

WORKSHOP MEETING OF THE
BOARD OF DIRECTORS WITH MET DIRECTORS
MUNICIPAL WATER DISTRICT OF ORANGE COUNTY
18700 Ward Street, Board Room, Fountain Valley, California
September 1, 2010, 8:30 a.m.

Teleconference Site:
20989 Park Lane
Rollins, MT 59931
(406) 844-2282

Members of the Public may attend and participate in the meeting at both locations.

AGENDA

PLEDGE OF ALLEGIANCE

ROLL CALL

PUBLIC PARTICIPATION/COMMENTS

At this time members of the public will be given an opportunity to address the Board concerning items within the subject matter jurisdiction of the Board. Members of the public may also address the Board about a particular Agenda item at the time it is considered by the Board and before action is taken.

The Board requests that all members of the public who want to address the Board complete a "Request to be Heard" form available from the Board Secretary prior to the meeting.

ITEMS DISTRIBUTED TO THE BOARD LESS THAN 72 HOURS PRIOR TO MEETING

Pursuant to Government Code Section 54957.5, non-exempt public records that relate to open session agenda items and are distributed to a majority of the Board less than seventy-two (72) hours prior to the meeting will be available for public inspection in the lobby of the District's business office located at 18700 Ward Street, Fountain Valley, California 92708, during regular business hours. When practical, these public records will also be made available on the District's Internet Web site, accessible at <http://www.mwdoc.com>.

(NEXT RESOLUTION NO. 1890)

ACTION

1. LETTER OF SUPPORT FOR METROPOLITAN'S 2010 INTEGRATED RESOURCES PLAN

Recommendation: Review, discuss, and take action as appropriate.

DISCUSSION ITEMS

2. UPDATE ON BAY-DELTA ISSUES

Recommendation: Review, discuss, and take action as appropriate.

3. MET'S ADOPTED BUDGET AND RATES FOR FY 2011/2012

Recommendation: Review, discuss, and take action as appropriate.

4. MET ITEMS CRITICAL TO ORANGE COUNTY

- a. MWD's Water Supply Allocation Plan
- b. MWD Integrated Resource Plan 2010 Update
- c. Long Range Finance Plan
- d. Colorado River Issues
- e. Bay Delta/State Water Project Issues
- f. MET's Ocean Desalination Policy and Potential Participation by MET in the South Orange Coastal Ocean Desalination Project (formerly Dana Point Desalination Project)
- g. IRWD Strand Ranch Water Transfer & MET's Policy on State Water Project Transfers
- h. Orange County Reliability Projects

Recommendation: Discuss and provide input on information relative to the MET items of critical interest to Orange County.

5. METROPOLITAN (MET) BOARD AND COMMITTEE AGENDA DISCUSSION ITEMS

- a. Summary regarding August MET Board Meeting
- b. Review items of significance for the September MET Board and Committee Agendas

Recommendation: Review, discuss and take action as appropriate.

ADJOURNMENT

Note: Accommodations for the Disabled. Any person may make a request for a disability-related modification or accommodation needed for that person to be able to participate in the public meeting by telephoning Maribeth Goldsby, District Secretary, at (714) 963-3058, or writing to Municipal Water District of Orange County at P.O. Box 20895, Fountain Valley, CA 92728. Requests must specify the nature of the disability and the type of accommodation requested. A telephone number or other contact information should be included so that District staff may discuss appropriate arrangements. Persons requesting a disability-related accommodation should make the request with adequate time before the meeting for the District to provide the requested accommodation.



ACTION ITEM
September 1, 2010

TO: Board of Directors

FROM: Kevin Hunt
General Manager

Staff Contact: Harvey De La Torre

SUBJECT: Letter of Support for Metropolitan's 2010 Integrated Resource Plan

STAFF RECOMMENDATION

Staff recommends the Board of Directors to authorize the President to sign a letter to Metropolitan Water District of Southern California supporting the 2010 Integrated Resource Plan (IRP) update.

REPORT/SUMMARY

Over the past year, Municipal Water District of Orange County (MWDOC) has actively participated in the development of Metropolitan Water District (MET) IRP. This planning document will guide MET's long-term policies and investments to meet the challenges and uncertainties facing our future water supply reliability.

Staff has reviewed the 2010 IRP draft report and finds that it represents a comprehensive and responsible approach to meeting future water demands for the region in light of many uncertainties and risks. Moreover, the fundamental elements of the IRP are consistent with the needs of Orange County and its future growth. They include:

- Promotes a diversified range of water supply options and investments
- Enhances MET's role as the regional provider; reaffirming the historic Laguna Declaration and mission statement
- Uses an Adaptive Management approach that can mitigate risks beyond hydrology
- Allows for the flexibility in further developing local supplies through partnerships, financial options, and ownerships
- Creates a Supply Buffer to help avoid costly supply shortages through prudent investments in additional water use efficiency and local supply yield

Budgeted (Y/N):	Budgeted amount:
Action item amount:	Line item:
Fiscal Impact (explain if unbudgeted):	

- Includes a regional 20x202 water use efficiency target

Based on these elements, MWDOC staff recommends that the Board authorize the President to submit a letter to MET supporting the 2010 IRP prior to the scheduled Board Workshop on September 17.

Exhibit - MWDOC Board Letter of Support



September 1, 2010

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General Manager

MEMBER AGENCIES

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East Orange County Water District
El Toro Water District
Emerald Bay Service District
City of Fountain Valley
City of Garden Grove
Golden State Water Co.
City of Huntington Beach
Irvine Ranch Water District
Laguna Beach County Water District
City of La Habra
City of La Palma
Mesa Consolidated Water District
Moulton Niguel Water District
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Santa Margarita Water District
City of Seal Beach
Serrano Water District
South Coast Water District
Trabuco Canyon Water District
City of Tustin
City of Westminster
Yorba Linda Water District

Mr. Tim Brick, Chairman
Metropolitan Water District Metropolitan Water District
of Southern California
P. O. Box 54153
Los Angeles, CA 90054-0153

Dear Chairman Brick:

SUPPORT FOR 2010 INTEGRATED RESOURCES PLAN UPDATE

On behalf of the Municipal Water District of Orange County (MWDOC), I would like to express our support for the 2010 Integrated Resources Plan Update (IRP) and urge the Metropolitan Water District (MWD) Board of Director to adopt this key planning document and re-affirm MWD's continued commitment to the region's water reliability under the historic Laguna Declaration.

We commend MWD for proposing an "Adaptive Management" approach to the 2010 plan that can achieve our reliability goals through the elements of the "Core Resource Strategy", the "Operational Supply Buffer", and the "Foundational Actions". There are significant risks beyond hydrology, such as delays in a "Delta fix", potential earthquakes, and changing legal, environmental, and regulatory conditions that require us to have a flexible plan. We believe implementing the proposed "Supply Buffer" can help avoid costly supply shortages through prudent investments in additional water use efficiency and local supply yield.

Lastly, MWDOC strongly supports MWD enhancing the region's water supply reliability through collaborative efforts with its member agencies, including partnerships, expanding financial options and ownerships in local projects.

Sincerely,

Joan C. Finnegan
President, Board of Directors

cc: MWDOC MET Directors
Jeff Kightlinger, MWD



DISCUSSION ITEM

September 1, 2010

TO: Board of Directors

FROM: Kevin Hunt
General Manager

Staff Contact: Harvey De La Torre

SUBJECT: Update on Bay-Delta Issues

STAFF RECOMMENDATION

Staff recommends the Board of Directors review and discuss this information.

REPORT/SUMMARY

Metropolitan's General Manager Jeff Kightlinger will provide an update on Bay Delta issues. Some the topics we will discuss include:

- Status on the near-term Delta Improvement Projects, e.g. Two Gates, Delta habitat improvements
- Potential impacts with the recent delay of the Water Bond to 2012
- MET thoughts on the recent Flow Criteria Report
- Budget for Bay-Delta Conservation and Delta Habitat Conservation and Conveyance Program

Budgeted (Y/N):	Budgeted amount:
Action item amount:	Line item:
Fiscal Impact (explain if unbudgeted):	



DISCUSSION ITEM
September 1, 2010

TO: Board of Directors

FROM: Kevin Hunt
General Manager

Staff Contact: Harvey De La Torre

SUBJECT: MET's Adopted Budget and Rates for FY 2011/12

STAFF RECOMMENDATION

Staff recommends the Board of Directors review and discuss this information.

BACKGROUND

In April, the Metropolitan Board decided to move forward on adopting a two-year budget and rates. The belief was that a two-year budget cycled would provide more predictability and consistency in planning Metropolitan's finances. The Board adopted a 7.5% rate increase for 2011 and 2012, however, because there was not enough detail in April on the Fiscal Year (FY) 2011/12 budget, the Board requested staff to come back in August and hold a Budget workshop providing the necessary detail to seek board approval.

This report provides the key components of Metropolitan's FY 2011/12 budget as well as the projected rates for 2012 and beyond.

REPORT

MET's Adopted Budget for FY 2011/12

This FY 2011/12 budget will total \$1.84 billion, which includes a Capital Improvement Program (CIP) of \$341 million. As illustrated below, this budget is approximately \$187 million more than the FY 2010/11 budget mainly because of the increases in SWP costs, Departmental O&M, Supply Programs, Debt service payments and the CIP budget.

Budgeted (Y/N):	Budgeted amount:
Action item amount:	Line item:
Fiscal Impact (explain if unbudgeted):	

Millions of Dollars	2008/09 Actual	2009/10 Actual	2010/11 Budget	2011/12 Budget	2011/12 Budget Compared to 2010/11 Budget
State Water Contract	\$ 394.7	\$ 438.2	\$ 488.5	\$ 517.1	\$ 28.5
Supply Programs	76.3	121.9	101.4	119.1	17.7
Colorado River Power	37.4	42.4	59.6	61.5	1.9
Debt Service	287.1	293.7	331.7	351.9	20.2
Demand Management	75.6	62.4	58.2	59.1	0.8
O&M	344.62	335.4	336.8	374.0	37.2
Sub-Total	\$ 1,215.8	\$ 1,294.0	\$ 1,376.3	\$ 1,482.6	\$ 106.4
CIP	416.7	283.5	259.9	341.0	81.1
Total Expenditures	\$ 1,632.5	\$ 1,577.5	\$ 1,636.2	\$ 1,823.7	\$ 187.4

Note: Totals may not foot due to rounding

As illustration above the key cost drivers for the FY 2011/12 Budget are:

- **State Water Contract** costs are expected to increase \$28.5 million from last year due to increased power costs and SWP charges as a result of 100,000 AF more SWP water deliveries (45% "Table A" SWP).
- **Supply Programs** are expected to increase \$17.7 million due to increases in Palo Verde Irrigation District following costs, Yuma Desalter, and water transfers.
- **Debt Service** is expected to increase \$20.2 million as a result of additional bond financing to cover Capital and Repair & Replacement projects.
- **Departmental O&M** is expected to increase \$37.2 million due to increased chemical costs, placing \$10 million in OPEB pre-funded liability, increasing the operating equipment budget, and having a 2% merit pool ("zero" cost-of-living increase). MET is also budgeting a 2% contingency fund of \$7.3 million.
- **Capital Improvement Program** is expected to increase \$81.1 million to cover increase Repair & Replacement projects (totaling \$179 million) and water quality projects.

MET's Proposed Rates & PAYGO Funds

In April, the Board adopted a rate increase of 7.5% for 2011 and 2012 (effective January 1) in order to "smooth-out" the needed rate increases to achieve full cost of service and maintain MET's high credit ratings. To achieve this, MET used the assumptions that water sales would total 1.9 million AF for FY 2010/11 and increase to 2.0 million AF in FY 2011/2012. PAYGO would be set at \$95 million for FY 2010/11 and increase to \$125 million for 2011/12 to cover growing repair and replacement costs.

Below is a table illustrating MET's projected rates and PAYGO amounts over the next five-years:

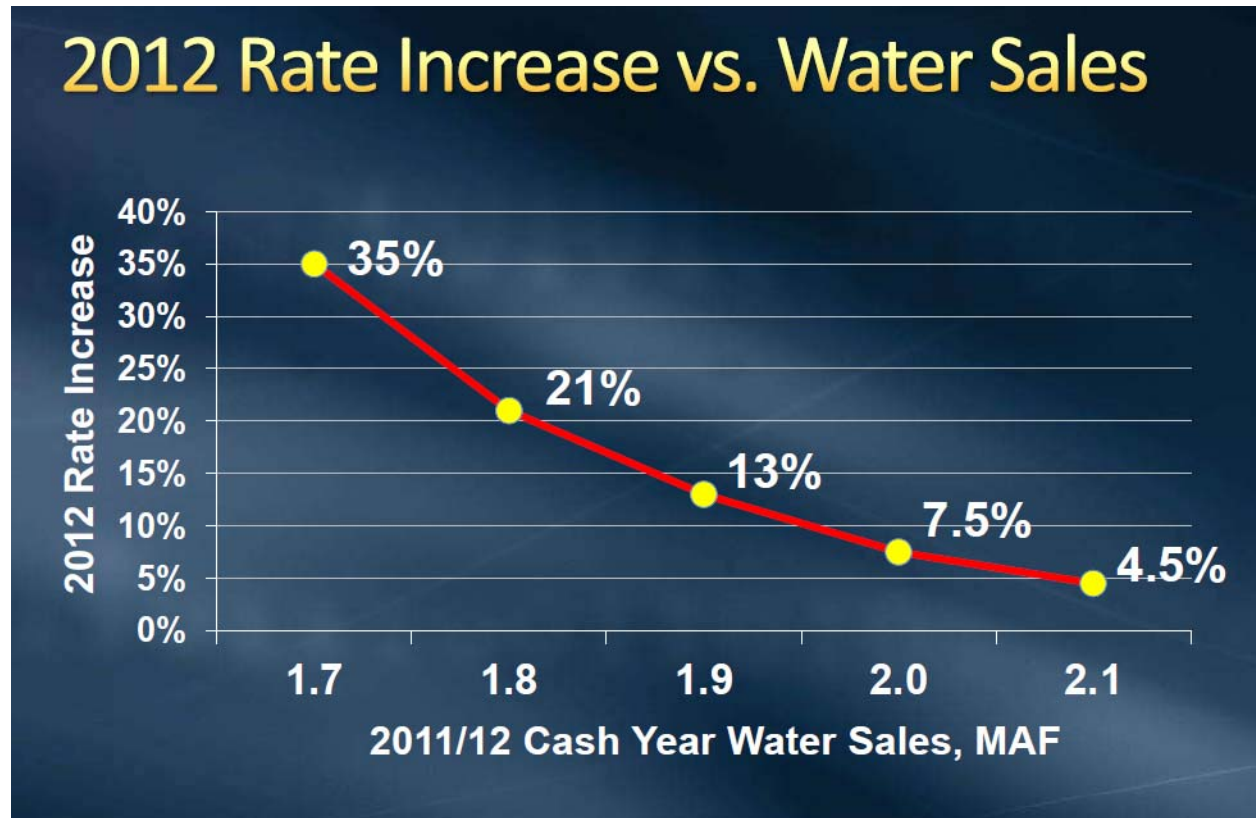


Rate Scenarios

With the recent volatility of water sales due to the Delta pumping restrictions and dry-year conditions, staff conducted a sensitivity analysis associated with decreases in water sales and its impact on future rates.

Under a scenario where water sales drop to 1.8 MAF for FY 2011/12 and gradually increase over 2.0 MAF in 2012 and beyond, MET could maintain its projected rate increases by drawing \$82 million out of its reserves. This means that MET could manage one low sales year and maintain its revenue bond coverage targets by relying on reserves.

However, if water sales drop and remain at 1.8 MAF over the next five years without further increasing in water rates, MET’s financial reserves will be depleted by the year 2015. To achieve full cost of service and maintain its reserves under this sales scenario, MET would need to increase its water rates by approximately 21% instead of 7.5% for 2012. Below is a table illustrating the rate impact associated with different sale estimates:



Next Steps

- January 2011 – General Manager’s Budget and Rate Proposal for FY 2011/12 and FY 2012/13
- February 2011 – Review budget and rate forecast
- March 2011 – Public Hearing
- April 2012 – committee and board action and consideration

MET's Adopted Budget and Rates for FY 2011/12

**Municipal Water District of Orange County
Board Workshop on MET Issues
September 1, 2010**



Major Assumptions for FY 2011/12

- **\$1.84 billion total expenditure budget**
- **\$341 million CIP**
- **2.0 million acre-feet of sales**
- **O&M budget includes**
 - **3.5% inflation assumption**
 - **No COLA**
 - **\$7.0 million for operating equipment**
 - **\$10 million for OPEB**
 - **2% contingency**
- **Meet cost-of-service and coverage targets**



Major Assumptions for FY 2011/12

- **Water Sales**
 - 1.93 MAF 2010/11
 - 2.0 MAF 2011/12 and 2012/13
 - 2.1 MAF 2013/14 and 2014/15
- **CRA diversions average 1.2 MAF/year**
- **SWP deliveries increase 100 TAF in 2013 based on interim Delta improvements (SWP allocation increases from 40% to 45%)**
- **Departmental O&M increases**
- **PAYGO at \$125M in 2011/12 to 2014/15**



Revised Expenditures 2011/12 Proposed Budget

Millions of Dollars	2008/09 Actual	2009/10 Actual	2010/11 Budget	2011/12 Budget	2011/12 Budget Compared to 2010/11 Budget
State Water Contract	\$ 394.7	\$ 438.2	\$ 488.5	\$ 517.1	\$ 28.5
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Debt Service	287.1	293.7	331.7	351.9	20.2
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O&M	344.62	335.4	336.8	374.0	37.2
Sub-Total	\$ 1,215.8	\$ 1,294.0	\$ 1,376.3	\$ 1,482.6	\$ 106.4
CIP	416.7	283.5	259.9	341.0	81.1
Total Expenditures	\$ 1,632.5	\$ 1,577.5	\$ 1,636.2	\$ 1,823.7	\$ 187.4

Totals may not foot due to rounding.

FY 2011/12 O&M Summary



- \$374.0 million budget
 - \$37 million increase from 2010/11
 - \$10 million for OPEB funding
 - \$7.3 million budget contingency (~2% of O&M budget)
 - \$6.6 million in labor increases
 - \$4.9 million increase in operating equipment
- Continued downward trend in positions
 - 149 Total FTE's eliminated since 2007/08
- Managing chemical costs
 - \$1.6 million increase
- Restoring operating equipment
 - \$7 million deferred in 2010/11 alone
- Labor negotiations ongoing

Budget Trend 2011/12 Proposed Budget

Millions of Dollars	2007/08 Actual	2008/09 Actual	2009/10 Budget	2010/11 Budget	2011/12 Proposed
Labor	201.4	202.5	204.7	212.2	218.8
Outside Services	33.7	39.6	36.7	37.5	40.1
Chemicals, Solids & Power	27.4	28.4	32.8	26.5	28.1
Materials & Supplies	21.5	21.0	21.7	22.6	22.8
Insurance / Premiums	12.5	9.8	9.2	8.5	8.8
Other	12.7	6.7	6.7	7.5	15.7
Cargill / OPEB	10.3	3.7	1.6	0.5	10.5
Utilities (Non-treatment)	8.6	8.0	6.5	6.3	7.0
Operating Equipment	6.9	8.7	5.3	2.1	7.0
Memberships & Subscriptions	3.7	4.6	4.9	5.5	6.3
Travel, Training & Conferences	3.6	3.3	3.4	3.7	3.8
Communications	3.9	3.7	3.3	3.2	3.5
Advertising	5.6	4.7	4.0	1.4	1.6
Total O&M	\$351.8	\$344.7	\$340.8	\$337.0	\$374.0
Totals may not foot due to rounding.					



Rate Scenarios



MUNICIPAL WATER DISTRICT OF ORANGE COUNTY

Scenario: 1.8 MAF Sales in FY 2011/12

- **Water Sales**
 - 1.93 MAF in 2010/11
 - 1.8 MAF in 2011/12
 - 2.0 MAF in 2012/13
 - 2.1 MAF in 2013/14 and 2014/15
- **SWP Allocation 35% in 2011/12**
- **No Drought Water Bank Purchases in 2011/12**



Low Sales = \$82 M Draw on Reserves 1.8 MAF Sales in 2011/12



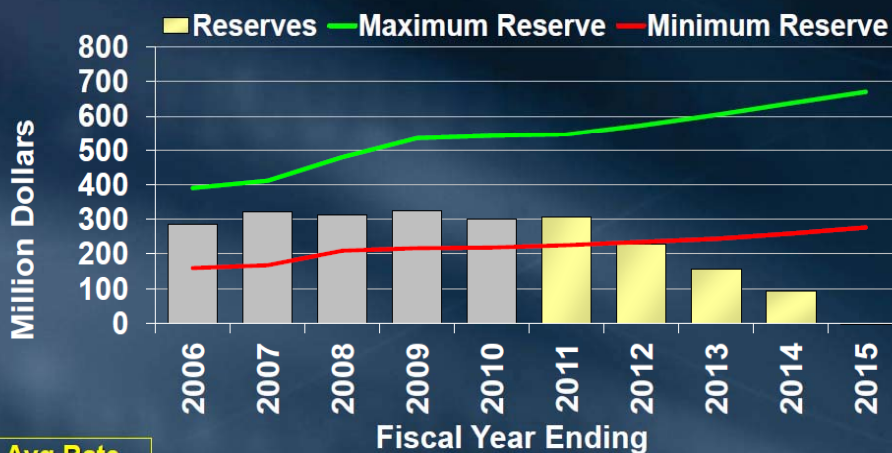
Avg Rate Increase	2%	3%	6%	14%	20%	7.5%	7.5%	5%	5%	5%
PAYGO, \$M	88	95	43	30	37	95	125	125	125	125
Rev. Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.9	1.8	2.0	2.2	2.1
Fixed Chg Cvg	1.3	1.7	1.3	1.3	1.1	1.3	1.2	1.4	1.4	1.4

Scenario: 1.8 MAF Sales in FY 2011/12

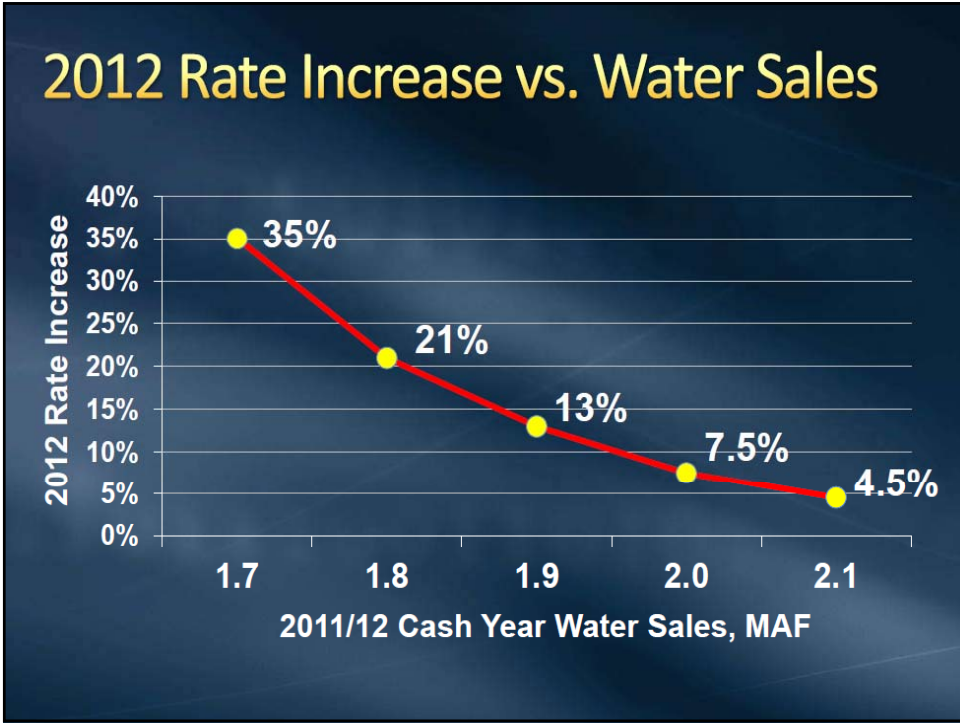
- 1.93 MAF sales in 2010/11
- 1.80 MAF sales 2011/12 and beyond
- SWP Allocation 35% 2011/12 and beyond
- No Drought Water Bank



Action Required if Sales Fall "Permanently"





Avg Rate Increase	2%	3%	6%	14%	20%	7.5%	7.5%	5%	5%	5%
PAYGO, \$M	88	95	43	30	37	95	125	125	125	125
Rev. Bond Cvg	1.8	2.2	1.8	1.8	1.6	1.9	1.8	1.8	1.8	1.7
Fixed Chg Cvg	1.3	1.7	1.3	1.3	1.1	1.3	1.2	1.2	1.2	1.1



Two-Year Budget Cycle

- **January 2011** – General Manager’s Budget and Rate Proposal for 2011/12 and 2012/13
- **February 2011** – Review budget and rate forecast
- **March 2011** – Public Hearing
- **April 2012** – committee and board action and consideration





Questions





Item No. (

DISCUSSION ITEM

September 1, 2010

TO: Board of Directors/Metropolitan Directors

FROM: Kevin Hunt
General Manager

Staff Contact: Harvey De La Torre

SUBJECT: MWD Items Critical To Orange County

STAFF RECOMMENDATION

Staff recommends the Board of Directors to review and discuss this information.

SUMMARY

This report provides a brief update on the current status of the following key MWD issues that may affect Orange County:

- a) MWD's Water Supply Allocation Plan
- b) MWD Integrated Resource Plan 2010 Update
- c) Long Range Finance Plan
- d) Colorado River Issues
- e) Bay Delta/State Water Project Issues
- f) MET's Ocean Desalination Policy and Potential Participation by MET in the South Orange Coastal Ocean Desalination Project (formerly Dana Point Desalination Project)
- g) IRWD Strand Ranch Water Transfer & MET's Policy on State Water Project Transfers
- h) Orange County Reliability Projects

ISSUE BRIEF # A

SUBJECT: MWD's Water Supply Allocation Plan

RECENT ACTIVITY

Action on Changes to MET's Allocation Plan

Last month, the MET Board took action on the following changes as part of its 12 month review process:

- Remove the references of gains/losses of local supplies
- Remove references to Regional Shortage Percentage
- Include the retail impact adjustment in regional shortage stages 1 & 2
- Include a Pre-Capita Minimum water use threshold
- Revise the accounting for Extraordinary supplies
- Remove Seawater barrier from the Base Period and the allocation year

From these changes adopted, MET staff will provide to each of its member agencies an updated allocation model demonstrating the amount of imported water they are allocated for FY 2010/11.

Water Management Program with member agencies during FY 2010/11 allocation

In an effort to help groundwater agencies refill their basins and increase MET's local storage while under drought allocations, the MET Board approved a new program last month. This program allows for MET to deliver imported water, at the full service rate minus capacity charge, to participating member agencies in excess of their water supply allocation for FY 2010/11. In return, MET has the ability to call on the water delivered over the next five years during an adopted water supply allocation. If called, the participating agency's water supply allocation for that year would be reduced by the call amount. The participating member agency would then be required to make up for the reduced allocation with additional conservation or water recycling.

The program offers MET additional storage and the local agency additional water above their allocation. After reviewing the terms of the program with OCWD and MET staff, MWDOC determined that the program offers little benefits to Orange County and would unlikely participate.

ISSUE BRIEF # B

SUBJECT: Integrated Resource Plan 2010 Update

RECENT ACTIVITY

IRP Stakeholder Forums

Last month MET held its four stakeholder workshop in Orange, Ontario, San Diego, and Los Angeles. Attendance varied between 50 to 100 people, depending on the location. The objective of the forums were to present MET's draft IRP resource strategy and to hear stakeholder input and feedback on the plan. Below are some of the key general comments and questions recorded at the stakeholder forums:

Orange

- It would be helpful if MET moved beyond only providing incentives for local projects
- Clarifications on partnerships (not supportive of Public-Private)
- Support for a comprehensive regional IRP strategy
- A Supply Buffer is necessary
- How will MET determine when to implement the buffer?
- What are the costs associated with the buffer, fixing the Delta, and lost sales?

Ontario

- Why was 10% chosen as the buffer?
- Happy with the plan because of the buffer and foundational actions
- Strongly urge the MET Board and staff to resist against the idea of a opt-out
- Concerns with graywater and impacts on other resources
- Include more discussion on the underlying risks that MET faces
- The water energy nexus should be emphasized

San Diego

- Times have changed; MET's policies should be updated for a new reliability goal (Revised the Laguna Declaration)
- Want more time to review the plan/ Delay the plan's adoption
- MET's role should change when it comes to conservation programs
- Ratepayers do not want rate increases; some cannot afford to pay for reliability
- The Plan needs to describe that not all local projects need MET funding to get done
- Need to highlight the cost of each component in the Plan
- How is MET ensuring that agencies pay for their reliability (plan benefits those that swing on/off MET)?
- Local resources programs should continue to be available to the member agencies

Los Angeles

- To help reach 20% x 2020 regional compliance, will MET consider a carrot rather than stick approach? (i.e. incentives for conservation devices)

- Put all of the 20% x 2020 regional compliance savings into the Core Strategy, rather than as Buffer Supply
- Like the idea of a Supply Buffer that is actually implemented rather than simply a planning buffer
- What is MET doing to address maintenance and replacement needs of crucial infrastructure outside of its service area?
- Support moving this IRP forward, under the principle that MET is the backdrop for regional reliability, with internal and external partnerships
- Complements for the public outreach and education programs-students are good at telling their parents about water conservation

IRP Steering Committee

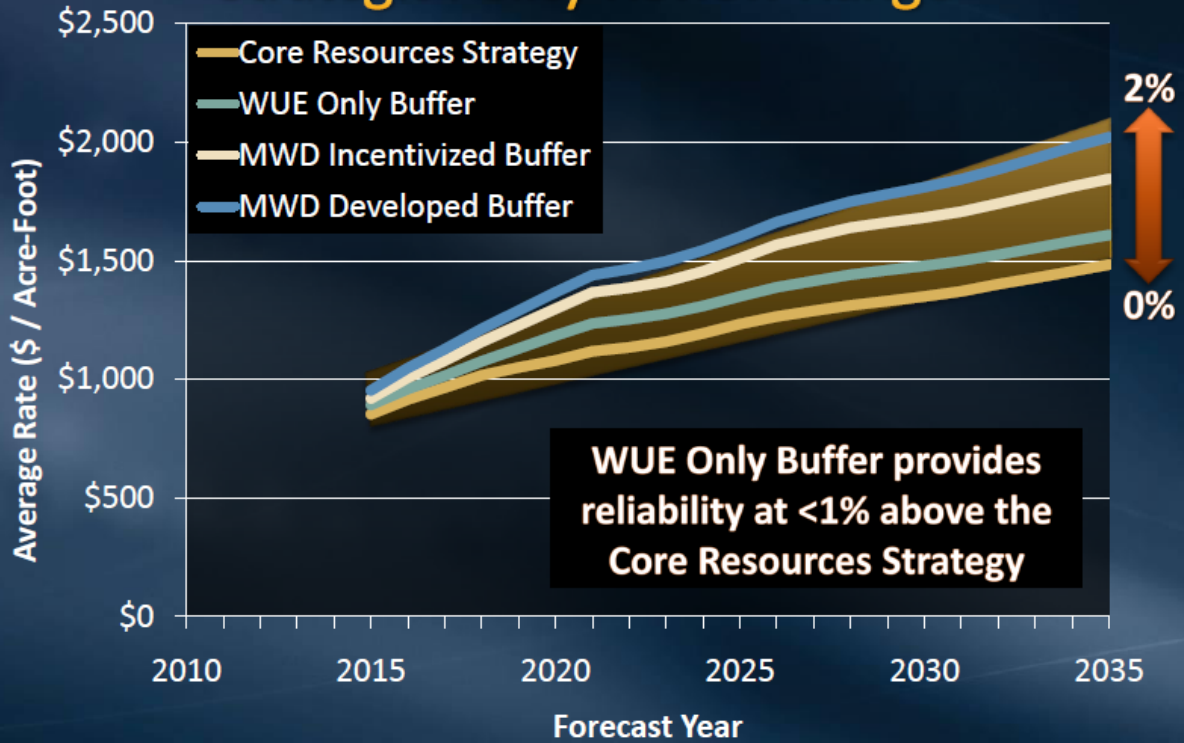
On August 17, the MET IRP Steering Committee reviewed the stakeholder forum comments and review staff’s analysis on future rates under different levels of implementation associated with the Supply Buffer. The following four rate scenarios were presented to the Committee:

**Summary of Average Rate Impacts
(\$/AF)**

Scenario	2015	2025	2035
Core Resource Strategy – no Buffer	\$853	\$1,233	\$1,484
Buffer – 20x202 regional Consistency Only	\$892	\$1,350	\$1,608
Buffer – MET Incentivized @ \$250/AF	\$919	\$1,510	\$1,844
Buffer – MET Develop @ \$1,500/AF plus Sale	\$953	\$1,601	\$2,021

The purpose of these scenarios was to illustrate the “bookends” of the rates. With the assumption of inflation increasing 3.5% annually, the highest cost impact (Buffer with MET developing projects at average cost of \$1,500/AF) increases 2% above inflation – averaging a rate increase of 5% annually. The chart below compares the different scenarios with inflation:

Summary of Rate Impacts vs. Strategic Policy Review Range



UPCOMING ACTIVITY

On September 14, MET plans to hold an IRP Board Workshop where they will review the draft IRP and accept comments from its member agencies and the public. Based on the feedback it receives from the September Board Workshop, MET plans to consider the IRP for Board adoption in October.

ISSUE BRIEF # C

SUBJECT: Long Range Finance Plan

RECENT ACTIVITY

Long Range Finance Plan

On August 18, MET held a meeting with the member agencies to discuss key elements of the Long Range Finance Plan, such as MET's debt policy, investment policy, and a 10 year rates forecast with sensitivity analysis. The meeting focused on MET's rates under the following scenarios:

- 1) Higher water sales (+200 TAF)
- 2) Delta fix costs double
- 3) Higher interest rates (from 5.00% to 8.00% Fixed Rate)
- 4) Combo scenario with water sales not exceeding 1.9 MAF

Under the baseline scenario, MET is expecting water rates to increase at an average rate of 5% per year (After CY2012). It was discussed that changes in water sales have the most significant impact on water rates. The member agencies suggested that MET staff come back with totals for Tier 1 water rates, demand management costs under 20% by 2020, and rate forecasts with MET sales under 1.8 MAF.

San Diego County Water Authority Board Lawsuit on MET's Rate Structure

On June 10, the San Diego County Water Authority Board (Water Authority) unanimously approved filing suit against MET over their 2010/2011 water rates. The Water Authority has charged that MET's rates violate the California's Constitution, state law (Prop. 218), and standard water utility practices, by unfairly allocating costs among its MET member agencies. The Water Authority believes that they are being overcharged by more than \$29.9 million per year. They have also stated that the misallocation of cost among MET rates uniquely disadvantages them while reducing the cost of water to all other MET member agencies.

UPCOMING ACTIVITY

MET staff is currently working on aligning the Long Range Financial Plan's projections with the IRP. The draft Long Range Financial Plan will be released for review on September 30. The Board is expected to take action by the end of the year.

ISSUE BRIEF # D

SUBJECT: Colorado River Issues

RECENT ACTIVITY

Bi-National Water Management Program

In late July, the United States formalized its counter proposal to the Mexico proposal to a bi-National water management program. Mexico and the United States met in August 2010 to further discussions in an attempt to reach agreement later this year. Specific items being addressed for proposed international cooperation include:

1. Mexico sharing in shortages with the United States
2. Mexico storing water in United States' reservoirs i.e. Lake Mead
3. Mexico sharing in surplus deliveries with the United States
4. Opportunities for United State water agencies investing in Mexican water projects.
5. Establishing Salinity goals
6. Setting terms for the agreement

ISSUE BRIEF # E

SUBJECT: Bay Delta/State Water Project Issues

RECENT ACTIVITY

State Water Board Issues Draft Delta Flow Criteria

On August 3, 2010, the State Water Resources Control Board (SWRCB) adopted the "Development of Flow Criteria for the Sacramento-San Joaquin Delta Ecosystem" report (Report) during its normally scheduled meeting. The final flow criteria were unchanged from the public draft released for comments on July 21, 2010.

The Report states that recent Delta flows are insufficient to support native Delta fishes and recommends significant increases in Delta outflow and increased inflow from the Sacramento and San Joaquin rivers. This Report was required under SBx7-1, which was part of the Delta Reform Act of 2009. *It is important to note that none of the determinations in the Report have regulatory or adjudicatory effect.*

MET provided oral and written comments at the August 3 meeting, stating that the draft Report lacks a rigorous science-based approach and limited consideration of measures other than flow that are impacting the Delta ecosystem, such as habitat, water quality, food web, and invasive species.

Interim Plan for Bay Delta Stewardship Council

The Delta Stewardship Council (DSC) continues to work on completing an Interim Plan that will provide a framework for early actions, projects, and programs until their Delta Plan is adopted by January 2012. This includes defining its role in relationship to the Bay Delta Conservation Plan (BDCP) steering committee and selecting a consultant to provide related advice, as well as establishing relationships and coordination groups with other federal, state, and local agencies. The draft Interim Plan outlines a process for adopting early actions during preparation of the completed Delta Plan. The DSC intends to adopt the Interim Plan at its meeting on August 27, 2010.

ISSUE BRIEF # F

SUBJECT: MET's Ocean Desalination Policy and Potential Participation by MET in the South Orange Coastal Ocean Desalination Project (formerly Dana Point Desalination Project)

RECENT ACTIVITY

Update on Huntington Beach's Desalination Project

Similar to the request that West Basin MWD presented to the MET board, MWDOC is currently in discussions with MET staff on the potential for an equity partnership with the Huntington Beach's Desalination Project. An equity partnership calls for MET to cover a certain portion of the cost in return for a portion of ownership that could reduce the per acre-foot cost of the project and provide the region with a new supply of water.

MWDOC South Orange Coastal Ocean Desalination Project

MWDOC continues to work with MET to receive assistance on the project, primarily from the funding and system integration perspective.

Update on Carlsbad Desalination Project

On July 22, the San Diego County Water Authority Board of Directors adopted a set of terms to be used in negotiating a direct Water Purchase Agreement (WPA) for the Carlsbad Desalination Project. The Board also approved \$300,000 for technical studies, and business and legal expertise during the negotiations.

Under the approved terms, Poseidon will need to secure sufficient financial commitments from private investors before negotiations will continue on a WPA. Poseidon must also execute all construction and operation contracts, and provide all financial documentation before a WPA will be finalized.

Key terms for the Water Purchase Agreement include:

- The Water Authority will have no responsibility or liability for the design, permitting, financing, construction, or operation of the project.
- A maximum price will be set equal to the contract price in the previous water purchase agreements with the nine Desal Partners. The final price will not be determined until all financial documentation is provided by Poseidon.
- An option to buy the entire plant beginning 10 years after the start date for commercial operation. The Water Authority will have the right to purchase the plant at the end of the 30-year term for \$1 (One Dollar).

- An option for the Water Authority to purchase the project's conveyance pipeline once the plant has a proven track record of successful operation. This could reduce the price of the water by up to \$200 per acre-foot.

ISSUE BRIEF # G

SUBJECT: IRWD Strand Ranch Water Transfer & MET Policy on SWP Transfers

RECENT ACTIVITY

In July, the MET Board authorized the General Manager to execute an agreement with MWDOC for the delivery of water supplies from Irvine Ranch Water District's Central Valley Storage Program. As part of the action, MET staff was requested to bring back policy principles that would determine when MET would allow for other similar SWP transfers under Article 15(d) of the Metropolitan's State Water Contract.

An information item was presented last month, where MET staff outlined the following key policy principles that would need to be met in order for MET to allow Article 15(d) water transfers under MET's State Water Contract:

- **Preserve MET's SWP Contract Rights**
 - MET maintains control of all SWP supplies that enters into the MET service area
 - A member agency needs to acquire MET's consent ***before*** securing SWP supplies to be moved into MET's service area
 - Cannot be SWP supplies MET is pursuing
- **Ensure Financial Protection**
 - A member agency would pay the MET full service water rate at the time such water is delivered
 - A member agency would be responsible for all costs associated with its program
 - A member agency would obtain access to MET's unused capacity only as determined by MET and only in circumstances that ensure no risk to the delivery of MET's supplies
 - MET would be responsible for SWP costs when the water is moved in MET's service area. MET would recover its costs through the payment of MET's full service water rate when delivered
- **Provide a Regional Benefit**
 - Water Management Benefit – Storage & access to the supply
 - Water Supply Benefit – Unbalanced Exchanges
 - Other e.g. Water quality improvements

UPCOMING ACTIVITY

None

ISSUE BRIEF # H

SUBJECT: Orange County Reliability Projects

RECENT ACTIVITY

Periodically, MWDOC coordinates activities and efforts with the MET staff on reliability efforts impacting Orange County. On August 24, Karl Seckel, Harvey De La Torre and Lee Jacobi met with staff from MET on various efforts.

A detailed memo is attached.

**Orange County Reliability Projects
MET/MWDOC Staff Meeting on August 24, 2010**

Karl Seckel, Harvey De La Torre and Lee Jacobi met with MET staff Dave Clark, Mike Morel, Mic Stewart and June Skillman to discuss OC Water Reliability Projects and the status of a number of activities. Following is a summary of the general discussions:

1. General Update on Projects	
<ul style="list-style-type: none"> • Diemer Filtration Plant Improvements status 	<p>MET has many projects underway and in various phases. One of the ones we are most concerned with is the seismic stability project. This project will move into final design in September with construction scheduled to begin after completion of the ozone retrofit in 2012. The seismic stability improvement will help protect the treatment plant site against a lateral instability in the event of a large seismic event.</p>
<ul style="list-style-type: none"> • Orange County Feeder Improvements 	<p>MET is investigating slip lining of the southern portions of the pipeline to improve reliability. We asked MET to examine the sizing of the facility to provide for future needs when other lines need replacement or possibly for conveyance of Poseidon water inland to the MET system.</p>
<ul style="list-style-type: none"> • Orange County Reservoir status 	<p>MET is still deciding what to do on this project. The lining and floating cover replacements were in final design. MET found problems with the reservoir lining and now are questioning whether to proceed with this project at all or to change the nature of the project.</p>
<ul style="list-style-type: none"> • Timing for new Treatment Plants in MET Service Area 	<p>Nothing new – the next new treatment plant is scheduled in Riverside for 2026; MET will update the timing need for facilities upon completion of the IRP update.</p>
<ul style="list-style-type: none"> • Central Pool Augmentation 	<p>MET is still tracking activities to ensure protection of the portal areas on both sides of the tunnel. The transportation alternative is technically feasible, but expensive. It was reported that the traffic concerns are being addressed by widening of the 91 fwy with alternating direction and HOV lanes.</p>
<ul style="list-style-type: none"> • Poseidon HB 	<p>Poseidon recently met with MET staff to discuss MET's comments on the Huntington Beach Project EIR. With respect to integration of the project using MET facilities, there is still much work to be done.</p>

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<p>2. Second Lower Cross Feeder</p>	<p>The study has been completed and will be scheduled for discussion among the stakeholder agencies in Orange County. MET will participate in these meetings. A presentation will be provided at an upcoming MWDOC meeting.</p>
<p>3. Upper Chiquita Reservoir</p>	<p>The project completion is projected to occur in March 2011 or after, which occurs after the next MET Diemer Plant shutdown in February of 2011. The hold up at this time is production, delivery and installation of the lining and floating cover. MET and SMWD are coordinating on efforts to utilize a small volume of reservoir storage to save pumping costs at the South County Pump Station. MET also reminded us that the initial fill of water into the reservoir will have to be tested for volatiles picked up from the lining and covering material and that the use of such water would be controlled by the Department of Public Health and could therefore affect the start-up of service from the reservoir.</p>
<p>4. OC-72 Regional Interconnection</p>	<p>Previously, this was one of the proposed pump-in locations to connect the IRWD system into the AMP. This location has been dropped from consideration as being only of marginal value. This was also proposed as the site for the MET “virtual service connection” to change the responsibility for water quality compliance downstream of where water was to be pumped into the system. It now appears that the virtual service connection will be moved to OC-88, the South County Pump Station, which is the start of the South County Pipeline.</p>
<p>5. Baker WTP/Introduction of Local Water into the MET System</p>	<p>IRWD is proceeding with the final design of the facilities, including the treatment plant, a reservoir and a pump station to connect into the AMP. The treatment plant is being designed at 43.5 cfs with 10.5 cfs going directly to IRWD and 33 cfs going into the AMP. The updated schedule for this project is:</p>

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- Preliminary design has been completed
- Final design completed by March 2011
- Construction – June 2011 – Jan 2013

The following issues were discussed:

- “Virtual Connection” (the point where IRWD begins responsibility for AMP water quality) - it was agreed that this point should be moved to OC-88, even though this location is north of the Baker Plant pump in to the AMP. Under emergency situations, it is possible for the water to travel north from the Baker Plant to OC-88.
- Approach to emergency operations – we discussed that in the event of an emergency affecting flow in the lower AMP, the downstream agencies would possibly want some or all of the 33 cfs to be sent north in the AMP to the OC-88 Pump Station. MET wants to understand this scenario better. We asked MET to outline their pumping and metering capabilities for such a low flow to help us work out an emergency supply scenario. MET may need to have IRWD and Flow Science check out the possibility of surge impacts for this scenario.

Under emergency operations, based on prior discussions, MET wants to charge a “wheeling charge” for water going north and thru the OC-88 Pump Station, although the charge would only be imposed on local runoff from Irvine Lake that is treated at the Baker Plant and would not be applied to previously delivered MET water. A pumping surcharge would be applied on all water going through the pump station. Since this situation would only rarely, if ever, occur, MET would like to apply the charge to the percentage of the water going north based on the percentage of local water in Irvine Lake over a five year

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	<p>average condition. MWDOC will provide comments back to MET on this methodology.</p> <ul style="list-style-type: none">• Invoicing/Billing for water from the Treatment plant – IRWD has agreed to operate and maintain the meter for water being pumped into the AMP. MET has requested that MWDOC allocate the Treatment Plant flows to be credited against water purchased by the water treatment plant owners at downstream AMP meters so that it will fit easily within their water billing program.• Plan Check on-going – MET is conducting the plan check for the pump station and interconnecting facilities.• IRWD has requested that a larger OC-33 meter be installed to allow deliveries up to 100 cfs. The extra capacity is to preserve the ability for future deliveries in the first reach of the Baker Pipeline.• MET Board policy discussion/authorization of lease agreement for introduction of local water – MWDOC would like to bring this issue to the MET Board by the end of the calendar year. We indicated it would be brought up in a future caucus meeting to get the attention of Debra Man and Jeff Kightlinger. MWDOC will work with MET staff in the preparation of a future board item, including principles for allowing introduction of water at the end of a pipeline system (where the water stays within the same MET member agency). MET staff has prepare an in-house draft policy on introduction of local supplies into the end of a pipeline system within MET they will be completing at which time it will be shared with us. MET contemplates a “lease arrangement” covering the southern portion of the AMP. MWDOC reviewed updated numbers that included an estimated lease cost of \$10.64 per AF. MET will review and comment on the numbers.
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	<ul style="list-style-type: none">• MET wants to better understand IRWD operations in a wet year when Irvine Lake fills with water. How will IRWD utilize the water from the reservoir and will any of it be treated and pumped into the AMP. MWDOC will follow up with IRWD and MET on this issue.
6. Allen McColloch Pipeline Repairs	<p>MET has plans being developed to repair four broken back sections of Prestressed Concrete Cylinder Pipe (PCCP) and to repair eight valve vaults where the concrete structures are deteriorating. This work will be done during the upcoming February 2011 shutdown.</p> <p>We asked about the long term prognosis for the AMP reliability based upon the wire breaks discovered to date in the AMP. MET will be working on information to evaluate the reliability of the PCCP sections and the overall approach to repair of PCCP sections in the MET system, including the AMP.</p>