

WEST BASIN MUNICIPAL WATER DISTRICT

SEPTEMBER 13, 2007 – Water Resources
Smith (Chair), Little

SEPTEMBER 24, 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 the Board of Directors on activities and issues relevant to West Basin 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. The new program allows for an open process to accept and review project applications on a continuous basis for the development of 174,000 acre-feet (AF) of new local resources at an incentive level of up to \$250/AF over a 25-year period.

Update: MWD staff finalized the application and is now ready to receive proposals for the development of new recycling and groundwater recovery projects. The application is available on the MWD website under Local Resources Program Application.

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. Bi-monthly meetings will be held to focus 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 August 29, MWD held its second local resource development meeting. West Basin, San Diego, Los Angeles, Anaheim, Orange County and Central Basin shared recommendations that will be prioritized and action items developed over the next few months to address barriers to greater local resources development.

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 asked 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 in the year, Chairman Tim Brick announced the formation of a Real Estate & Asset Management Subcommittee, under the direction of the Finance Committee Vice-Chair Aaron Grunfeld of LAWDP, to oversee the DVL Recreation Plan and the Center for Water Education. Among the duties of the Subcommittee will be review of the business plan, facilities design and financing.

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.

Update: MWD plans to hold a Board workshop on DVL Recreation in the fall.

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: In October, MWD staff will update the Board on the status of its energy management plan and how MWD can invest in the renewable energy fields of hydro, wind, and solar power.

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 submit the final draft report for review and approval at this month's Water Planning and Stewardship Committee.

MWD's Long Range Finance Plan

Purpose: As part of MWD's adopted Fiscal Year 2007-08 water rates, the Board requested staff to review and update its Long Range Finance Plan (LFRP), which was last updated 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 LRF, including any policy recommendations to the board, by December 2007.

Update: In August, MWD staff provided a sensitivity analysis on MWD's Rates and Charges in light of the recent conditions of potential cut backs of State Water Project (SWP) supplies as well as unanticipated increases in expenses from Quagga Mussels control measures, Cargill settlement costs, and additional R&R expenditures.

Among the scenarios reviewed were supply cuts from the SWP, additional expenditures for water transfer purchases, and lower than expected sales of water. The analysis included net revenue impacts; reserve funding levels, and revenue bond debt ratio coverage levels. The potential responses to mitigate such financial impacts included lowering PAYGO levels, increasing Rates & Charge, reducing program costs in the areas of conservation, Local Resources, and Capital improvements, and potentially selling assets. Although still undetermined, MWD staff estimate average rate increases of 10% (+\$60/AF) in 2009, 9% (+\$50/AF) in 2010, and 2% (\$10/AF) in 2011 and 2012.

MWD staff plans to present these scenarios to the Finance and Budget Committee this month for review and comment.

Bay-Delta/State Water Project

Summary: MWD has entitlement to, and pays for, roughly half of the State Water Project (SWP). 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.

Proposals were submitted to the Federal District Court (Judge Wanger) for how to operate the state and federal pumps in the Delta on an interim basis until new ESA and FESA permits are secured – most likely in late 2008. The State Water Contractors, including MWD, DWR – on behalf of state and federal operations - and the NRDC (plaintiffs in the federal lawsuit) all submitted proposals. Preliminary analysis by MWD shows NRDC's proposal would result in a 30% to 50% loss of SWP water delivered to Southern California. DWR's proposal would result in a 25% to 30% loss of water from the Delta. The SWC position, proposed by MWD, plans for operations in the Delta which can reduce water loss to the ranges of 10% to 15% and still adequately protect fish species.

Update: The SWP pumps are currently operating at near-full capacity and MWD expects to receive all of its 60% allocation for calendar year 2007. By the end of the month, MWD will have moved 90% of its 1.15 million acre-feet (MAF) allocation. Including carry-over deliveries, MWD will receive approximately 1.48 MAF in total from the SWP this year.

In August, Chairman Tim Brick called a meeting of the Special Committee on Bay-Delta Issues to discuss three key items. First was an update on staff's assessment of the court hearing. Jeff Kightlinger stated Judge Wanger is hearing testimony on the three different proposals submitted from the Plaintiffs, DWR/Bureau, and State Contractors. Judge Wanger is expected to rule from the bench followed by a written order. Second was a presentation on the Delta process timeline

(See attachment). This timeline compares the Governor's Delta Vision, Legal, Biological determination, MWD, and Legislative process all on one graph for 2007 to 2008. The last item was a discussion on MWD's legislative outreach campaign to better inform key legislators on the Bay-Delta activities and policy ramifications. Overall, MWD is calling for a comprehensive proposal to the legislature that includes Delta restorations and environmental protection, Flood Control, and conveyance. MWD is asking all directors to talk to their local legislators and policy makers on the Bay-Delta situations and the importance on a comprehensive package. MWD's external affairs department will have available for Directors and member agencies talking points and fact sheets for such meetings. In addition, MWD is scheduling additional Bay-Delta tours for policy leaders and legislators. There will be three types of tours, 1/2 day, 1 day and 2 day trips.

Federal District Court Update: On Friday, August 31, U.S. District Court Judge Oliver Wanger delivered a preliminary ruling "from the bench" on how the state and federal pumps in the Delta should be operated on an interim basis until new biological opinions are completed and the resulting ESA and FESA permits are secured – most likely in late 2008. The decision pieces together a series of restrictions on the two projects based on elements of the plaintiff's (NRDC) as well as the state and federal resources agencies. Importantly, the ruling does not immediately impact Metropolitan's state supplies this year, but could result in as much as a 30% curtailment in 2008 and possibly longer. While MWD analyzes the impacts of the future reductions in supply based on the preliminary ruling, a more detailed written decision is forthcoming.

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 (MWDOC), have recently presented a number of proposals to introduce non-MWD potable water (i.e. groundwater and surface water) into MWD's distribution system. Such "pump-In" proposals can provide local reliability and flexibility to member agencies while at the same time defer capital expansion and provide operational flexibility to MWD at certain locations. However, due to the water quality concerns of introducing non-MWD treated water and the significant policy issue these proposals raise, a member agency workgroup has been formed to study the issues and craft a set of policy principles in which MWD staff can bring forth to the Board for possible adoption.

As an aggressive developer of local water supplies, West Basin may seek in the future to introduce such non-MWD water into the MWD distribution system for local and regional benefit. The District will remain actively engaged in these discussions and will provide timely updates to your Board on related projects and policies.

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

Water Conservation Communication Plan

Summary: Record dry conditions locally, below normal rainfall and snowpack affecting all Southern California's imported water sources, and export reductions from the Delta have prompted MWD to expand its conservation media and outreach campaign. The current "Let's Save" campaign sponsors traffic report radio spots on 91 radio stations throughout MWD's entire service area through mid-July.

At its June meeting, MWD board approved an additional \$6.3 million to extend the time and scope of the conservation campaign. The campaign will include radio, television, print, on-line, and