

WEST BASIN MUNICIPAL WATER DISTRICT**JULY 12, 2007 – Water Resources**

Little (No Quorum)

JULY 23, 2007 – Board Meeting

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INFORMATION CALENDAR

METROPOLITAN WATER DISTRICT ACTIVITIES UPDATESUMMARY:

This staff report on Metropolitan Water District (MWD) issues is intended to brief West Basin Municipal Water District (District) Directors on activities and issues relevant to the District and its customer agencies. The first section, "On-Going Issues" is a status update on current studies, reports, and/or policy work groups that staff are involved with. The second section, "Current Month's Issues," is a report on noteworthy items that are being covered at the current month's MWD board meeting. The last section, "Upcoming issues" is a preview of new and forthcoming issues important to the District. This format is intended to keep the Board informed about current and future items at MWD in order to provide direction to staff and its MWD representatives in a timely manner, if required.

ON-GOING ISSUESLocal Resources Program (LRP) Working Group

Purpose: This past April, the MWD board approved a new process for selecting LRP projects. As part of the implementation of the new policy and process, MWD will reassemble the workgroup of member agencies to review the draft application package for selecting new LRP projects, and issue the final application package later this summer.

Update: MWD released the draft application package at the end of June for review by the Member Agencies. West Basin staff will provide a report on the draft application at the July Board meeting.

MWD's Enhanced Role in Local Resources Development

Purpose: Included in the MWD board's April action regarding the LRP process was a commitment to enhancing MWD's role in advancing local resources development, including at a minimum recycled water, groundwater recovery, groundwater storage, and seawater desalination. This effort will be primarily focused on MWD and the Member Agencies jointly taking a more proactive approach in addressing traditional legislative and regulatory barriers to greater local resource acceptance and use.

Update: On June 20, MWD staff held the first of what will be bi-monthly meetings on this new initiative. The most productive outcome of the meeting was to begin a collective dialogue identifying new policies, tactics, and other means necessary to be more successful throughout the region with recycled water, brackish groundwater recovery, groundwater storage and seawater desalination. West Basin was active in assisting with a matrix of recommendations that included legislative, regulatory, outreach, R&D, feasibility/pilot/demonstration study, and environmental components.

Diamond Valley Lake Recreation Plan

Purpose: MWD Diamond Valley Lake (DVL) Recreation Plan includes an array of projects ranging from the development of hiking trails, recreational facilities, commercial and residential property, to the sale of surplus property on land surrounding DVL totaling over 3,000 acres. MWD staff is currently asking the Board for policy guidelines pertaining to its DVL recreation program in the key areas of recreation development, business planning, and commercial/residential development.

Earlier this year, Chairman Tim Brick announced the formation of a Real Estate & Asset Management Subcommittee, under the direction of the Finance Committee, to oversee the DVL Recreation Plan. Among the duties of the Subcommittee will be review of the business plan, facilities design and financing.

Update: The City of Hemet has been discussing financial proposals with MWD on how to jointly finance the recreational components of DVL, particularly on-going operation & maintenance expenses. MWD staff is expected to release their "DVL Recreation Business Plan" in conjunction with the City of Hemet's proposals. MWD's Real Estate & Asset Management Subcommittee has not yet scheduled its first meeting. No new information is available at the time of drafting this memorandum.

Energy Management Plan Update

Purpose: As part of the worldwide awareness of global climate change and the State's energy shortage, MWD has embarked on an Energy Management Plan to focus its efforts on reducing its "carbon footprint" and energy use by looking into renewable sources of energy such as Hydro, Wind, and Solar power, as well as review MWD's long-term energy contracts with the State Department of Water Resources. The following are formal actions taken by the MWD board to date relative to energy management activities:

- Approval of MWD's registration with the California Climate Action Registry (February 2007)
- Approval of 1MW solar energy project design for the Skinner Filtration Plant (May 2007)

Update: No new information is available at the time of drafting this memorandum.

Report on Groundwater Capabilities

Purpose: Earlier in the year MWD's Board directed its staff to prepare a report documenting the use and status of groundwater resources within the Metropolitan service area. The goal of this regional study is to compile existing baseline information that summarizes production, recharge, water quality, and water level trends of the groundwater resources within the Metropolitan service area. This baseline assessment study is anticipated to lay the groundwork for future policy discussions regarding increasing MWD's groundwater storage opportunities within the region.

Update: MWD staff plans to incorporate comments received in June on the draft report and provide the final report to the MWD board for approval in September.

MWD's Long-Range Finance Plan

Purpose: As of part of MWD's adoption of its Fiscal Year 2007-08 water rates, the Board requested staff to review and update its Long-Range Finance Plan (LFRP), which was last adopted in 2004. Specifically, the Board and member agencies requested a review of MWD's financial

policies, revenues, operating and maintenance costs, water supply alternatives, reserve levels, and water rate incentives. MWD's Chief Financial Officer, Brian Thomas, recommended a phased approach to the update process, including Phase 1 - Cost/Sales Forecast; Phase 2 - Financial Policies and Strategies; Phase 3 - Revenue Enhancements. An additional phase - Rate Structure Issues, was also added and will run concurrently with Phases 1 through 3. MWD plans to finalize the updated LRFP, including any policy recommendations to the board, by December 2007.

Update: Multiple meetings have already been held on Phases 1 and 2. The first meeting on Phase 4 was also held on June 27 with the objective of establishing the scope and schedule of the rate structure review. Among the key items to be addressed in Phase 4 will be a review of existing components, including Cost of Service methodology, Tier 1/Tier 2 differential, Capacity Charge, Power Rate, Readiness to Serve charge, Replenishment Program, and Interim Agricultural Water Program. New rate concepts will also be discussed, including Growth Charge, Treated Water Peaking Charge, and Drought Pricing. The next LRFP Rate Structure meeting will be July 23.

Bay-Delta/State Water Project

Summary: MWD has entitlement to, and pays for, roughly half of the State Water Project. Less Colorado River supplies in recent years has meant that MWD has become increasingly reliant on supplies from the SWP to meet demands. The Bay-Delta, from which the SWP and the federal Central Valley Project (CVP) draw their deliveries, is a strained eco-system of competing needs, and extremely vulnerable to seismic or other catastrophic event. Governor Swarzenegger has called for a long-term vision for Delta sustainability, while short-term levee improvements are already underway.

Update: On June 10, the Natural Resources Defense Council (NRDC) filed a motion in U.S. District Court in Fresno seeking a temporary restraining order and preliminary injunction requiring the Bureau of Reclamation and the Department of Water Resources to implement protections for Delta smelt, an endangered fish species in the Delta. If granted, the protective measures would have had the effect of shutting down the State and Federal pumps that provide water to the State Water Project and Central Valley Projects, respectively.

After a lengthy hearing on the case (*NRDC v. Kempthorne*) on June 22, Federal District Judge Oliver Wanger denied the request for a temporary restraining order on pumping operations, citing insufficient scientific evidence that a pumping shutdown was needed to avoid jeopardy and possible extinction of the species. Such a shutdown would, he opined, cause major irreparable injury to urban and agricultural water users. Judge Wanger also indicated any new motion filed by NRDC would be heard on an expedited basis if new evidence could be brought to bear. NRDC has not indicated that it would file again on this matter.

Judge Wanger previously ruled on May 25, 2007 that the Federal Biological Opinion (BiOp) for impacts of the CVP/SWP on Delta smelt was illegal and failed to satisfy the requirements of the Endangered Species Act (ESA). A hearing on remedies has been set for August 21, 2007 to address the issue of how the projects should be operated in the interim while a new Delta smelt BiOp is being developed.

MWD Treated "Pump-In" Policy

Purpose: As part of MWD's goal to discuss new and creative ways to promote operational flexibility and reliability within its service area, member agencies and in particular Municipal Water District of Orange County (MWD OC), have recently presented a number of proposals to introduce