San Diego County Water Authority

Proposed Staff Recommendation Consent Calendar for December 8, 2011

IMPORTED WATER COMMITTEE

9- 1. Amend agreement for special consulting services with SCN Strategies.
Amend the agreement with SCN Strategies for continued special consulting services to the Water Authority through June 30, 2013, for a period of 17 additional months, and increasing total contract funding to an amount not-to-exceed $387,500.

ENGINEERING AND OPERATIONS COMMITTEE

9- 2. 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 17 and 18 for $324,127; and authorize the General Manager to execute Change Orders for up to $750,000 to address design modifications, differing site conditions and outside agency requirements, increasing the authorized contract amount from $142,709,806.70 to $143,783,933.70.

ADMINISTRATIVE AND FINANCE COMMITTEE

9- 3. Vote entitlement resolution for calendar year 2012.
Adopt Resolution No. 2011-___ establishing the vote and representative entitlements of each member agency to be effective January 1, 2012.

9- 4. Ordinance requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program users.
Adopt Ordinance No. 2011-___ requiring member agencies to pass the entire Special Agricultural Water Rate Program discount to the Program users.

9- 5. Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012.
Adopt the Annual Statement of Investment Policy, as amended, and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2012.

San Diego County Water Authority

<u>WATER PLANNING COMMITTEE</u>

9- 6. <u>Professional services contract to Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of $315,000</u>.
Authorize the General Manager to execute a professional services contract with Helix Environmental Planning, Inc. to provide environmental construction monitoring and support services for a 24-month period for a not-to-exceed amount of $315,000.

<u>LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE</u>

9- 7. <u>Adopt proposed 2012 Legislative Policy Guidelines</u>.
Adopt the proposed 2012 Legislative Policy Guidelines.

9- 8. <u>Sponsorship of two bills in the state Legislature to address water quality standards</u>.
Sponsor legislation that: Moves augmentation of raw water supplies with advanced treated purified water and direct potable reuse to the Health and Safety Code, instead of defining it as a waste in the Water Code. Requires the State Water Resources Control Board to develop a policy that matches standards for fluoride in wastewater and recycled water with standards for drinking water in which the state has mandated the addition of fluoride.

San Diego County Water Authority

December 5, 2011

Attention: Imported Water Committee

Metropolitan Water District Delegates' Report (Information)

Background

The MWD committees and board met on November 7 and 8. The next regular MWD board and committee meetings are scheduled for December 12 and 13.

Discussion

This section summarizes discussions held and key decisions made at the November MWD committees and board meetings, as reported by the MWD delegates. Attachment 1 is a copy of MWD's November 8 board meeting agenda and Board Summary.

Blue Ribbon Review Committee (BRRC)

The review committee continued discussions resulting from October's BRRC meeting on recommended next steps identified by the Blue Ribbon Committee's (BRC) April 2011 report. For comparison, staff reported that the 1993 Blue Ribbon Task Force made 99 recommendations, and stated that MWD implemented 98 of the 99 items. Director Lewinger requested staff provide a list of the 1993 report recommendations and how the items were implemented. Director Brick (Pasadena) advocated for the BRC's 22 recommended next steps to be brought to their respective committees for discussion. Further discussions ensued over whether all 22 items or only selected items – based on staff's report that 18 of the 22 recommended steps are already under way – be reviewed by particular committees or by the entire board. Discussion also centered on the intent of the 22 recommendations made by the BRC. Directors Lewinger and Heidel pointed out that if 22 items were identified, then the BRC must have believed that MWD's current practices needed to be reevaluated, particularly, since the recommendations were made based on briefings provided by MWD staff. Chief Operating Officer Debra Man said that even though the BRC's recommendations identified policies and processes already in place, MWD needed to look at how to be more effective in the near- and long-term. Staff plans to return to the committee in December, incorporating comments made by the committee.

Engineering and Operations Committee

The committee and board approved six board items. The committee heard an update on the implementation of the California Air Resources Board's (CARB) California Cap and Trade Regulation as it relates to MWD operations. Staff reported that at the October Hearing prior to the adoption of the final CARB regulations, MWD, along with the State Water Contractors and the Water Authority, provided testimony. Because water agencies, such as MWD, were not provided any free allowances, MWD sought an exemption on the basis that MWD does not fit into the "model" for a cap and trade program. The Water Authority stressed in its testimony and via letter (See Attachment 2) that by CARB including MWD as an electricity retailer, yet not providing MWD allowances, an inequitable arrangement was created. While the regulations were adopted, CARB directed its staff to continue discussions with stakeholders on potential regulatory amendments, including potential free allowances for entities such as MWD.

Committee Chair Evans (Western) recognized Director Steiner's efforts to discuss water industry concerns with CARB member San Diego County Supervisor Ron Roberts; MWD staff noted that Roberts was responsible for resolution language to continue discussions to address the water issues and potential amendments. Steiner requested that the Water Authority's letter be provided to the Board.

MWD staff also provided an update on MWD efforts to refurbish, rehabilitate and construct infrastructure projects related to the Colorado River Aqueduct (CRA) Reliability Program.

Finance and Insurance Committee

The committee and board approved one item that authorized the city of Compton to withdraw from its purchase order agreement for an administrative fee of $5,000. The board also approved allowing any member agency to cancel its water purchase commitment by paying a $5,000 administrative fee. In response to Director Blake's (Fullerton) question on the impact of this action to Compton, General Manager Jeff Kightlinger said that for the remainder of the purchase order term, Compton has a risk of having to pay for Tier 2 water if its local water supply production decreases resulting in increased demand for imported water. Director Barbre (Municipal Water District of Orange County) pointed out, and Kightlinger agreed that by Compton decreasing its demand on MWD, it could be interpreted that a regional benefit was received. Director Hawkins (Central Basin) raised concern that this item may set precedence detrimental to MWD in the future. Kightlinger responded that no other agency is in a similar situation as Compton. Director DeJesus (Three Valleys) suggested language be developed ensuring that agencies that opt out of their purchase order agreement be excluded from reentering into this type of program in the future. Kightlinger said that these issues would be further considered during the Long Range Finance Plan discussions. He added that the goal is to have a new structure adopted by the end of 2012. Kightlinger added in response to further inquiry by DeJesus that Compton's withdrawal of purchase agreement does not prohibit it from purchasing replenishment water (although replenishment water is not available at this time) and the future of the replenishment program will be further discussed in December.

Heidel commended Compton for developing its local water supplies; however, she added that the Water Authority has held a consistent position on MWD developing take-or-pay contracts to stabilize its budgetary situation and that staff's recommendation to approve Compton's withdrawal and allowing any member agency to cancel its purchase order demonstrates purchase orders do not provide the level of financial assurance needed by MWD. Heidel stated that the Water Authority delegation would be abstaining on this item. Subsequently, she requested that the Water Authority comments and the overall discussion of the purchase order program be detailed in the board minutes.

Evans and Blake questioned the absence of the Compton director to confirm knowledge of the consequences should this item be approved. Man said that MWD has had an exchange of correspondence with Compton establishing a record that Compton is aware of the potential risk of withdrawing from the purchase order. Subsequently, during the board meeting, Director Sanchez (Compton) stated for the record that Compton understands the concerns, issues and implications of the board action and asked the board for its support. At that time, Steiner reiterated that the Water Authority believes that Compton is doing the right thing in better managing its local water supplies and decreasing reliance on imported water. However, she affirmed that the Water Authority delegation would abstain because this action puts into question how MWD could sustain the multi-billion dollar investments it proposes to make without having take-or-pay contracts or firm contracts from its member agencies. She also requested the Water Authority's comments be included in the record (Attachment 3).

MWD Chief Financial Officer Gary Breaux reported on MWD's financial highlights ending October. He said that the projected sales are tracking at 1.8 MAF, which includes 225 taf of replenishment sales, but does not include the Coachella Valley Water District pre-purchase to better compare the data with that presented during the budget process (discussed in last month's Delegates' report). MWD's forecasted end-of-fiscal year receipts are projecting to be about $9 million below budgeted receipts. The cumulative expenditures are trending about $28 million under budget. The projected reserves fund balance is about $56 million above the board established minimum target (which includes about $50 million held in escrow related to the Water Authority rate litigation as of June 30, 2012). Director Edwards (Foothill) stated his recollection that the minimum reserve amount should be unencumbered and questioned why $50 million held in escrow for the Water Authority rate litigation, $35 million in Swap funds (MWD enters into interest rate swap agreements to manage interest rate risk and reduce debt service costs on debt), and $25 million in annual insurances are included in the reserve balance, which would bring the balance below the minimum if these amounts are excluded. MWD Controller Tom DeBacker said that the Swap and insurances are not a part of this stabilization fund. He added that the $50 million trust deposit was included because MWD will be made whole whether from collecting payment from "Party A" (the Water Authority) or the other agencies, showing that MWD is "indifferent" to the outcome of the litigation.

Breaux also reported that MWD received the latest Public Employees Retirement System (PERS) actuary report. Comparing the 2010 report to the recently released 2011 report, the employer contribution rate in Fiscal Year 2012/13, slightly decreased from 15.7% to 15% and in Fiscal Year 2013/14, the employer contribution rate decreased from 19.1% to 15.7%. The cost reduction in fiscal year 2013/14 is about $7.4 million. Breaux said that as of June 30, 2010, MWD is about 86% funded, or about $1.351 billion of $1.56 billion total liability. For Other Pension Employee Benefits (OPEB) Fiscal Year 2010/11 costs, MWD is about 65% unfunded on an annual pay-go basis, or approximately $22.6 million of $34.6 million in annual OPEB contributions. As of June 30, 2009, the total OPEB unfunded liability is $404.2 million; MWD's actuary plans to release a new report in the next month, Breaux estimates that the total OPEB unfunded liability would increase.

Legal and Claims Committee

The committee and board approved two items discussed in closed session. A report on *San Diego County Water Authority v. MWD* was also heard in closed session. In open session, Interim-General Counsel Marcia Scully reported that on October 13, 2011, Imperial Irrigation District and the Water Authority jointly filed a petition with the State Water Resources Control Board seeking to revise the mitigation requirements for the Salton Sea related to the IID/Water Authority transfer. This proposal would eliminate deliveries of mitigation water to the Salton Sea for years 2014 to 2017. Scully said MWD is in support of the petition. Committee Chair

Wunderlich (Beverly Hills) said that MWD hired Korn/Ferry to assist in filling the General Counsel position.

<u>Legislation Committee</u>

The committee received an oral report on MWD's 2012 State and Federal Legislative Strategy. Barbre suggested staff focus on getting the state revolving fund modified, which currently restricts any funding for desalination activities, particularly since several member agencies are actively involved in desalination. Lewinger asked that the Federal Colorado River Initiatives include "continue to support Quantification Settlement Agreement activities." Lewinger also clarified the Bay-Delta position is strictly intended to support forward movement in the planning process. Kightlinger confirmed that any Bay-Delta plan, including the cost and benefit to MWD, would be brought to the board for consideration.

<u>Organization, Personnel and Technology Committee</u>

The committee approved three resolution items related to the Memorandum of Understanding (MOU) recently approved by the board. Edwards questioned a modification to two of the resolutions, which changed reference to the type of plans offered to an employee to identifying the Bay Area Region, rather than the Los Angeles Area where MWD's headquartered, as the threshold maximum. When asked about the actual cost difference between the Los Angeles Area to the Bay Area regions, staff did not have the information readily available, but indicated that the cost did not exceed the staff's estimates. Edwards requested that staff return with the cost estimates. Lewinger asked staff if the understanding of the negotiations was based on the Los Angeles area, but the wording in the MOU necessitated the change to the Bay Area region. He added that while according to staff, the estimated cost projection is not drastically different this year, in future years, the amount could be significantly higher. Staff responded that it was the intent to select regions by active employees and retirees, but had not gone into the details of a specific region. Lewinger suggested that if the understanding was a specific region, staff return to the groups to modify the language if all agreed to the original intent. Kightlinger said that in future negotiations the region would be specified. During the board meeting, Edwards made a substitute motion to table the two resolutions and return the items to the committee for further consideration. The substitute motion failed (42.32% in support of the motion, 44.83% against, and 4.23% abstaining). Subsequently, the original motion to adopt the two resolutions passed. The Water Authority delegates along with Directors Barbre, Brick, Brown (Burbank), Edwards (Foothill), Grandsen (Calleguas), Wright (Torrance), and Morris (San Marino), did not support the adoption.

<u>Water Planning and Stewardship Committee</u>

The committee and board approved policy principles with amendments for a replenishment program; the Water Authority delegation did not support this item for reasons articulated in this report and also described in the letter submitted to MWD (Attachment 4). During the committee meeting, Director Record (Eastern Municipal Water District) introduced a letter signed by directors representing Eastern Municipal Water District, Inland Empire Utilities Agency, and Western Municipal Water District (Attachment 5). The letter proposed amendments to heighten the status of local storage, such as the replenishment program, to be complementary with existing MWD storage programs, so that past investments "in local and regional groundwater and surface water storage continue" to yield reliability benefits. Staff added that the letter also included that the terms “should” or “would” will be replaced with “shall” to indicate that the new program must abide by the policy principles. Staff noted the Water Authority’s letter and acknowledged that Lewinger had previously provided a series of points and questions on the replenishment program. Staff said some issues brought by the Water Authority were addressed, but other points will be addressed as the program is being developed.

Steiner commented that without a cost of service analysis there is no proper foundation for moving forward with the program, in light of budgetary and fiscal constraints plaguing MWD. Steiner pointed out that a previous iteration of the principles said that the program “should not reduce full service purchase of water,” yet today’s proposal adds, “in the year that water is stored.” Steiner questioned how MWD would quantify whether full service sales were reduced, when there is no take-or-pay contract to measure against. Staff replied that with the financial integrity principle, MWD is committed to return to the committee and board with a program based on sound economic principles. In response to Steiner’s question on why the protection against offsetting full-rate sales be limited to 12-months, staff said that because groundwater agencies operate on a calendar or fiscal year basis, MWD is able to measure the operations to ensure actual storage during that period.

Lewinger commented that a storage program for only 12-month has less value than those developed through MWD’s Integrated Resources Plan (IRP), which provides storage for longer periods of time. Lewinger also asked how available replenishment water would be determined, as that the General Manager through the administrative code has the ability to declare its availability. Man responded that replenishment would only be offered if there is no longer put capacity available in MWD’s own regional storage programs. Man also agreed that if there is an opportunity to have assured benefits for multiple years that would have a higher benefit to MWD. Kightlinger added this is an opportune time to carefully review the replenishment program and MWD’s own storage portfolio; and while staff plans to bring forth some replenishment program recommendations next month, he said that there is no “magic” reason to adopt it in December. Lewinger asked that MWD provide a report on all MWD existing storage programs and its limitations. Man said that the December Water Surplus and Demand Management report would include MWD storage programs.

Staff also gave an update on the nine financial approaches being explored by the Local Resources Development Strategy Member Agency Managers Task Force. Staff described how the nine approaches might fit into one of three classes – subsidy, cost recovery or rates – and indicated plans to return in January 2012 with an update on the approaches. Brick expressed support for cost recovery approaches as a business model, such as a revolving fund. Lewinger pointed out that while MWD is working with the member agency managers, it is ultimately the board’s job to evaluate these program options from the viewpoint of MWD’s needs, including the financial and legal implications. He added that similar to the replenishment program, policy principles should come first to establish how this program should be developed. He suggested that staff split the effort into two parts and return to the committee with suggested policy principles and then later return with program approaches. Lewinger added that staff should include in its report to the committee an analysis of the need for continued subsidy programs because MWD demands are down and continue to be suppressed. Finally, Lewinger pointed out that the Water Authority delegation has noted concerns that the 20x2020 legislation limits

MWD's ability to use regional ratepayer dollars to support retail compliance. He reiterated the delegation's request of a legal opinion on whether amendments of the MWD Act would be needed to support the approaches described, including an analysis of any legal implication or limitations on the various options under Proposition 26.

The committee also received reports on the Interim Agricultural Water Program, transfers and exchanges occurring between by water agencies throughout the state, groundwater storage within MWD's service area, and Bay-Delta and Colorado River matters.

Board Meeting

Board Chairman Jack Foley (Municipal Water District of Orange County) selected DeJesus as one of four Board Vice-Chairmen. He said his decision was based on the developing challenges with replenishment water and MWD's efforts to help restore the San Gabriel Valley and Chino groundwater basins.

Prepared by:	Debbie Discar-Espe, Senior Water Resources Specialist
Approved by:	*Blue Ribbon Review Committee* by Lynne Heidel and Keith Lewinger *Finance and Insurance Committee* by Lynne Heidel and Keith Lewinger *Engineering and Operations Committee* by Fern Steiner *Legislation Committee* by Lynne Heidel and Keith Lewinger *Legal and Claims Committee* by Lynne Heidel and Fern Steiner *Organization, Personnel and Technology Committee* by Fern Steiner *Water Planning and Stewardship Committee* by Keith Lewinger and Fern Steiner

Attachment 1:	MWD November Meeting Board Agenda and Board Summary.
Attachment 2:	Water Authority CARB Letter, dated October 17, 2011.
Attachment 3:	Water Authority Compton comments, dated November 8, 2011.
Attachment 4:	Water Authority Letter on Replenishment Policy Principles, dated November 4, 2011.
Attachment 5:	Three Agency Letter on Replenishment Policy Principles, dated November 4, 2011.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

MWD MEETING AGENDA

Regular Board Meeting

November 8, 2011

12:00 p.m. -- Board Room

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**

   A. Approval of the Minutes of the Meeting for October 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 October

   C. Approve committee assignments

   D. Chairman's Monthly Activity Report

   E. Appointment of Board Vice Chairman

6. **DEPARTMENT HEADS' REPORTS**

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

   6A Report

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

   6B Report

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

   6C Report

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

   6D Report

7. **CONSENT CALENDAR ITEMS - ACTION**

   7-1 Appropriate $1.12 million; authorize five pipeline cathodic protection projects; and award $274,000 contract to Unique Performance Construction, Inc. for cathodic protection of West Valley Feeder No. 2 (Approp. 15441). (E&O)

   7-1 Board Letter and Attachments

   7-1 Presentation

7-2 Amend Metropolitan Water District Administrative Code to add or revise provisions relating to contractor debarment rules, the procurement of materials, products, or services by a specific brand or trade name and contractor responsibility determinations. (E&O)

7-2 Board Letter and Attachments

7-2 Presentation

7-3

Adopt resolution establishing a new retirement health benefit vesting requirement for future retirees under the Public Employees Medical and Hospital Care Act. (OP&T)

7-3 Board Letter and Attachment

7-4 Adopt resolution enacting the reduction in Metropolitan health benefits premium contained in the newly authorized Memoranda of Understanding. (OP&T)

7-4 Board Letter and Attachment

7-5 Adopt resolution implementing the Time-in-Grade Exception for employee member contribution to Public Employees Retirement System. (OP&T)

7-5 Board Letter and Attachment

8. OTHER BOARD ITEMS - ACTION

8-1 Authorize entering into a ground lease agreement for approximately 7,000 gross acres of Metropolitan's Palo Verde property. (RP&AM)
[Conference with real property negotiators; MWD Parcel Nos. PVID-1-110 and PVID-1-130; agency negotiators: Gilbert Ivey, Ralph Hicks, John Clairday; negotiating parties: HayDay Farms, Inc. (current lessee); under negotiation: price and terms of payment; to be heard in closed session pursuant to Gov. Code Section 54956.8]

8-2 Authorize entering into an option agreement for lease of 10 acres of Metropolitan's Potrero Creek property for a concentrated photovoltaic (CPV) solar project, subject to project approvals. (RP&AM)
[Conference with real property negotiators; Riverside County Assessor Parcel Nos. 421-240-005 and 421-240-029, portion; agency negotiators: Gilbert Ivey, Ralph Hicks, and John Clairday; negotiating parties: Silex Systems Limited; under negotiation: price and terms of payment; to be heard in closed session pursuant to Gov. Code Section 54956.8]

8-3 Consider City of Compton's request to withdraw purchase order agreement. (F&I)

8-3 Board Letter

8-3 Presentation

8-4 Appropriate $3.7 million; and award $2,556,618 contract to J. F. Shea Construction, Inc. to rehabilitate hydraulic gates at Eagle Rock Tower and Puddingstone Spillway (Approp. 15441). (E&O)

8-4 Board Letter and Attachments

8-4 Presentation

8-5 Appropriate $4.53 million; and award (1) $1,696,023.23 contract to Fibrwrap Construction, LP for joint repairs to the Foothill and Sepulveda Feeders; and (2) $886,200 contract to Fibrwrap Construction, LP for joint repairs to the Allen-McColloch Pipeline (Approp. 15471). (E&O)

8-5 Board Letter and Attachments

8-5 Presentation

8-6 Appropriate $2.28 million; and award $1,784,495 contract to Abhe & Svoboda, Inc. for repairs to three siphons on the Colorado River Aqueduct (Approp. 15438). (E&O)

8-6 Board Letter and Attachments

8-6 Presentation

8-7 Appropriate $4.4 million; and award $3,348,791 contract to W. M. Lyles Co. for replacement of transition and manhole structure covers on the Colorado River Aqueduct (Approp. 15373). (E&O)

8-7 Board Letter and Attachments

8-7 Presentation

8-8 Approve policy principles for a replenishment program. (WP&S)

8-8 Board Letter

8-8 Presentation

8-9 Report on Solano County Water Agency, et al. v. Department of Water Resources, Sacramento Superior Court Case No. 34-2008-0001338 CU-BC-GDS; and authorize increase of $500,000 for a total of $1,650,000 in maximum amount payable under contract with Ellison, Schneider & Harris to represent Metropolitan and other participating state water contractors. (L&C)
[Conference with legal counsel-existing litigation; may be heard in closed session pursuant to Gov. Code Section 54956.9(a)]

8-10 Report on existing litigation; and authorize (1) an increase in maximum amount payable under contract with Manatt, Phelps & Phillips, LLP for legal services by $750,000 to an amount not to exceed $2,090,000; and (2) an increase in the maximum amount payable under contract with Shaw Environmental for expert services by $300,000 to an amount not to exceed $400,000 for representation of Metropolitan in Orange County Water District v. Northrop Corporation, Orange County Superior Court Case No. 04CC00715. (L&C)
[Conference with legal counsel?existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(a)]

9. BOARD INFORMATION ITEMS

9-1 Report on Local Resources Development Strategy Task Force. (WP&S)

9-1 Board Letter

9-1 Presentation

10. FUTURE AGENDA ITEMS

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 parentheses at the end of the description of the agenda item e.g. (E&O, F&I). 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.

Summary Report for
The Metropolitan Water District of Southern California
Board Meeting
November 8, 2011

COMMITTEE ASSIGNMENTS

None. **(Agenda Item 5C)**

APPOINTMENT OF BOARD VICE CHAIR

Director David De Jesus, representing Three Valleys Municipal Water District, was appointed Vice Chairman of the Board. **(Agenda Item 5E)**

ORGANIZATION, PERSONNEL AND TECHNOLOGY COMMITTEE

Adopted resolution establishing a new retirement health benefit vesting requirement for future retirees and changing the percentage of employer contributions payable for post-retirement health benefits under the Public Employees Medical and Hospital Care Act. **(Agenda Item 7-3)**

Adopted resolution enacting the reduction in Metropolitan health benefits premium contained in the newly authorized Memoranda of Understanding. **(Agenda Item 7-4)**

REAL PROPERTY AND ASSET MANAGEMENT COMMITTEE

Authorized entering into a ground lease agreement with HayDay Farms, Inc. for approximately 7,000 gross acres of Metropolitan’s Palo Verde property. **(Agenda Item 8-1)**

Authorized entering into an option agreement for lease with Silex Systems Limitedof 10 acres of Metropolitan’s Potrero Creek property for a concentrated photovoltaic (CPV) solar project, subject to project approvals. **(Agenda Item 8-2)**

FINANCE AND INSURANCE COMMITTEE

Authorized the General Manager to execute a withdrawal of City of Compton’s Purchase Order effective January 1, 2003, and assess Compton an administrative fee. **(Agenda Item 8-3)**

ENGINEERING AND OPERATIONS COMMITTEE

Appropriated $3.7 million; and awarded $2,556,618 contract to J. F. Shea Construction, Inc. to rehabilitate hydraulic gates at Eagle Rock Tower and Puddingstone Spillway (Approp. 15441). **(Agenda Item 8-4)**

Appropriated $4.53 million; and awarded (1) $1,696,023.23 contract to Fibrwrap Construction, LP for joint repairs to the Foothill and Sepulveda Feeders; and (2) $886,200 contract to Fibrwrap Construction, LP for joint repairs to the Allen-McColloch Pipeline (Approp. 15471). **(Agenda Item 8-5)**

Appropriated $2.28 million; and awarded $1,784,495 contract to Abhe & Svoboda, Inc. for repairs to three siphons on the Colorado River Aqueduct (Approp. 15438). **(Agenda Item 8-6)**

Appropriated $4.4 million; and awarded $3,348,791 contract to W. M. Lyles Co. for replacement of transition and manhole structure covers on the Colorado River Aqueduct (Approp. 15373). **(Agenda Item 8-7)**

WATER PLANNING AND STEWARDSHIP COMMITTEE

Approved policy principles for a replenishment program as amended in committee. **(Agenda Item 8-8)**

LEGAL AND CLAIMS

Authorized increase of $500,000 for a total of $1,650,000 in maximum amount payable under contract with Ellison, Schneider & Harris to represent Metropolitan and other participating state water contractors in Solano County Water Agency, et al. v. Department of Water Resources, Sacramento Superior Court Case No. 34-2008-0001338 CU-BC-GDS. **(Agenda Item 8-9)**

Authorized (1) an increase in maximum amount payable under contract with Manatt, Phelps & Phillips, LLP for legal services by $750,000 to an amount not to exceed $2,090,000; and (2) an increase in the maximum amount payable under contract with Shaw Environmental for expert services by $300,000 to an amount not to exceed $400,000 for representation of Metropolitan in Orange County Water District v. Northrop Corporation, Orange County Superior Court Case No. 04CC00715. **(Agenda Item 8-10)**

CONSENT CALENDAR

In other action, the board:

Appropriated $1.12 million; authorized five pipeline cathodic protection projects; and awarded $274,000 contract to Unique Performance Construction, Inc. for cathodic protection of West Valley Feeder No. 2 (Approp. 15441). **(Agenda Item 7-1)**

Amended Metropolitan Water District Administrative Code to add or revise provisions relating to contractor debarment rules, the procurement of materials, products, or services by a specific brand or trade name and contractor responsibility determinations. **(Agenda Item 7-2)**

Adopted resolution implementing the Time-in-Grade Exception for employee member contribution to Public Employees Retirement System [consider amending per Option 1 in board letter]. **(Agenda Item 7-5)**

THIS INFORMATION SHOULD NOT BE CONSIDERED THE OFFICIAL MINUTES OF THE MEETING.

Board letters related to the items in this summary are generally posted in the Board Letter Archive approximately one week after the Board Meeting. In order to view them and their attachments, please copy and paste the following into your browser http://edmsidm.mwdh2o.com/idmweb/home.asp

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

October 17, 2011

Clerk of the Board
Mr. James Goldstene, Executive Officer
Ms. Mary Nichols, Chair
California Air Resources Board
1001 I Street
Sacramento, CA 95814

Re: Proposed Amendments to the ARB's regulation for the California Cap on Greenhouse Gas Emissions and Market-Based Compliance Mechanisms

Dear Mr. Goldstene and Ms. Nichols:

The San Diego County Water Authority is the water wholesaler for San Diego County and provides water to its 24 member agencies that are responsible for providing water to the end customer, the residents and businesses in the county. We are also the largest member agency to the Metropolitan Water District (MWD) who has been actively engaging in the discussions with the California Air Resources Board (ARB) regarding your proposed California Cap-and-Trade Program. While we understand that ARB has statutory deadlines in implementing the Program, a consequence cannot be designing it an inequitable manner.

As a public utility providing an essential resource to the residents of San Diego County, we have become concerned with not only the program's current design, but with the process as well. By including MWD as essentially an electricity retailer for purposes of the program but not affording them allowances of free allocations that more typical electricity retailers are being provided, an inequitable arrangement has been created that will result in higher costs to MWD. As MWD has stated to you, they will be compelled to pass on these higher costs to its ratepayers, which includes the Water Authority. For the same reasons as MWD, we will need to pass these costs onto our member agencies, resulting in higher water rates to the end users.

The program, by its design, will cost our water customers additional money. We understand an estimate of this amount is $5 million. We are concerned that the method by which the ARB will mitigate these additional costs to the water customer is to provide a rebate or credit on the SDG&E (electric) bill. This approach is flawed in that water and electric customers are not one and the same. For example, a grower uses a high amount of water but not electricity. Growers would therefore be significantly impacted while others would not. In fact this concept may be a net benefit to the low water, high electricity users.

We would strongly advocate that MWD be placed into a new category or sub-category that recognizes their role as a non-marketer of electricity (i.e. an agency that uses for public utility purposes all of the electricity it acquires) and then be exempted from the proposed cap-and-trade program completely. We believe this would satisfy the goals of the California Cap-and-Trade Program. It's important to note that MWD would not be excluded from certain responsibilities such as the reporting requirements that are mandated in the program, they just would not participate in the cap-and-trade component of the regulations.

The only other viable and equitable alternative to exempting MWD from the program would be to provide MWD with the same free allowances that the public electric utilities are being afforded in your program. The customers of a utility providing the essential public resource of water deserve the same cost relief as the customers of a utility providing an electric resource. We understand that staff from the State Water Project has been working with your staff in developing an allocation approach that would provide this relief while minimally affecting the other utilities that are currently included in the allocation formula, as well as being a non-material change to the program.

We should also note our concern with what seems to be a flawed process in developing the currently proposed allocation strategy. We understand that the water sector, unlike those in the electricity sector, was excluded from many of the meetings that ARB staff conducted in crafting the approaches for allocating the free allowances. This may be a reason that the current proposal is detrimental to MWD and its member agencies. This would, of course, violate the rights of those of us in the water sector as well as the customers we serve.

In conclusion while we support goals of the California Cap-and-Trade program, it cannot be designed and administered in such a way that disproportionately impacts the water ratepayer to the benefit of the electricity ratepayer. We believe that the changes as outlined in this letter should be made in order to make the program equitable.

Sincerely,

Maureen A. Stapleton
General Manager

FB:cao

San Diego County Water Authority
Metropolitan Water District of Southern California –
November 8, 2011 Board Meeting

Board Memo 8-3/Compton's Request to Withdraw Purchase Order – Abstain

- The Water Authority delegation is abstaining from this vote because we think it is critical that Metropolitan have take-or-pay contracts or other firm contract commitments from its member agencies.

- The staff recommendation fails to acknowledge this – indeed, it is recommending that *all* member agencies should be allowed to withdraw Purchase Order "commitments" in exchange for the payment of a $5,000 administrative fee.

- This means that the Purchase Orders aren't real commitments and can't be relied on to ensure payment of Metropolitan's current or future expenses.

- We do not want our vote to be misconstrued. We believe that Compton is doing the right thing in better managing their local water supplies and decreasing reliance on imported water. The real question isn't about Compton, it is about Metropolitan – and how it expects to sustain the multi-billion dollar investments it proposes to make, given the unwillingness or inability of its member agencies to commit to pay for those projects.

- We request that our comments today on Board Memo 8-3 be included in the board minutes. We are providing our comments to you in writing for your convenience.

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

November 4, 2011

John V. Foley
Chairman of the Board
Metropolitan Water District of Southern California
P. O. Box 54153
Los Angeles, CA 90054-0153

Re: Board Memo 8-8 –
Approve Policy Principles for a Replenishment (Discounted Water) Program

Dear Chairman Foley,

Board Memo 8-8 asks the board to approve policy principles to guide the development of a new program for the sale of discounted water. We do not believe that the policy principles as proposed by staff provide a sufficient and clear basis to guide the development of a new program. Indeed, we do not believe that the staff has established the need for a new program to sell discounted water, whether it is described as “replenishment,” “regional water management,” or otherwise.

We have raised a number of questions over the past several months, since the General Manager first proposed the sale of discounted water last April. Our concerns have focused on the unprecedented budgetary and fiscal challenges confronting Metropolitan, including the fact that its expenditures have exceeded revenues in six out of the last nine years. Over the last four years, Metropolitan has resorted to raiding funds intended for pay-as-you-go capital expenditures in order to meet normal operational expenses. The discounted water program is a concern because when Metropolitan sells water at a discount, it displaces full-rate water sales, which in turn leads to lower revenues overall and insufficient recovery of fixed costs..

While the staff continues to bring back recommendations based on the wishes of the member agencies, it has failed again to address the needs of Metropolitan. We understand why the member agencies would like Metropolitan to sell them water at a discount, what we do not understand is how the Metropolitan staff proposes to ensure benefit to all member agencies when discounted water is sold to some, or, how Metropolitan will be in a position to reverse its declining financial condition through the sale of discounted water.

The analysis provided in Board Memo 8-8 fails to address the very concerns raised by staff in its April 26, 2011 Board Memo (5-1) that first recommended reinstituting the sale of discounted water. Those concerns included – and remain:

- Questionable and unquantifiable performance criteria for a discounted water program;
- Loss of full service sales due to availability of discounted water;
- Unequal distribution of costs and benefits among member agencies; and
- Cash flow and budget issues associated with availability of discounted water.

The staff has also failed to respond to questions about Metropolitan's existing storage programs or the assumptions it is making about the use of that storage in the future. As a result, there is no basis for determining either the need for, or benefit of another new program.

We are attaching our past communications to the board on this subject. We request that staff respond, in writing, to the questions asked in our letters. Doing so would provide the board with a sound foundation to discuss the real policy principles involved in the proposed sale of discounted water. We would appreciate a written response to our letters in any event because they raise issues and concerns of great interest to our member agencies and water ratepayers.

Sincerely,

Lynne L. Heidel Keith Lewinger Fern Steiner

Lynne Heidel — Director
Keith Lewinger — Director
Fern Steiner — Director

cc: MWD Board of Directors
Jeff Kightlinger, General Manager
San Diego County Water Authority Board of Directors

Attachments:

1. April 25, 2011 letter to Jack Foley re: Board Memo 5-1 – Sale of Discounted Water and Attachment 1: Issues Associated with the Sale of Discounted Water by MWD
2. May 6, 2011 letter to Jeff Kightlinger re: Board Memo 5-1 – Sale of Discounted Water
3. September 12, 2011 Comments and Questions on Board Memo 9-2 – Update on Replenishment Service Program, Director Keith Lewinger
4. October 7, 2011 letter to Jack Foley re: Water Planning and Stewardship Committee Items 6a, 6b, and 6d

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

April 25, 2011

John V. (Jack) Foley, Chairman
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Board Memo 5-1 – Sale of discounted water

Dear Chairman Foley:

We have reviewed Board Memorandum 5-1 regarding the sale of discounted water by MWD and would like the following comments to be placed in the record by this letter and its attachment. The sale of discounted water by MWD at this time raises many questions and concerns, which we have organized and discuss in detail in Attachment 1 to this letter. We request that the staff respond in writing to these questions and concerns prior to the board taking any action.

Given the staff's own analysis, which describes its concerns about the performance and equity of the existing Replenishment Service Program (replenishment program) – it acknowledges that there is an "imbalance" between MWD costs and benefits under the Program (page 4) – we are surprised that the staff recommendation is nonetheless to support the sale of discounted water under the replenishment program.

While the recommended action takes into account the budgetary and fiscal constraints the member agencies have, it does not analyze or meaningfully address the unprecedented budgetary and fiscal constraints plaguing MWD. Our board's fiduciary duty is to MWD – not the member agencies. We fail to meet that duty if we vote to sell discounted water under a program that does not provide commensurate benefits to MWD. This is all the more important at a time when we are confronting a nearly $200 million budget shortfall in the current fiscal year.

The board memo is clear on its face that the replenishment program does not provide a proper foundation for the sale of discounted water. The Water Authority does not support the sale of discounted water by MWD under these conditions. But if the board chooses to do so in order to generate sales in the current fiscal year, then it should be made available to all of MWD's member agencies, rather than limited to replenishment sales.

Sincerely,

Jim Bowersox	Lynne Heidel	Keith Lewinger	Fern Steiner
Director	Director	Director	Director

Attachment 1: Issues Associated with the Sale of Discounted Water by MWD

cc: Jeff Kightlinger, General Manager

Attachment 1

Board Memorandum 5-1 – April 26, 2011Special Board Meeting
Issues Associated with the Sale of Discounted Water by MWD

1. **The real issue before the board is price – not local water storage.**

The board memo talks about "optimizing the reliability of water supply into the service area," but it is apparent that the real issue before the board is the price. MWD has already adopted a 2010/11 Water Management Program for local storage that allows member agencies to purchase additional water for local storage while protecting them from Water Supply Allocation Plan (WSAP) penalties. Some member agencies have purchased supplies under this program, but others have held out in hopes of receiving discounted replenishment water.

2. MWD should be fully utilizing its own dry-year storage portfolio, rather than selling water at a discount to its member agencies.

The board memo states that MWD is facing the "unexpected challenge" of managing and storing water in 2011. This is a very perplexing statement and calls into question MWD's water supply management capabilities. Storing water in good years is at the very heart of the water supply reliability program MWD developed through its Integrated Resources Plan (IRP).

Nine years ago, when MWD lost 662,000 AF of surplus water on the Colorado River *annually*, it shifted to a water supply reliability strategy that depends heavily on storing water in wet years in order to meet water demands during subsequent dry years. When this strategy was initially employed, MWD was counting on having water supplies that were "surplus" to its needs and available for storage seven out of every 10 years. To implement this strategy, MWD established rates and collected revenues from its member agencies and paid billions of dollars to create the dry-year storage accounts that today are in excess of 5 MAF. The Water Supply and Drought Management (WSDM) plan attached to the board memo shows a 2011 storage put capacity of more than 1 MAF.

More recently, MWD staff has consistently stated that the constraints in the Delta now mean that MWD can count on wet-year supplies being available for storage in only three of every 10 years; this is one of those three years. But rather than filling its own storage accounts, MWD staff is recommending selling this water at a discount to its member agencies.

We also find it troubling that for the first time – and in the context of a recommendation to sell water at a discount – the board has been informed that "some of the storage programs and locations" are "less desirable choices" for storage management. Further, that there are "increased risks of future losses from those programs, potential cost implications, and concerns about future dry-year performance." Given this description, it is difficult to understand why MWD made these "less desirable" dry-year storage investments in the first place. We request that a complete review of the dry-year storage program be placed on the agenda at the next board meeting and before the board takes action to sell the water that is available for storage at a discount.

A final note on MWD's dry-year storage portfolio relates to the budget. It is not possible to manage a dry-year storage account without incurring costs associated with the put and take of water into and from storage. The fact that MWD failed to adequately budget these costs is certainly no excuse to sell discounted water now in order to generate cash-flow. We request an analysis of how staff has budgeted these costs in the past and how it proposes to budget the costs associated with its dry-year storage program in the next and subsequent budget years. We also request a schedule of all costs and capital investments associated with developing new water supplies that will be needed to replace the water now proposed to be sold at a discount.

3. The sale of discounted water will displace full-service sales and exacerbate MWD's current budget and fiscal crisis.

The board letter is completely silent on the most damaging consequence of selling discounted water: every acre foot sold at the proposed discount will displace an acre-foot sale of water out of MWD's dry-year storage program at the full-service rate. The promise that this discounted water sales program will increase revenues to MWD focuses only on the revenues from discounted water sales and associated near-term fiscal consequences. Ignored in the board memo entirely is the indisputable truth that agencies that would have purchased water at the full service rate – either this fiscal year or in a subsequent year – will instead purchase that water at a discount through the direct discount of up to $143 per acre-foot and by avoiding future full service rate increases. MWD will not "make money" by selling water at a discount, it will lose money – 200,000 acre-feet of discounted water sales results in the loss of potentially more than $28 million in revenues. The impact of the lost revenues may not be fully realized in FY 2012, but will certainly be felt in the future.

It is apparent that the reason some MWD member agencies are holding back from purchasing water at the full service rate is precisely because they are waiting to buy it at a discount. That's a smart move for the member agency, but is certainly not in MWD's best interest.

The MWD board is legally required annually to adopt a cost of service and revenue requirement and fix rates that, taken together with other revenue sources, will be sufficient to pay MWD's fixed costs and other expenses. The MWD board has failed to do this and, instead, continues to rely upon inflated sales projections to support its water rates, budget and overspending. At its last meeting, the board was presented with information that projected MWD sales in the current fiscal year are trending to be 291,300 acre-feet below budget. At its meeting on the budget, MWD staff also assessed the value of its water in storage using full service rates. There is no way to reconcile the board's actions in adopting cost of service and revenue requirements with the proposed sale of discounted water.

4. The board memo does not provide a policy or legal basis for the sale of discounted water for replenishment.

The board memo presents a detailed list of concerns with the replenishment program (page 2), notably:

- Questionable and unquantifiable performance and expectations;
- Potential of shifting water sales within a year as opposed to generating true longer-term storage;
- Potential offset of full service sales;

- Unequal distribution of costs and benefits among participating and non-participating agencies;
- Questions on whether water was being stored for future use as opposed to being purchased to refill overdraft;
- Difficulties in measuring and verifying in-lieu deliveries to storage; and
- Cash-flow and budgeting issues associated with the frequency under which replenishment supplies are available.

Each of these seven concerns should be significant enough to dissuade the board from approving discounted replenishment sales. Taken together, however, the seven concerns represent perhaps the most troubled program in MWD’s recent history. It is a confounding disconnect, therefore, that the board is being asked to forge ahead with the program without regard to these concerns. The board memo, as written, is very clear that there are significant questions about the performance and equity of the replenishment program. We request that the staff present a further analysis and respond to the “disconnect” between the information provided in the board memo and the staff recommendation for action.

5. The sale of discounted water sends the wrong message at a time when MWD is promising to pay substantial costs associated with a Delta Fix.

If MWD’s member agencies are – as is clear from the board memo – unable or unwilling to pay for MWD’s current fixed costs, how can MWD credibly commit to pay the additional costs associated with a Delta Fix? Will MWD’s member agencies not be subject to the same “budgetary and fiscal constraints” when faced with the costs of a Delta Fix and other IRP investments? If this is indeed the economic reality – that current full service rates are too expensive to encourage MWD water sales to its member agencies – then the MWD board must reconsider MWD’s entire water resources strategy. If we can’t afford to pay our current fixed costs then it is difficult to see how we can afford to pay the billions of dollars of investment outlined in the 2010 IRP, including the Delta Fix being negotiated by management, seawater desalination projects and a host of other projects.

The continued disconnect between the board’s decisions to spend money and the member agencies’ willingness to pay for MWD projects is threatening MWD’s very financial viability.

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

May 6, 2011

Jeff Kightlinger, General Manager
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Board Memo 5-1 – Sale of Discounted Water

Dear Jeff,

Thank you for responding to our April 25, 2011 letter regarding MWD's proposed sale of discounted water to selected member agencies. We appreciate that water supply conditions in 2011 have improved significantly; however, the question before the board is what to do with the water that is now available to MWD.

You state in your letter that MWD will maximize the use of its storage assets in 2011 to store available supplies. Director Steiner has requested and you have agreed to provide detailed information how MWD will do that. *Past MWD board reports show that MWD has ample storage and put capacity available to store all of the available water in MWD storage facilities.* Indeed, by our calculation, even if all of the available water is stored by MWD – as we believe it should be – MWD's storage will remain less than half full.

You also state that MWD will likely end the year with its regional storage reserves at the "highest levels in history"; however, this observation fails to take into account the *fundamental shift in MWD's water supply reliability planning which – unlike past history – now relies heavily upon the withdrawal of water from storage in dry years.* That is why the Water Authority has supported MWD's multi-billion dollar investment in storage facilities and agreements, which provide more than 5 million acre feet of storage capacity. Given this water supply strategy and investment, it is difficult to understand why MWD now has no intention of maximizing its investment in storage in a year like this, when water is available. MWD is barely out of a multi-year allocation, yet instead of filling its storage reserves, it wants to sell it at a discount.

The problems with the replenishment program have been previously documented and we will not repeat them here. MWD has been well aware of these concerns for many years but has failed to address the problems in any revised board policy or otherwise. Suffice it to say that the program does not provide benefits to MWD commensurate with the cost to MWD of the program. If MWD is intent on selling discounted water, then it should be made available to all MWD member agencies equally, not just to select agencies on the purported basis of a clearly flawed water supply management program.

On the financial side, the board memo and your letter are clear that under the discounted sales proposal, MWD will not recover its fixed costs. This month's staff report shows MWD's FY 2011 sales have further dropped to 1.6 million acre feet (MAF), from the budgeted 1.93 MAF. Although short term cash flow may be improved by the proposed sale of discounted water, it has a deleterious effect on MWD's financial position overall. We believe you know that MWD's fiscal crisis is real – we would welcome the opportunity to work with you on finding real solutions.

Regarding your comments on the member agencies' willingness to pay for current and future fixed costs, our comments were taken directly from the MWD board memo citing the member agencies' "budgetary and fiscal constraints" as the reason they are not buying MWD water now at the full price that was assumed in the current fiscal year budget. Clearly, the sale of water at full price would be the preferred option because the region would achieve the same storage and water supply benefits and MWD would come closer to hitting its own budget, which is more than $150 million short that also threatens to leave reserves precariously low.

Finally, we believe you know that the Water Authority's litigation has nothing to do with challenging State Water Project costs – the only question is how those costs should be allocated between supply and transportation. The Water Authority expects to remain one of MWD's largest customers and to pay its fair share of MWD's costs under its State Water Project supply contract. Indeed, to our knowledge, the Water Authority is the only MWD member agency that has actually offered to enter into a long-term contract with MWD for the purchase of State Water Project water and other supplies and services. With firm contracts, MWD could count on being able to cover its fixed costs, now and in the future. We would be happy to make a presentation to the board on the history of that offer as well as make a proposal for the future. We agree that MWD is in a fiscal crisis and the gimmicks being employed this year – including a "fire sale" of discounted water – will not solve or even address the real problem.

Sincerely,

Jim Bowersox Director	Lynne Heidel Director	Keith Lewinger Director	Fern Steiner Director

cc: Jack Foley, MWD Board Chairman

September 12, 2011

To: **MWD Water Planning & Stewardship Committee**

From: **Director Keith Lewinger, San Diego County Water Authority**

Re: **Comments and Questions on Board Memo 9-2 – Update on Replenishment Service Program**

1. The Board Memo states that the only policy for this program is MWD Administrative Code Section 4514. Is there any other board policy that the staff considers relevant or controlling for purposes of the meetings it is having with the member agencies and groundwater basin managers?

2. Are the "Key Development Principles" referenced in 9-2 intended to be a statement of board policy or what the member agencies want? It appears that the concerns of member agencies and groundwater basin managers are being captured but not so much the program needs from MWD's point of view.

3. Staff's April 26, 2011 Board Memo 5-1 described many of the concerns about the performance and equity of the existing Replenishment Service Program, but they are not discussed in Board memo 9-2. The concerns as described by staff last April included:

- Questionable and unquantifiable performance expectations generally for the Replenishment Service Program.
- Potential of shifting water sales within a year as opposed to generating true longer-term storage.
- The potential offset to full service sales.
- Unequal distribution of costs and benefits among participating and non-participating agencies.
- Questions whether the water was being stored for future use as opposed to being purchased to refill overdraft.
- Difficulties in measuring and verifying in-lieu deliveries to storage.
- Cash flow and budgeting issues associated with the frequency under which replenishment supplies are available.

4. The Water Authority thought these questions should have been addressed – and MWD's own regional storage fully replenished – prior to resuming the sale of discounted water in April. It is certainly the time to do so now, as the Replenishment Service Program is being reviewed. ***And, the board needs to be involved in the process now, prior to proposals being developed, in order to establish a policy framework.***

5. While the "Key Development Principles" may have been sufficient to initiate discussions with the member agencies and groundwater basin managers, there are key policy issues that must be addressed as part of the Board's consideration of any new Replenishment Service Program proposal. As such, in addition to those policy questions raised in MWD's April 26, 2011 Board memo, as a board member it is my request that the following issues also be addressed for the planning periods 2015, 2020 and 2035, in order to kick off a substantive board discussion on policy issues:

- ➢ No one questions the wisdom of local water storage and conjunctive use. However, a new Replenishment Service Program proposal must address the program's costs and the benefits including:

  - o How does the MWD region benefit? Please address both water supply and budget impacts. One of the fundamental questions that needs to be addressed is, under what circumstances if any, can MWD afford to sell water at a discount?
  - o What MWD costs if any will be avoided through the implementation of a new Replenishment Service Program?

- ➢ What assumptions are used about MWD's own storage programs and the role MWD storage will play in meeting water supply needs in dry years?
  - o How much storage does MWD plan to maintain?
  - o What is the total cost of MWD's storage programs, including the cost of putting water into storage during the years it is available?
  - o Does staff intend to budget that cost in the future?

- ➢ What are the assumptions about how often and at what quantity water will be available for put into storage? Conversely, how often and at what quantity are you assuming water from storage will needed to meet demand?

- ➢ Last April, the board was informed that some of MWD's storage programs and locations were "less desirable" choices for storage management and that there were "increased risks of future losses from those programs, potential cost implications and concerns about future dry year performance." Has staff completed its review of these concerns and what recommendations is it making to the board now as a result?

- ➢ How will the implementation of a new Replenishment Service Program affect MWD's future water rates and demand? What policies can ensure that the new Replenishment Service Program would not displace full service purchases?

- ➢ Would it be more equitable to simply distribute discounted water to all member agencies when it is deemed available under specified conditions?

I hope that these and the questions and concerns of all board members about the development of a new Replenishment Service Program will be addressed at board meetings over the next several months as the member agency technical review continues. I would also suggest that a revised schedule be developed and presented at the next committee meeting that recognizes the need for Board review and policy input prior to any specific proposals being developed by staff and the member agencies and groundwater basin managers. I don't believe this can be accomplished within the December timeframe proposed by staff, but should be discussed by the Committee at an upcoming meeting. .

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

October 7, 2011

John V. Foley, Chairman
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Water Planning and Stewardship Committee items 6a, 6b, and 6d

Dear Chairman Foley,

We have reviewed the staff reports to be discussed under Committee items 6a, 6b and 6d at the October 11, 2011 Water Planning and Stewardship Committee. The reports provide a long list of activities described as implementation of the 2010 Integrated Resources Plan (IRP) including BDCP and other imported water projects, recycled water projects, conservation, seawater desalination and, the sale of discounted water. What is absent from the reports is any analysis showing:

- The demand for all of the water that will be produced by these projects;
- The rate increases associated with implementation of all of these projects;
- The regional benefit (to all member agencies paying the rates) of payments by Metropolitan for some member agency local water supply projects;
- The regional benefit (to all member agencies paying the rates) of the sale of discounted water by Metropolitan at a time when its water sales are more than 25 percent lower than projected and water rates are far higher than projected in Metropolitan's adopted Long Range Finance Plan; or
- How all of these projects are expected to be paid for.

Almost twenty years ago, the Metropolitan Blue Ribbon Committee Task Force urged Metropolitan to fully integrate its resource planning and rate structure efforts because, "reliability, cost and demand are all interdependent and should be treated that way in the IRP and rate structure reform processes" (page 9). Unfortunately, Metropolitan has steadfastly refused to do so – as reflected in this month's board reports of ongoing project implementation without any discussion whatsoever about cost or demand. Metropolitan's stubborn refusal to reduce its spending and operations is inconsistent with the economic reality today facing every city and water retailer in Southern California.

The IRP states that it is based on "adaptive management." It is time now for Metropolitan to "adapt" to actual, changed circumstances including dramatically reduced sales, dramatically reduced projected demand for Metropolitan water, and, rapidly escalating water rates that will further dampen demand for Metropolitan water.

Since 2003, Metropolitan's expenditures have exceeded its revenues for six out of nine years, and for the same number of years, it has diverted funds intended for pay-as-you-go capital projects to pay for operational expenses. Metropolitan's financial reserves are being depleted, and now stand at their lowest level in 20 years. Metropolitan must stop analyzing project implementation in a vacuum and on a piecemeal basis.

The rate increases associated with declining sales and new projects are inevitable. The impacts of these rate increases are already being felt throughout Southern California. We strongly urge Metropolitan to cease entering into any new project funding agreements and cease the sale of discounted water until Metropolitan staff and board update IRP demand projections to reflect current realities.

Metropolitan needs a rate structure and long-term financial plan that are fully integrated with realistic demand projections. Metropolitan must conduct a cost/benefit and cost of service analysis to justify both the investment of regional ratepayer dollars in member agency water supply projects and the sale of water at a discount. Not only is this required by law, but it is sound fiscal planning that is essential at a time when Metropolitan's revenues are clearly insufficient to pay for its current costs and programs.

Sincerely,

James L Bowersox — Lynne L. Heidel — Keith Lewinger — Fern Steiner

Jim Bowersox	Lynne Heidel	Keith Lewinger	Fern Steiner
Director	Director	Director	Director

Cc: MWD Board of Directors
Jeff Kightlinger

Inland Empire Utilities Agency
A MUNICIPAL WATER DISTRICT
6075 Kimball Avenue
Chino, CA 91708
(909) 993-1600

2270 Trumble Road
Perris, CA 92572-8300
(951) 928-3777

WESTERN MUNICIPAL WATER DISTRICT
14205 Meridian Pkwy
Riverside, CA 92518
(951) 571-7100

November 4, 2011

Transmitted via email

Mr. David De Jesus
Chairman, Water Planning and Stewardship Committee
Metropolitan Water District of Southern California
700 North Alameda Street
Los Angeles, CA 90012-2944

RE: Policy Principles for a Replenishment Program

Dear Chairman De Jesus:

Over the last several months we have discussed and vetted the draft replenishment policy principles in your committee meetings and our member agencies' staffs have engaged in robust discussions at the Metropolitan's replenishment workgroup meetings to examine, among other issues, the regional benefits that could be realized through implementing the proposed replenishment program policy principles. We support the overall direction of the proposed policy principles we believe an amendment adds clarity and strength, providing a more solid foundation upon which Metropolitan staff can use to craft the options and recommendations for a new program that will be presented for board consideration in December.

We respectfully request that the committee review and consider this minor amendment that acknowledges not only Metropolitan's storage programs, but also the benefits of member agency investments to enhance local surface and groundwater storage. The amendment is identified by the red, underlined text:

"Complementary with Other Storage Programs: Features of the program should be complementary with existing storage so that past investments in local and regional groundwater and surface water storage continue to yield reliability benefits."

In addition, in yesterday's MWD Southern Caucus meeting discussion, a suggestion was made to replace the words "should" and "will" with "shall" throughout the policy principles. We also support this suggestion because not only does it make the policy statements more affirmative, but also more consistent.

Thank you for your consideration of these amendments. Please share this request with the Water Planning and Stewardship Committee members.

Sincerely,

Inland Empire Utilities Agency
Michael Camacho
Board of Directors

Eastern Municipal Water District
Randy A. Record
Randy Record
Board of Directors

Western Municipal Water District
Tom Evans
Board of Directors

San Diego County Water Authority

December 08, 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 November 9, 2011 CRB meeting.

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

<u>Water supply and reservoir operations</u>
The new water year has begun with above-average runoff continuing to flow into Lake Powell. Reclamation reported inflow for October at 105 percent of normal and the November forecast at 110 percent of normal. The observed 2011 inflow from April through July was 162 percent of normal. Total water storage in Colorado River reservoirs is about 38.5 maf, which is 65 percent of capacity and about 6 maf more than this time last year. Lake Mead holds 13.6 maf, and is at 53 percent of capacity. Lake Powell is now at 70 percent of capacity, with 17.1 maf in storage. Reclamation has indicated that equalization rules will govern reservoir operations in calendar year 2012, and expects to release more than 12 maf from Powell to Mead. Typically, Powell releases 8.23 maf annually.

In October, three water contractors from the three Lower Basin states sent a joint letter to Reclamation requesting that Reclamation not reallocate any water that was apportioned to a state but unused during 2011. Nevada does not expect to use all its apportionment, and the agencies (Metropolitan Water District, Central Arizona Water Conservation District, and Southern Nevada Water Authority) urged Reclamation to leave that water in Lake Mead rather than reallocate it to another state.

<u>Binational activities</u>
Board staff reported that little progress has been made since October on binational water supply and management issues, but that the objective remains to complete a comprehensive agreement, or minute, by early next year. Several small groups were formed to address various legal questions, and Reclamation is preparing a report on analysis that was done on potential shortage and surplus triggers for Mexico. Reclamation is also preparing a document, called "Exploratory Cooperative Binational Package," to use as a basis for further discussions with Mexico.

<u>Water Quality</u>
The Colorado River Basin Salinity Control Forum met in October and adopted the 2011 Triennial Review, which is an assessment of salinity standards; reviewed potential funding from

the 2012 federal farm bill; and heard reports on the status of an important salinity reduction project located in the Paradox Valley in Colorado. The Forum did not recommend any changes to existing salinity standards and found that the salinity criteria were unlikely to be exceeded during the next three years. The Paradox Valley project uses an injection well to dispose of highly saline water, preventing salts from reaching the Colorado River. The well is considered to be potentially failing, and the Forum recommended that Reclamation begin studies of alternative projects for salt removal, including an evaporative pond, or a complete replacement of the existing injection well.

Colorado River Basin Study

California participants in the study are working with Reclamation to complete projections of water demands through under various scenarios, and developing the process for the second phase of the study. The second phase, Options and Strategies, will look at opportunities to address future imbalances between demand and supply. The study will recommend general concepts for addressing the imbalances, but not any specific project for future development.

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

Attachment

SUMMARY WATER REPORT
COLORADO RIVER BASIN
October 31, 2011

RESERVOIR STORAGE (as of October 30)	MAF	ELEV. IN FEET	% of Capacity	October 2, 2011 MAF	ELEV. IN FEET	% of Capacity
Lake Powell	17.259	3,650.4	71	17.573	3,652.8	72
Flaming Gorge	3.437	6,032.3	92	3.462	6,032.9	92
Navajo	1.327	6,058.3	78	1.325	6,058.2	78
Lake Mead	13.445	1,120.9	52	13.010	1,116.4	50
Lake Mohave	1.436	633.1	79	1.595	639.2	88
Lake Havasu	0.579	448.0	94	0.584	448.2	94
Total System Storage	38.528		65	38.662		65
System Storage Last Year	32.779		55	33.040		55

			October 3, 2011	
WY 2012 Precipitation (Basin Weighted Avg) 10/01/11 through 10/31/11	136 percent (3.3")		120 percent (39.1")	
WY 2012 Snowpack Water Equivalent (Basin Weighted Avg) on day of 10/31/11	N/A		N/A	
(Above two values based on average of data from 116 sites.)				
			September 16, 2011	
October 17, 2011 Forecast of Unregulated Lake Powell Inflow	MAF	% of Normal	MAF	% of Avg.
2011 April through July unregulated inflow Observed	12.891	162 %	12.896	163%
2011 Water Year Observed	16.778	139 %	16.822	140%

USBR Forecasted Year-End 2011 and 2010 Consum. Use, October 31, 2011 a. MAF

	Total	Conserved	2011 Diversion	- Return =	Net	2010
Nevada (Estimated Total)			0.463	0.219	0.244	0.243
Arizona (Total)			3.654	0.858	2.796	2.792
CAP Total					1.597	1.653
Az. Water Banking Authority					*0.134*	*0.134*
OTHERS					1.199	1.140
California (Total) b./			4.921	0.604	4.317	4.363
MWD					0.705	1.099
3.85 Agriculture	Total	Conserved			Forecasted	Estimated
IID c./	3.258	-0.360			2.898	2.547
CVWD d./	0.346	-0.031			0.315	0.304
PVID	0.328	0			0.328	0.274
YPRD	0.049	0			0.049	0.039
Island e./	0.007	0			0.007	0.006
Total Ag.	*3.988*	*-0.391*			*3.597*	*3.170*
Others					0.015	0.094
PVID-MWD fallowing to storage (to be determined)					--	0
Arizona, California, and Nevada Total f./			**9.038**	**1.681**	**7.357**	**7.399**

a./ Incorporates Jan.-Sep. USGS monthly data and 75 daily reporting stations which may be revised after provision: data reports are distributed by USGS. Use to date estimated for users reporting monthly and annually.

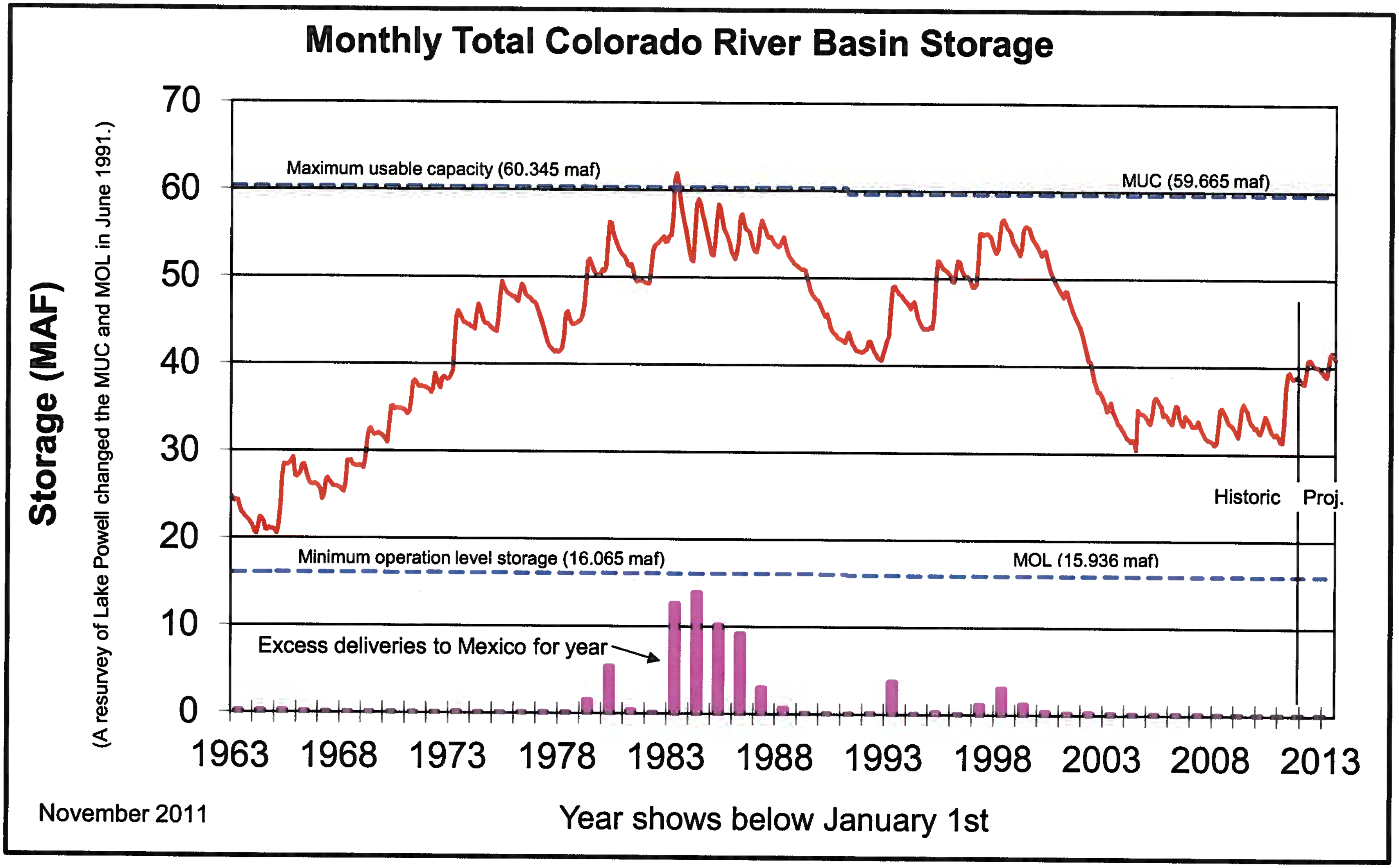
b./ California 2011 basic use apportionment of 4.4 MAF has been adjusted to 4.174 MAFfor payback of Inadvertent Overrun and Payback Policy overruns (-1,213 AF), Intentionally Created Surplus Water by IID (-25,000 AF), Creation of Extraordinary Conservation ICS MWD (-200,000 AF)

c./ 0.105 MAF conserved by IID-MWD Agreement as amended in 2007: 105,000 AF conserved for SDCWA under the IID-SDCWA Transfer Agreement as amended, 80,000 AF of which is being diverted by MWD; 16,000 AF required to conserved for CVWD under the IID-CVWD Acquisition Agreement, 67,700 AF conserved by the All-American Canal Lining Project.

d./ 30,850 acre-feet conserved by the Coachella Canal Lining Project.

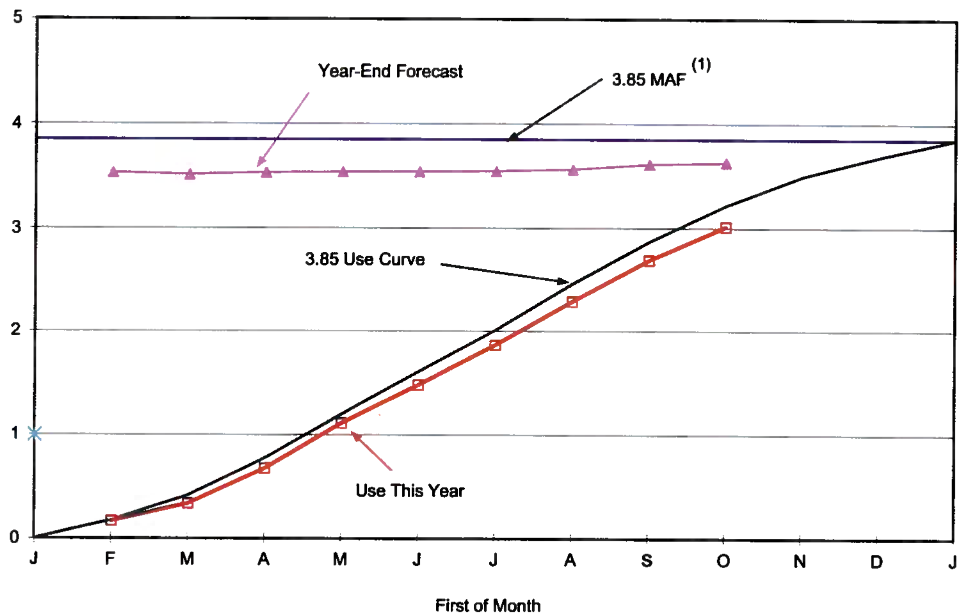
e./ Includes estimated amount of 6,530 acre-feet of disputed uses by Yuma Island pumpers and 0 acre-feet by Yuma Project Ranch 5 being charged by USBR to Priority 2.

f./ Includes unmeasured returns based on estimated consumptive use/diversion ratios by user from studies provided by Arizona Dept. of Water Resources, Colorado River Board of California, and Reclamation.



Monthly Total Colorado River Basin Storage
Storage (MAF)
(A resurvey of Lake Powell changed the MUC and MOL in June 1991.)
70
60
50
40
30
20
10
0
Maximum usable capacity (60.345 maf)
MUC (59.665 maf)
Historic
Proj.
Minimum operation level storage (16.065 maf)
MOL (15.936 maf)
Excess deliveries to Mexico for year
1963
1968
1973
1978
1983
1988
1993
1998
2003
2008
2013
November 2011
Year shows below January 1st

FIGURE 1
NOVEMBER 1, 2011 FORECAST OF 2011 YEAR-END COLORADO RIVER WATER USE BY THE CALIFORNIA AGRICULTURAL AGENCIES



Forecast of Colorado River Water Use
by the California Agricultural Agencies
(Millions of Acre-feet)

Month	Use as of First of Month	Forecast of Year End Use	Forecast of Unused Water (1)
Jan	0.000	———	———
Feb	0.167	3.533	0.009
Mar	0.335	3.514	0.028
Apr	0.674	3.531	0.011
May	1.107	3.539	0.004
Jun	1.473	3.541	0.001
Jul	1.861	3.546	-0.004
Aug	2.285	3.566	-0.023
Sep	2.686	3.615	-0.073
Oct	3.011	3.631	-0.089
Nov			
Dec			
Jan			

(1) The forecast of unused water is based on the availability of 3.542 MAF under the first three priorities of the water delivery contracts. This accounts for the 85,000 af of conserved water available to MWD under the 1988 IID-MWD Conservation agreement and the 1988 IID-MWD-CVWD-PVID Agreement as amended; 80,000 AF of conserved water available to SDCWA under the IID-SDCWA Transfer Agreement as amended being diverted by MWD; as estimated 29,000 AF of conserved water available to SDCWA and MWD as a result of the Coachella Canal Lining Project, 67,700 AF of water available to SDCWA and MWD as a result of the All American Canal Lining Project; 14,500 AF of water IID and CVWD are forbearing to permit the Secretary of the Interior to satisfy a portion of Indian and miscellaneous present perfected rights use and 25,000 AF of water IID is conserving to create Extraordinary Conservation Intentionally Created Surplus. 0 AF has been subtracted for IID's Salton Sea Salinity Management in 2011. As USBR is charging uses by Yuma Island pumpers to priority 2, the amount of unused water has been reduced by those uses - 6,530 AF. The CRB does not concur with USBR's viewpoint on this matter.

CARPI
&CLAY
GOVERNMENT
RELATIONS

Date: December 6, 2011

To: San Diego County Water Authority Board Members

From Ken Carpi and Jonathan Clay
Legislative Representatives

Subject: Legislative Update

Sacramento

As always in Sacramento, budget seems to be at the forefront of discussions. While there is no indication that the legislature will return in December to try and alter some of the "trigger cuts" due to the shortfall in budget revenue projections, the budget is on everyone's mind.

Higher education is extremely worried about the trigger cuts and how they will implement the cuts; Cal Fire is still grappling with filling their budget hole while fulfilling their fire protection duties and public safety responsibility; redevelopment agencies are trying to figure out the implications of paying the "ransom fee" in order to continue to operate; pension costs and reform are routinely discussed; and realignment from the State to counties and cities is occurring much to the concern of local governments.

We will be entering a new political landscape in the coming year with the new district lines being drawn and top-two voting, that one remains hopeful the Governor and the legislature will be able to solve the myriad of problems they continue to face. However, the initiative process appears to continue to be the public's way of legislating with a number of initiatives being circulated ranging from Constitutional protections for Counties under the new realignment plan; providing additional income taxes in order to pay for higher education and K-12 education; and amending Prop 13 to allow assessment and taxation of nonresidential real property.

The Governor just filed his own initiative this week to raise the income tax rate on those families earning more than $500,000 a year and a temporary 1/2 cent sales tax increase to fund education and public safety. The Governor wrote an open letter to the citizens of California explaining the need for the proposal and his frustration in dealing with the legislature... "I am going directly to the voters because I don't' want to get bogged down in partisan gridlock as happened this year. The stakes are too high". It remains to be seen what will actually get to the voters on a ballot and be passed. This should be an interesting year ahead.

Washington, DC

Congressional Schedule – Both houses of Congress reconvened November 29th to begin the final legislative push to year-end adjournment of the First Session of the 112th Congress. During November all eyes were on the Deficit Reduction "Super Committee" with the hope that a grand budget agreement could be reached. This would not be the case. As it now stands, the December 8th target date for adjournment will likely slip deep into December.

Deficit Reduction "Super Committee" – The Budget Control Act agreement enacted in August set up a unique Super Committee process with the hope that such a committee, free from procedural hurdles and comprised of senior House and Senate lawmakers of both parties, would be able to identify and recommend at least $1.2 trillion budget reforms and savings. Despite the hope and hype, the Super Committee announced Thanksgiving week that it was unable to reach such an agreement.

Near-term, this lack of agreement leaves Congress with four weeks in December to not only to finish the appropriations bills but also address all the other issues it was hoped the Super Committee would resolve. For instance, the Super Committee was widely expected to extend the expiring payroll tax cut and fund unemployment benefits for the long-term unemployed, also set to expire December 31st. It was also hoped the Committee would recommend actions to avert scheduled cuts in reimbursements to doctors serving the Medicare program. In addition, there are myriad tax credit programs important to the economy (e.g. R& D Tax Credit) and taxpayers (Alternative Minimum Tax) also set to expire. Without the recommendations of the bipartisan Super Committee, the Congress' task is more difficult.

Longer term, the result of the Super Committee's failure triggers a $1.2 trillion budget sequestration that will be enacted in January 2012 with cuts scheduled for January 2013. Cuts to domestic spending will total $294 billion over 10 years, starting with a 7.8% cut in 2013. These cuts will come on top of the spending caps included in the Budget Control Act. Which programs will be cut and by how much will be determined annually through the budget and appropriations process.

EPA Studies Value of Water - The Environmental Economics Advisory Committee of the EPA is conducting a study on "The Value of Water to the U.S. Economy."

EPA's justification of the need for the study includes the following:

> *A qualitative review of the literature provides some insights on the importance of water to key sectors of the economy, such as the energy, agriculture, construction, tourism, fishing, manufacturing, and public water supply sectors, but the information tends to be incomplete.*
>
> *As a consequence, EPA and others are unable to systematically and comprehensively analyze the value of water to the U.S. economy, <u>resulting in</u>*

> *<u>potentially inefficient resource protection and management decisions</u>. …… This project will serve as a catalyst to integrate market and nonmarket "pricing" information that is critical to support private and public decision-making at multiple scales (e.g., national, state, regional, watershed, local).*

The Advisory Committee is soliciting comments and had a 4-hour public conference call meeting this week. Many state-wide and national groups are lining up either in support or opposition to the need for the study. Some believe more national oversight is needed in resource protection and water management decisions. Others are concerned that the committee's recommendations will result in a broader definition of the EPA's role in implementation of the Clean Water Act and ultimately a more encompassing definition of "waters of the United States."