.002 maf. After obligations for exchanges and advanced delivery accounts, the total supplies to MWD's service area for CY 2011 is 2.067 maf, which includes the Water Authority's QSA water. Staff said that under the current supplies, the end-of-year storage could be about 1.46 maf to 2.03 maf, depending on how demands shape up.

Staff reported on the Water Resources Management (WRM) Group biennial 2011/12 and 2012/13 budget. The WRM biennial budget decreases from the 2010/11 budget of $15.37 million to $14.47 million in 2011/12 followed by an increase to a proposed budget of $15.44 million in 2012/13. The decrease in the 2011/12 budget from the 2010/11 budget is due to the transfer of the SWC annual dues to the general district requirement budget. The increase to the 2012/13 budget is partly attributed to merit and benefit cost increases and two new positions specific to SWP financing and contract management issues.

The committee also heard reports on Bay-Delta and Colorado River matters.

Board Meeting

The board debated and ultimately approved awarding a three-year contract to KPMG for external auditing services. Director Wunderlich said that a sub-committee consisting of Directors Balin (San Fernando), Grunfeld (Los Angeles), Wright (Torrance) and Wunderlich (Beverly Hills) interviewed these audit firms and based on the composition of the audit team, the resources of the firm, proposed fees, and knowledge of MWD and its issues, the sub-committee unanimously supported awarding the contract to KPMG. Directors DeJesus (Three Valleys) and Barbre (MWDOC) expressed change was needed to give a new perspective on MWD's finances. Barbre said that according to data provided by MWD's General Auditor, MWD historically changed external auditors every five to seven years since 1967, until KPMG was selected in 1991. KPMG has held the position for over 20 years (including the year when PriceWaterhouseCooper served as the external auditor and was later replaced by KPMG due to a difference of opinion on how State Water Project costs are characterized in MWD's financial statements). Barbre also pointed out that Macias Gini O'Connell's (MGO) proposal was $234,720 less than KPMG. Directors Dick (MWDOC) and Peterson (Las Virgenes) both indicated that the changing of auditors was a good practice, but raised concern that a new auditor may not agree with how MWD allocates its State Water Project costs. Steiner said that the Water Authority delegation submitted a letter expressing its position on why this is an opportune time to change the auditor to provide the needed transparency and to ensure the auditor's independence (Attachment 2). Director Edwards (Foothill) made a substitute motion to award a one-year contract to KPMG (at the existing rate) then re-advertise for the next three years; Barbre offered a substitute motion to the Edward's motion to extend KPMG's contract for one year, followed by awarding a three-year contract to audit candidate MGO; Barbre and Edward's motions each failed due to a lack of a second. DeJesus then made a motion to award a three year contract with MGO, which was seconded by Barbre; the item failed (47.39% supported the motion, 47.89% were against and 0.63% abstained). The original motion to award the three-year contract to KPMG was subsequently voted on and passed (56.18% supported the motion, 39.10% were against and 0.63% abstained).

On a Diamond Valley Lake property entitlement and CEQA item, Director Heidel raised concern that, as recommended, MWD would be paying for upfront costs related to CEQA and entitlement that would be customarily be borne by the developers. In today's economic and financial time, she commented that there is no reason why MWD should bear the costs. On the other hand, Peterson and Director Brick (Pasadena) supported entitling the entire DVL property stating that the entitlement would afford MWD an opportunity to receive revenue from the properties. Edwards questioned why MWD would spend $3 million for the process, if the city of Hemet already had a specific plan in place. Director Hawkins (Central Basin) said that zoning needed to be changed in order to develop the property. Steiner asked for clarification from the General Counsel on whether the developer could rezone the property without MWD spending additional funds for the entitlement, Tachiki responded yes. Lewinger asked to table this discussion to a later time. Shortly thereafter, Evans made a motion to table the item. Kightlinger commented that by not approving the entitlement, MWD could potentially lose a year's worth of income from the solar development because the narrow window of time the developer is faced with. Staff clarified that the developer needed to have control of the site in order to obtain a Power Purchase Agreement and eventually financing for the project. Peterson moved to entitle the property for the solar projects only as the Audit Committee had recommended and requested staff to return to the Real Property and Asset Management Committee to consider the fate of the remaining DVL properties. Peterson's motion passed. In a related item to the DVL property entitlement, the board authorized entering into option agreements for lease of DVL property for a renewable energy project. Evans questioned why MWD was accelerating the (board approval) process without determining whether Axio, the developer of the project, was experienced in negotiating with Southern California Edison and whether the project was in MWD's best interest. Staff responded that Axio's credentials include completion of a 544 megawatt renewable energy project and clarified that it was the interconnect agreement driving the deadline (to have site control). The motion to approve staff's recommendation passed. The Water Authority delegation and directors Ballin (San Fernando) and Edwards voted no on the two DVL items.

Prepared by:	Debbie Discar-Espe, Senior Water Resources Specialist
Approved by:	*Communications Committee* by Fern Steiner
	Finance and Insurance Committee by Keith Lewinger
	Engineering and Operations Committee by Fern Steiner
	Legislation Committee by Lynne Heidel
	Legal and Claims Committee by Lynne Heidel and Fern Steiner
	Organization and Personnel by Fern Steiner
	Real Property and Asset Management by Lynne Heidel
	Water Planning and Stewardship Committee by Fern Steiner and Keith Lewinger

Attachment 1:	MWD's February board meeting agenda.
Attachment 2:	Letter regarding MWD Board Item 7-1 (External Audit Services) dated February 7, 2011.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

MWD MEETING
AGENDA

Regular Board Meeting

February 8, 2011

12:30 p.m. -- Board Room

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

1. **Call to Order**

(a) Invocation: (Guest)

(b) Pledge of Allegiance: Vice Chair Gloria Gray

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 Section 54954.3(a))**

5. **OTHER MATTERS**

A. Approval of the Minutes of the Meeting for January 11, 2011. (A copy has been mailed to each Director)
Any additions, corrections, or omissions

B. Report on Directors' meetings attended at Metropolitan expense for month of January

C. Presentation of 5-year service pin to Director Jesús E. Quiñonez, representing the City of Los Angeles

D. Induction of new Director, Michael Camacho, from Inland Empire Utilities Agency

(a) Receive credentials

(b) Report on credentials by General Counsel

(c) File credentials

(d) Administer Oath of Office

(e) File Oath

E. Reappointment of Director James H. Blake from the City of Fullerton

F. Approve committee assignments

G. Chairman's Monthly Activity Report

6. **DEPARTMENT HEADS' REPORTS**

A. General Manager's summary of Metropolitan's activities for the month of January

6A Report

B. General Counsel's summary of Legal Department activities for the month of January

6B Report

C. General Auditor's summary of activities for the month of January

6C Report

D. Ethics Officer's summary of activities for the month of January

6D Report

7. CONSENT CALENDAR ITEMS -- ACTION

7-1 Authorize execution of a three-year contract for external audit services with KPMG LLP in maximum amount of $1,132,800. (A&E)

7-1 Board Letter & Attachment

7-1 Member Agency Responses

7-2 Appropriate $285,000; and authorize design of two Colorado River Aqueduct rehabilitation projects (Approp. 15438). (E&O)

7-2 Board Letter & Attachments

7-2 Presentation

8. OTHER BOARD ITEMS -- ACTION

8-1 Authorize entering into option agreements for lease of 627 acres of Metropolitan's Diamond Valley Lake property for a renewable energy project, subject to project approvals. (RP&AM)
[Conference with real property negotiators; Riverside County Assessor Parcel Nos. 451-150-033, -035; 454-270-020, -033; 464-250-001 through -003; 466-060-035;
466-070-028; 466-170-017, -022; and 466-180-011, -015, inclusive; agency negotiators: Gilbert Ivey, Ralph Hicks, and John Clairday; negotiating parties: Axio Power Inc.; under negotiation: price and terms of payment; to be heard in closed session pursuant to Gov. Code Section 54956.8]
(To be mailed separately)

8-2 Express opposition, unless amended, to AB 134 (Dickinson,
D-Sacramento and Steinberg, D-Sacramento) Sacramento Regional County Sanitation District. (Legis.)

8-2 Board Letter & Attachment

8-3 Express no position on SB 52 (Steinberg, D-Sacramento) ? Water Quality: Sacramento Regional County Sanitation District, and continue to monitor the legislation. (Legis.)

8-3 Board Letter & Attachment

8-4 Appropriate $2.18 million; and authorize (1) rehabilitation of the Weymouth washwater reclamation facilities; and (2) construction of the Weymouth north perimeter security wall (Approp. 15369). (E&O)

8-4 Board Letter & Attachments

8-4 Presentation

8-5 Appropriate $3.1 million; and authorize final design of chlorine containment at the Chemical Unloading Facility (Approp. 15346). (E&O)

8-5 Board Letter & Attachment

8-5 Presentation

8-6 Approve an increase of 9,148 acre-feet to Central Basin Municipal Water District's 2004/06 Base Period Local Supplies under Metropolitan's Water Supply Allocation Plan. (WP&S)

8-6 Board Letter & Attachments

8-7 Authorize increase in maximum amount payable under contract with Morrison & Foerster for legal services by $900,000 to a maximum of $5,725,000; and report on San Luis & Delta-Mendota Water Authority, et al. v. Salazar, et al., USDC Case No. 1:09-CV-407 OWW GSA, and consolidated cases; San Luis & Delta-Mendota Authority, et al. v. Locke, et al., USDC Case No. 1:09-CV-1053 OWW DLB, and consolidated cases. (L&C)
[Conference with legal counsel?existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(a)]

8-8 Authorize (1) initiation of CEQA compliance and entitlement activities related to the proposed Diamond Valley Lake solar projects; and (2) expenditures not to exceed $1.5 million to fund those activities (Approp. 15334). (RP&AM)

8-8 Board Letter & Attachments

8-8 Presentation

8-9 Report on Andrew James Ellsworth, Jr. v. Metropolitan Water District of Southern California, et al., LASC Case No. BC421320; and authorize settlement. (L&C)
[Conference with legal counsel?exiting litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(a)] (ADDED)

9. BOARD INFORMATION ITEMS

9-1 Report on a Draft Long-Term Conservation Plan. (WP&S)

9-1 Board Letter

9-1 Presentation

9-2 Review of limits on Forward Energy Purchases for Colorado River Aqueduct pumping. (F&I)

9-2 Board Letter

9-2 Presentation

9-3 Conference with Labor Negotiators. (O&P)
[Conference with labor negotiators; to be heard in closed session pursuant to Gov. Code Section 54957.6. Agency representative: Gilbert Ivey. Employee organizations: The Employees Association of The Metropolitan Water District of Southern California/AFSCME Local 1902; the Management and Professional Employees Association MAPA/AFSCME Chapter 1001, the Association of Confidential Employees, and the Supervisors Association]

10. FUTURE AGENDA ITEMS

11. ADJOURNMENT

REVISED: Date of Notice: February 1, 2011

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, B&F). Committee agendas may be obtained from the Board Executive Secretary.

Writings relating to open session agenda items distributed to Directors less than 72 hours prior to a regular meeting are available for public inspection at Metropolitan's Headquarters Building and on Metropolitan's Web site http://www.mwdh2o.com.

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 Board Executive Secretary in advance of the meeting to ensure availability of the requested service or accommodation.

San Diego County Water Authority
4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

February 7, 2011

Jack Foley, Chair
and Members of the Board of Directors
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Board Consent Calendar Item 7-1 – OPPOSE
Extension of KPMG Contract for Independent Audit Services.

Dear Chairman Foley and Members of the Board of Directors:

State and local governmental agencies obtain independent audits in order to ensure the integrity of public finance functions and to maintain citizens' confidence in their elected officials and government. Maintaining this confidence is more important than ever at this time, as MWD is facing unprecedented fiscal challenges that will significantly impact the public it serves. As members of this Board of Directors, we believe that we have a fiduciary duty to demonstrate to the public that our external auditor maintains an appropriate, arms-length independence from MWD. Retaining the same firm for 24 years fails to meet that standard. For this reason, the Water Authority delegates cannot support the recommended action to extend KMPG's contract. Instead, we strongly urge the board to award the contract to Macias Gini O'Connell, a firm that was determined by the board audit interview panel to be fully qualified for the engagement.

We request that Consent Calendar Item 7-1 be pulled so that the board will have an opportunity to discuss important issues that were not addressed in the board memo recommending the execution of a 3-year contract with KPMG. Specifically, ***the board memo fails to inform the board and public that KPMG has been MWD's external auditor for more than 20 years*.** In addition, the board memo recommends rebidding the RFP as the only alternative, rather than awarding the contract to another bidder that was determined by the board audit interview panel to be fully qualified for the engagement.

We believe that professional audit and governmental standards and common sense dictate that MWD replace its external auditors now, in order to ensure the very independence an external audit firm is intended to provide. Based on the discussion at the Audit Committee meeting, there is no question but that a qualified alternative exists; indeed, an alternative that the board could secure at a nearly $250,000 savings, substantially lower cost than KPMG.

Sincerely,

James L. Bowersox — Lynne L. Heidel

James Bowersox — Lynne Heidel

Keith Lewinger — Fern Steiner

Keith Lewinger — Fern Steiner

February 16, 2011

Mr. Robert Simonds
The Robert Simonds Company
1999 Avenue of the Stars, Suite 2350
Los Angeles, CA 90067

Dear Chairman Simonds,

MEMBER AGENCY COMMENTS ON THE DRAFT BLUE RIBBON COMMITTEE REPORT

This letter conveys, on behalf of the undersigned Metropolitan Water District member agency general managers, some general comments on the February 14th review draft of the *Report of the Blue Ribbon Committee* (BRC) to the Board of Directors (Board) of Metropolitan. We thank you for the opportunity to provide input. Metropolitan was formed as a result of the collective spirit of cooperation of its member water agencies in the coastal plain of Southern California to provide supplemental water to the region.

By any measure Metropolitan has successfully supported a world-class economy and enviable quality of life for over 19 million residents of our communities. This success is the legacy of a continual evolution of creative and innovative water management by the leaders of Southern California water. More recently in Metropolitan's history, recognizing the need to decrease the region's reliance on imported water supplies, these regional and local leaders worked together to create world-class water recycling, innovative and productive conservation programs, groundwater conjunctive use and integrated regional water management planning. Metropolitan led first-in-the-nation stakeholder-based integrated resources planning in the early 1990's, precedent setting agriculture to urban water transfers, water banking, in-line energy recovery in the water distribution system, large-scale habitat conservation planning and dozens of other industry leading practices that have been emulated throughout the world. For example, the Southern Nevada Water Authority and the San Diego County Water Authority were both modeled after Metropolitan. Southern California started as the incubator for water innovation and will remain so. On reflection, the achievements are remarkable. This history and culture of innovation will serve the region well in meeting the future challenges.

We would like to recognize the hard work of the Blue Ribbon Committee. Understanding over 80 yrs of complex Southern California water issues is challenging and coupling that history with forecasting the future 50 years out is a daunting task. Your members have given generously of their experience, perspective and time in compiling the report and did so with numerous other commitments weighing on their schedules. We appreciate the magnitude of the task and are grateful for your relentless effort to drive the committee to conclusion. Your work product will carry significant weight with the Metropolitan Board and stakeholders. With this in mind, we respectfully offer a number of suggestions for incorporation into the final draft of the report in order to accurately reflect this history and provide useful advice for consideration by Metropolitan's Board of Directors. These changes reflect matters of factual accuracy, report tone and, most importantly, some of the recommendations that are based on the inaccuracies of the report.

General Comments

In creating the BRC the Board directed that the "Committee [will] consider the best practices in California, in our nation and around the world for innovatively and effectively managing energy and water infrastructure." We note that the draft report contains no specific actual case studies and best practices in use to support the recommendations. The Board and the Member Agencies will be anxious to see concrete examples of how others have effectively dealt with comparable uncertainties. Unproven theories and conjecture are frankly not as useful, particularly given the radical departure recommended in pricing and system operations.

The report "recommendations" should instead be characterized as suggestions for further evaluation. Many of the recommendations are deeply complex with potential for unintended consequences that must be carefully understood and debated by the Board members representing their member agencies. Characterizing the concepts in the report as "recommendations" implies a high level of analysis on issues that are intriguing but may have insufficient foundation to drive rapid adoption.

We have numerous comments on the draft report which we will be happy to make available as a markup. However, to demonstrate our level of concern with the current state of the report, we will focus this letter on three specific areas that are particularly problematic both in terms of accuracy and unfounded conclusions. These areas are embodied in recommendations 4, 10, and 11.

Comments on Specific Recommendations

Recommendation #4 - *The BRC recommends that Metropolitan revise its approach to supporting Local Resource Development by: 1) Developing partnerships with member agencies, the private sector, and other entities to co-develop medium-to-large scale local resource projects; (2) Developing strategies for investing in small-scale but broadly distributed sources of new supply; (3) Collaborating with member agencies on integrating their local supplies into the regional system.*

In the discussion on future scenarios the report states *"The scenarios suggest that local supplies will likely increase in the proportion of water used in the region. Metropolitan's current business model supports this through its Local Resource Program (LRP) incentive structure, but in a way that imposes costs of the development on all its users while the benefits accrue only to the agency doing the development. The more that local supply is required, the more potentially problematic this approach becomes."* This is incorrect - the benefit of local supplies is explicitly shared among all member agencies as a matter of the Board's policy on the WSDM Plan and Drought Allocation Formula.

The report also fails to make a compelling case that local projects will get built absent MWD investments. There is a problem of scale and cost that is not recognized. Local agencies often have difficulty building projects even if Metropolitan water per unit is more costly due to limited economies of scale at the local level, construction and performance risk, demand uncertainty, etc.

The draft report gives inadequate attention to the recently completed and adopted Integrated Resources Plan (IRP). This is a very serious omission as the IRP adoption by the Board in 2010 was the culmination of exhaustive analysis of water demands and supplies (including climate change implications, State Water Project and Colorado River water reliability, state water planning goals and local supply development opportunities). The IRP addresses many of the mechanisms to meet future challenges described in the draft report. The "adaptive management" construct was embedded in the IRP to deal with large future uncertainties. This is not mentioned in the BRC draft report. The Board's view today is that the IRP is a living document and anticipates a wide variety of variables, including climate change and challenges with the Colorado River and the State Water Project. It assumes adaptive management will continue to be the MWD business model.

The IRP already specifically embraces items 1 and 2 above. Metropolitan has a long history of partnerships to develop water. We are puzzled that this is not recognized by the report. It is so "foundational" that we believe the authors should re-examine the IRP and the history of local project development by Metropolitan and its Member Agencies. For example, the BRC may be unaware that Metropolitan originally did invest directly in such local projects. Metropolitan investments in the first two projects did not produce the water originally claimed by the proponents due to various complications. Metropolitan essentially paid for yield it did not get. As a result the Board purposely moved away from such direct investments to the current Local Projects Program of incentives for actual water production by local agencies. Notwithstanding, the Board adopted the IRP with the clear directive to expand Metropolitan's role in facilitating local supply development, including prudent direct investment. Perhaps the BRC intended to validate this role? Instead, the report characterizes it as a new direction.

It currently appears as if the IRP was not fully considered and, in our view, this undermines the credibility of this particular (and other) recommendation(s). This omission leaves the uninformed reader the impression that Metropolitan is not engaged in broadly based integrated resources planning.

Recommendation #10 - *The BRC recommends that Metropolitan evaluate the potential for water trading among members, including the implementation of several pilot projects.*

We assume this means that the "Preferential Rights" of each member agency are tradable (with payment of a wheeling charge) as would be any local supplies developed by an individual member agency. Currently, Preferential Rights are not tradable, and not usable in the absence of a Board action in time of shortage. Even during a shortage Preferential Rights do not infer upon a member agency a right to purchase water from Metropolitan beyond what is necessary to meet a member agency's need. Water can, however, be transferred from one agency to another by exchange or direct delivery by payment of Metropolitan's wheeling charge (as is being done for the Imperial Irrigation District/San Diego County Water Authority transfer). While expanding this "market" may appear attractive on the surface, there are potential water quality and system operation ramifications that must be carefully analyzed on a case by case basis. We also fear it might set up a world of water "haves" and "have nots". The more capable, highly funded, large water districts may do well in that world but the less capable, smaller staffed and funded agencies might get left with the most expensive water as it is sold to the highest bidder. In many cases, these small agencies serve disadvantaged communities. The draft report strongly supports Metropolitan's role as a regional agency, yet this recommendation potentially drives a decentralized water world of public and private for-profit water development with minimal reference to what the downsides of such a scenario are. An uninformed reader of the BRC draft report would conclude that trading is the answer and that Metropolitan must do it.

It would be most helpful to have information on other precedents for such a trading system. What are the downsides in the view of the BRC? How is this similar or dissimilar to California energy deregulation? While we recognize the recommendation is to "evaluate the potential", the assertion to conduct several "pilot studies" to demonstrate a speculative system is unwarranted based on the evidence in the draft report and represents a potentially risky precedent toward dismantling the regional approach to developing water reliability. Further, the draft report drives towards trading by showing implementation of a new trading system by year 10. This seems precipitous and unsupported by anything other than conjecture. At minimum this "recommendation" should be supported by examples of where such trading has been done successfully (as requested in the charge to the BRC) or be clear that there is no precedent. Alternatively, modify the recommendation to a suggestion for further evaluation.

Recommendation #11 - *The BRC recommends that Metropolitan revise its pricing structure to ensure its sustainability under scenarios in which the share of imports in the regional portfolio declines relative to locally developed supplies.*

Metropolitan's existing rate structure was adopted in 2001, and was developed in conjunction with its member agencies through a multi-year collaborative process. It developed or continued:

- a Tiered Rate structure, to send a pricing signal related to Metropolitan's cost to develop new incremental regional supplies,
- a System Access Rate to recover the costs associated with the conveyance and distribution system,
- a Water Stewardship Rate to collect revenues in support of Metropolitan's financial commitment to conservation, water recycling, desalination, groundwater recovery and other water management programs approved by the Board.
- a System Power Rate to recover the cost of power necessary to pump water from the State Water Project and Colorado River through the conveyance and distribution system for Metropolitan's member agencies,
- a Capacity Reservation Charge to recover the cost of providing peak capacity within the distribution System,
- a Readiness-to-Serve Charge to recover costs associated with standby and peak conveyance capacity and system emergency storage capacity, and
- a Treatment Surcharge to recover the cost associated with treating raw water supplies.

This rate structure was the product of thorough analysis and debate between the member agencies and was adopted by Metropolitan's Board. The rate structure incentivizes resource development through the Water Stewardship Charge and protects investment in the existing system by recovering fees for wheeling of water that enables others to use the system to move their own water provided they pay for the infrastructure and direct costs to do so. Everyone that uses the system pays the same uniform rates. The report recommends moving toward a "fee for service model" yet provides numerous disadvantages that call into question whether such a pricing structure revision is really in the interests of Southern California as a whole. A fee for service model, along with many other potential rate models, was extensively evaluated by Metropolitan's Board during the most recent revision of the rate structure. Since its inception, Metropolitan has a history of re-evaluating and changing its rate structure as needs warrant. The rate structure has changed in major ways no less than seven times in over an eighty year history. Examples of where fee for service has been done successfully and where such implementation has retained the strong regional role the BRC envisions for Metropolitan would be most helpful.

This new pricing structure would require a quantification of each member agency's right to purchase a share of MWD's lower cost supplies. An equitable approach to this quantification would be very difficult and contentious (and further complicated by the current litigation over the rate structure). Given these circumstances, it is not clear why the BRC should be making any recommendation on near term rates or the rate structure, particularly in light of the long term view that was expressly solicited by the MWD Board and was the basis for the establishment of the BRC.

Implementation Schedules

The large number of stakeholders involved in assessing and implementing rational changes to Metropolitan requires significant time. The 2060 time horizon for the vision provides us that time. Accordingly, the near and mid-term time frames described in the report are exceedingly short given the longer term nature of the challenges. Providing adequate time to reflect the need for careful deliberations among a large stakeholder base is essential. Please consider extending the time frames.

We would be happy to discuss these concepts with you and/or the committee. We can also provide a suggested markup of the document to address the other factual issues we allude to. We know you are anxious to wrap up this effort and provide a useful report to Metropolitan. We are very grateful to you and the other BRC members for your dedication and commitment to helping Metropolitan's position to continue to provide water reliability to Southern California.

Very truly yours,

SIGNATORIES

Shana Epstein
City of Beverly Hills

Richard Hansen
Three Valleys MWD

John Rossi
Western MWD

John Mundy
Las Virgenes MWD

Robert Beste
City of Torrance

Kevin Hunt
MWD of Orange County

Nina Jazmadarian
Foothill MWD

Rich Nagel
West Basin MWD

A.J. Pack
Eastern MWD

William O. Mace, Jr. P.E.
City of Burbank

Don Calkins
City of Anaheim, Pub. Utilities

Gil Borboa
City of Santa Monica

David Schickling
City of Fullerton

Shane Chapman
San Gabriel Valley MWD

James B. McDaniel
Los Angeles DWP

Tom Love
Inland Empire UA

Peter Kavounas
City of Glendale

Raymond L. Burke
City of Santa Ana

Susan Mulligan
Calleguas MWD

Shan Kwan
City of Pasadena

Al Hernandez
City of San Fernando

cc: Blue Ribbon Committee
MWD Board of Directors
Jeffrey Kightlinger, General Manager

932 Easy Street
Los Angeles, CA 90042
February 16, 2011

Mr. Robert Simonds
The Robert Simonds Company
1999 Avenue of the Stars
Los Angeles, CA 90067

Dear Chairman Simonds,

COMMENTS ON BLUE RIBBON COMMITTEE PROCESS

I regret and apologize for my inability to participate in the Committee activities since the first of the year due to health issues. Keeping up with my two classes at Cal Poly has been the extent of my activities beyond dealing with the medical issues. I have been unable to participate in the process or the development of the BRC draft report and to share my extensive expertise in the water industry as I would have liked.

Recently, several of my former colleagues from the Member Agencies contacted me to express concerns over the viability of a number of the recommendations contained in the most recent draft report. While I have not gone through the report, the issues they are concerned about and the lack of examples of where the recommended policy recommendations have been successfully implemented seem valid to me. It is my opinion, based upon many years of experience within the Metropolitan Water District Organization, that implementation of issues such as pricing policies, water trading and the development of local water supplies will not occur without strong support from the local agency managers. Thus, I strongly urge the committee to invite and strongly consider input from the agency managers who will ultimately be the ones called upon to successfully implement the policies that are developed through the BRC process. Otherwise, I fear that the results of our many hours will only result in another of the many reports that end up on the shelves of Metropolitan.

I wish you and the Committee the best in a successful completion of the process. I only regret that I will not be able to play a role as it appears I have about a year of recuperation ahead of me.

Sincerely,

Gerald A. (Jerry) Gewe

San Diego County Water Authority

February 24, 2011

Attention: Imported Water Committee

Colorado River Board Representative's Report (Information)

Purpose

The Colorado River Board (CRB) Representative's Report summarizes monthly activities of the Colorado River Board.

Background

This report covers activities from the February 9, 2011 CRB meeting.

Discussion

The CRB took actions and heard informational reports from CRB staff on activities discussed below:

Water supply and reservoir operations

Water storage is increasing in Lake Mead and decreasing from Lake Powell. As of Feb. 14, Lake Mead held 10.951 maf, or 42 percent of its capacity, while Lake Powell held 13.517 maf, or 56 percent of its capacity. Total system storage for the river declined about 1.2 maf from the same time a year ago, dropping to 31.972 maf from 33.140 maf. Runoff into Lake Powell this water year (ending Sept 30) is expected to be slightly above normal, at 105 percent of average. Current basin snowpack is 120 percent of average and precipitation to date in the basin is 125 percent of average.

Colorado River Basin Water Supply and Demand Study status

Reclamation is expected to soon issue an interim report on study findings, which looks at projected water demands and supplies through 2060 and recommends ways to address any imbalances between supply and demand. The interim report will cover the first two phases of the four-phase study, which cover existing and projected water supply and demand. The remaining phases will provide a system reliability analysis and an evaluation of opportunities to address imbalances. CRB agencies are reviewing the interim report. Water Authority staff has prepared a separate board memo providing further information about the study for this Committee.

Binational discussions

The Board received a letter from Bureau of Reclamation Commissioner Michael Conner that transmitted the newly executed Minute 318 of the Mexican Water Treaty and provided an update on planned binational activities. Minute 318 allows Mexico to store water in Lake Mead while water infrastructure that was damaged in an earthquake last year is repaired. Mr. Conner's letter thanked the basin states for participating in the binational process and said that the U.S. wishes to continue comprehensive discussions on a larger suite of Colorado River management activities to provide greater certainty and predictability of water supplies. The management tools being considered are expected to include shortage guidelines for Mexico and potential new binational water supply projects, such as the Rosarito Beach seawater desalination plant that is being studied under the binational process.

Glen Canyon Dam operations

Last month Reclamation released two draft environmental assessments that could affect Glen Canyon Dam operations. The first is associated with a proposal for experimental high-flow releases from the dam to benefit downstream shore habitat, including the Grand Canyon. The second is to consider the environmental impacts of actions to control non-native fishes downstream of the dam (trout), which is intended to minimize predation of endangered fish species (humpback chub). Comments for the assessments were due this month, but the basin states asked Reclamation to provide additional time for review.

Prepared by:	Dave Fogerson, Senior Engineer
Reviewed by:	Halla Razak, Colorado River Program Director
Approved by:	W.D. “Bill” Knutson, CRB Representative
Attachment:	Summary Water Report, Colorado River Basin

Date: February 22, 2011

To: San Diego County Water Authority Board Members

From Ken Carpi and Jonathan Clay
Legislative Representatives

Subject: Legislative Update

Sacramento, CA

California Budget The Governor and Legislature continue to grapple with efforts to try and solve the more than $25 billion budget deficit ($8.2 billion current year and a $17.2 billion budget year shortfalls). At this point, there are 16 days left until the deadline (March 10th) for placing a ballot measure on the June special election. As in the past, this date can probably be shifted a week or two depending on the desires of the Legislature.

The legislative budget committees have begun meeting and taking action on the Governor's budget proposals – the Legislative Budget Conference Committee is expected to begin meeting this week and attempting to develop a final budget package. There has been lots of activity from the various interest groups that are impacted by the cuts or shifts proposed within the budget proposal. Everyone from redevelopment agencies, seniors, and school advocates have been lobbying the legislators to not cut their programs. It remains to be seen, with the political pressure being brought to bear on the legislators, what the final budget package will look like and if there are enough votes to pass it (whether a majority to pass the budget or two-thirds required to place a measure on the ballot).

2011/2012 Legislative Session Over 2300 bills (934 Senate and 1389 Assembly) were introduced in the first year of the 2011/2012 legislative session. That works out to just over 19 bills per legislator, or roughly the max per legislator (40 bills is the limit per member for the entire 2011/2012 session).

The Water Authority's two sponsored measures, fluoride levels/basin discharges and artificial turf/HOAs have been introduced. Assembly Member Harkey will introduce the fluoride bill, AB 1048. Senator Lieu will introduce the artificial turf/HOA proposal (since the Senator was sworn in on Friday, most of his bills are spot proposals due to timing, but our language will be amended into one of his bills once the 30 day waiting period has elapsed).

In addition, we are reviewing all 2300 bill proposals and referring those measures that we think may impact SDCWA to staff. We anticipate a number of bill proposals being brought to the Board in March for review.

Washington, DC

Congress Observes Presidents Day (Week) – The House and Senate are in recess this week in observance of the Presidents Day holiday. Members of both chambers will return to work in Washington next week.

President's 2012 Budget Proposes Cuts – President Obama released a $3.72 trillion budget proposal for the 2012 fiscal year last week that would reduce funding for a host of government programs – including water infrastructure programs at EPA and the U.S. Army Corps of Engineers. Some notable budget cuts facing the water sector are summarized below:

- Drinking Water/Clean Water State Revolving Funds: The President budget would provide a total of $2.54 billion for the SRFs in 2012, nearly $950 million less than the $3.487 billion the two programs received in 2010. The proposal would leave the DWSRF with $990 million next year (compared to $1.387 billion in 2010), while providing the CWSRF with $1.55 billion (compared to $2.1 billion in 2010). Is also recommends requiring states to reserve 10 percent of their DWSRF funds and 20 percent of CWSRF funds for "green infrastructure" projects.

  U.S. Army Corps of Engineers: The Corps' budget would take a $913 million hit, receiving $4.609 billion compared to $5.522 billion in 2010. A summary of the proposed Corps budget explains that the request seeks "to create cost savings by eliminating duplicative and lower-priority programs, including all Corps funding of local water and wastewater treatment projects." About $537 million of the proposed cut would come from the Corps' construction account.

- Interior Department: The Interior Department would escape the budget axe roughly unscathed overall, as the President is proposing $12 billion for the department – about the same as it has received in previous years. But the Bureau of Reclamation would receive $1.051 billion (compared to $1.14 billion in 2010). Almost all of the Bureau's reduction is for programs in North Dakota and South Dakota.

The release of the President's budget represents only the first step in the 2012 budget process. Already, many Republican members of Congress are complaining that the cuts do not go far enough and are looking ahead to April when the Chairman of the House Budget Committee, Paul Ryan (R-Wis.), will release his own 2012 spending plan.

California Escapes Major Budget Cuts – The President's request for the Bureau of Reclamation's request for activities in California comes from four major accounts:

- Water and Related Resources, which includes Title XVI Water Reclamation Program, ecosystem restoration, development of water supply, as well as rehabilitation and operations and maintenance. The administration requested $166.4 million for these purposes. Title XVI was allocated $29 million of this amount, and the San Diego Area Water Reclamation Program is slated to receive $2.49 million.

- The Administration's request includes $39.7 million in funds for the continuation of activities under the CALFED program.

- The budget request contains $53.1 million in funds to carry out activities under the Central Valley Project Improvement Act.

- The San Joaquin River Restoration Program is allocated $9 million in discretionary funds to carry out restoration activities related to that program.

In recent years, the Bureau has requested about a quarter of its discretionary funds for activities in California, and the FY 2012 budget request is consistent with that trend.

EPA Launches Review of Delta Water Quality Under Clean Water Act – On February 10 the U.S. Environmental Protection Agency announced plans to conduct a review of Delta water quality problems under the Clean Water Act (CWA).

The review will focus on identifying gaps in state and federal water quality programs and potential tools under the CWA to address the effects of pesticides, ammonia and other contaminants that are contributing to the Delta's decline. The agency is soliciting public comments on possible EPA and state actions to achieve water quality and resource protection goals and best use the CWA to improve Delta water quality.