Proposed Staff Recommendation Consent Calendar for November 29, 2012

ADMINISTRATIVE AND FINANCE COMMITTEE

9-  1. Treasurer’s report.
Note and file the monthly Treasurer’s report.

9-  2. Vote Entitlement Resolution for Calendar Year 2013.
Adopt Resolution No. 2012-___ establishing the vote and representative entitlements of each member agency effective January 1, 2013.

9-  3. Fiscal Years 2012 and 2013 additional litigation expenses.
Amend the General Counsel’s Fiscal Year 2012 and 2013 Department Budget by an amount not-to-exceed $3.5 million for additional litigation expenses.

9-  4. Amendment to Professional services contract with Mercer Health and Benefits, LLC, to increase the amount by $150,000 and extend the term by 30 months for providing Health Insurance Broker Services.
Authorize execution of an amendment in the amount of $150,000, for a total contract amount not-to-exceed $300,000 and extending the term by 30 months.

9-  5. Annual Statement of Investment Policy and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2013.
Adopt the Annual Statement of Investment Policy and continue to delegate authority to the Treasurer to invest Water Authority funds for calendar year 2013.

9-  6. Professional services contract with Carollo Engineers Inc. for a Cost of Service Study.
Authorize the General Manager to award a professional services contract to Carollo Engineers Inc. for an amount not-to-exceed $106,000 for a cost of service study.

ENGINEERING AND OPERATIONS COMMITTEE

Authorize the General Manager to accept the Lake Hodges project as complete and record the Notices of Completion for the Archer Western and Andritz contracts.

LEGISLATION, CONSERVATION AND OUTREACH COMMITTEE

Adopt the proposed 2012 Legislative Policy Guidelines.
9- 9. **Sponsorship of two bills in the State legislature.**
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 California Air Resources Board to develop a program that returns revenues from the purchase of greenhouse gas emission permits by the Metropolitan Water District to retail water agencies that purchase MWD water.

9- 10. **Amend agreements with Carpi & Clay, Sacramento; Lang, Hansen, O’Malley and Miller; V. John White Associates; and Carpi, Clay & Smith, Washington D.C., for legislative advocacy and government relations services.**
Amend the agreements for legislative advocacy services through December 31, 2014, for a period of 24 additional months, for Carpi & Clay; Lang, Hansen, O’Malley and Miller; V. John White Associates; and Carpi, Clay & Smith, increasing total funding for the four agreements by $1,016,256, to an amount not-to-exceed $2,970,739.
Sacramento

November Election

The November election has brought some very interesting changes to Sacramento, which will have long-term impacts on politics in California. First, the Governor was successful in gaining passage of Proposition 30, which increases revenues in order to help balance the State budget. Proposition 39 (single sales factor for businesses) also passed which will bring an additional estimated $500 million into the State general fund. (There is an additional $500 million generated from Proposition 39 which is dedicated to green energy projects; this commitment to fund energy projects ends after five years and then the full amount generated by Proposition 39 will go to the State general fund.) The passage of these two measures have greatly reduced the budget deficit, now estimated to be around $1.9 billion as detailed by the Legislative Analyst’s Office, with projections showing a possible elimination of the deficit within a couple of years.

The second major change that came out of this November’s election is the two-thirds majorities that Democrats have achieved in both the Senate and Assembly. As you will remember, two-thirds is the number needed in terms of votes to pass revenue measures. Many newspapers have been reporting it likely that there will be efforts to increase revenues for the State now that Democrats have the ability to pass new revenues without Republican support. But based on comments by the Governor and Democrat leaders, it does not appear that Democrat leadership will support efforts to raise new taxes.

The final major shift that came out of this election cycle has been the change in the physical make-up of the Legislature, specifically the Assembly. Nearly half of the Assembly is brand new. Couple this with the fact that these same legislators will be able to serve a full 12 years in the Assembly and it is assumed that the Assembly will quickly become the more stable and powerful house in the Legislature. Also, with the new open primary system having led to same party battles for legislative seats, it will be interesting to see if this leads to more moderate candidates being elected.
Legislative Calendar – The Legislature will reconvene early next week and swear-in new members for the 2013-2014 Legislative Session. The Legislators will quickly leave Sacramento and will not return until after the New Year holiday.

Washington, DC

Congress after the Election

Democrats increased their numbers in the Senate and will hold a 55-45 advantage (two Independents will caucus with Democrats). In the House, Republicans maintained their majority with a 234-200 advantage, with one seat still to be decided in a run-off election.

There will be no major changes in the leadership of House or Senate. Harry Reid will continue as Majority Leader of the Senate and John Boehner will remain as Speaker of the House. Californians Nancy Pelosi and Kevin McCarthy will continue in their respective roles as Minority Leader and Majority Whip in the House.

California Delegation

Democrats continued to expand their majority in the congressional delegation, now enjoying a 38-15 split. Four California Democrats – Pete Stark, Howard Berman, Laura Richardson, and Joe Baca – lost to fellow Democrats as a result of the new “jungle” primary system.

The new members of the California delegation will be:

- Doug LaMalfa (R-Oroville)
- Ami Bera (D-Elk Grove)
- Eric Swalwell (D-Dublin)
- Julia Brownley (D-Oak Park)
- Gloria McLeod (D-Chino)
- Mark Tagano (D-Riverside)
- Juan Vargas (D-San Diego)
- Jared Huffman (D-San Rafael)
- Paul Cook (R-Yucca Valley)
- David Valadao (R-Hanford)
- Tony Cardenas (D-Los Angeles)
- Raul Ruiz (D-Palm Desert)
- Alan Lowenthal (D-Long Beach)
- Scott Peters (D-San Diego)

Fiscal Cliff Discussions Continue During Lame Duck Session

Without congressional action, the new year will begin with the expiration of the Bush-era tax cuts for all taxpayers, as well as an automatic $109 billion across the board cut to 2013 federal spending. Under this scenario, EPA appropriations would be reduced by 8.2 percent, resulting in a hit of more than $700 million to the agency’s overall budget – with nearly $200 million coming from the Drinking Water and Clean Water State Revolving Funds. The Bureau of Reclamation’s water programs could suffer a cut of $89 million. Congress has not finalized FY2013 funding levels. The Continuing Resolution enacted earlier this fall runs through the end of March 2013. Congress does not need to resolve all of the appropriations bills until then, but the
possibility continues that Congress could wrap an omnibus appropriations act into a “fiscal cliff” package before it officially adjourns before the end of the year.

Several other issues could see action in the closing days of the 112th Congress, including votes on an extension of the farm bill, funding for critical infrastructure – including water systems, and a cybersecurity bill.

**Senator Introduces Water Infrastructure Financing Bill**

After months of discussions, Senator Jeff Merkley (D-OR) introduced S. 3626, the “Water Infrastructure Finance and Innovation Act” (WIFIA). His bill would offer low-interest loans in amounts greater than $20 million to “regionally significant” water infrastructure projects selected by EPA. As it is unlikely his bill will be considered before Congress adjourns, Sen. Merkley intends to reintroduce the bill when the next Congress convenes in 2013.

While Merkley’s bill encourages utilities to consider green infrastructure approaches as they plan WIFIA applications, the bill broadly offers eligibility to any project to “construct, replace, or rehabilitate” a water or wastewater system and does not set aside any portion of funding for green projects. His bill would require projects receiving WIFIA funds to abide by Davis-Bacon wage rates and follow “Buy American” rules for iron, steel and manufactured products used in the projects’ construction.

**Senator Boxer Introduces Water Infrastructure Bill with WIFIA Pilot Program Included**

With the effects of Hurricane Sandy still very much on the minds of many senators, the Senate Committee on Environment and Public Works held a hearing to consider a draft bill to reauthorize the Water Resources Development Act of 2012 (WRDA). The bill, drafted by Committee Chair Barbara Boxer and Ranking Member Jim Inhofe (R-OK), would authorize U.S. Army Corps of Engineers projects and programs. Congress last reauthorized WRDA in 2007.

In a departure from previous WRDA bills, Senator Boxer included a WIFIA pilot program. Her provision would authorize EPA and the Army Corps of Engineers to each fund up to ten WIFIA pilot projects over five years, with a total of $500 million authorized over that period. During the hearing, Boxer said her intent is to “come in small [on WIFIA] to see if it works,” with the option of expanding the pilot program in the future. She also said that the WIFIA language in the WRDA bill is only a first draft, and that the EPW Committee will be eager to work with Senator Merkley and water sector stakeholders to make refinements in the weeks ahead.

While much of Boxer’s WIFIA language is similar to that of Senator Merkley, her draft includes a narrower definition of projects eligible for assistance while favoring projects that “foster innovative public-private partnerships and attract private debt or equity investment.” The WRDA version would also limit WIFIA assistance to 49 percent of a project’s overall cost and establish a minimum project size of $20 million, rather than setting that number as the minimum loan amount.
While there is little time left in the current session of Congress to consider the bill and the House has shown little interest in moving it, Hurricane Sandy has provided more push to pass the bill than might otherwise exist. Senator Boxer has scheduled a follow-up hearing on November 29 to specifically examine the effects of the hurricane and the need to improve infrastructure in light of catastrophic weather and other natural events.

**Bureau of Reclamation Staff Changes**

Bureau of Reclamation Commissioner Michael Connor announced changes in three senior leadership positions. David Murillo has been named the new regional director for the Mid-Pacific Region. Don Glaser, the current regional director for the Mid-Pacific Region, will move to Denver to work on several high priority projects for the commissioner. Lowell Pimley has been named deputy commissioner of operations in Washington.
November 29, 2012

Attention: Imported Water Committee

Metropolitan Water District Delegates’ Report (Information)

Background
The MWD committees and board met on November 5. The next regular MWD board and committee meetings are scheduled for December 10 and 11.

Discussion
This section summarizes discussions held and key decisions made at the November MWD committee and board meetings, as reported by the MWD delegates. The Water Authority delegation supported nine of 12 action items approved by the MWD Board, including the re-election for a second term of Director Morris (San Marino) as Board Secretary and an employment contract for the General Auditor, who performed the role without an individual employment contract since 2002. Although supportive of MWD’s effort to reduce costs by managing debts, the Water Authority delegates opposed an item authorizing the execution and distribution of an Official Statement related to the sale of bonds because it again did not adequately disclose MWD’s potential risks, such as the continuation of reduced demands and how that may impact its revenues (for the Water Authority’s letter to MWD, see Attachment 1).

Attachment 2 is a copy of the November board meeting agenda and MWD’s summary of actions.

Communications and Legislation Committee
MWD staff reported on its 2013 Legislative Strategy. The proposed legislative priorities include Bay-Delta/State Water Project (SWP) Improvements, Colorado River Initiatives, Regional Water Resources Management, Water Quality, Environmental Planning, Invasive Species, Energy Sustainability, and Infrastructure and Public Financing. Prior to presenting the proposed priorities to the committee, staff met with MWD’s Member Agency Legislative Coordinators to review and discuss the strategy for 2013. Staff plans to return to the committee and board with the proposed 2013 legislative strategies for action in December.

The committee also heard reports on state and federal legislation.

Engineering and Operations Committee
The committee and board approved four items including a contract for electrical equipment for the Skinner Water Treatment Plant. Also approved was an item authorizing preliminary design of upgrades to the Dam Monitoring System and Inlet/Outlet Tower fish screens at Diamond Valley Lake. The committee also heard an update on current water system operations. Staff said that the SWP blend at Skinner plant was 70 percent, while SWP blends at Weymouth and Deimer were 50 and 35 percent, respectively. Staff also reported that the October demand was 192,000 acre-feet (AF), which is 54,000 AF higher than October of 2011.
Finance and Insurance Committee

The committee and board approved two items – conditional approval for annexation to Eastern Municipal Water District and MWD and execution and distribution of an Official Statement related to the sale of Water Revenue Refunding Bonds. On the latter item, MWD Deputy General Counsel Syd Benion said that the Official Statement contains updates on material events, such as Delta Smelt Biological Opinion Appeal, Quantification Settlement Agreement (QSA) Trial, and the Hyatt-Thermalito litigation, and clarifies existing disclosure in response to comments received from staff, MWD Directors and the MWD financing team, which includes bond counsel, underwriters, underwriters counsel, and financial advisors. Benion reported that comments were received from the Water Authority and the Municipal Water District of Orange County (MWDOC); MWDOC expressed support for MWD staff’s recommendation. Benion also reported that the draft Official Statement was not the final product; she said a final will be prepared with the most up-to-date information, such as the recently received Public Employees Retirement System (PERS) actuarial report (as of June 2011). Due to comments received and staff’s report of additional changes, Director Evans (Western) asked for clarification on the review process, particularly, if a final draft will be presented to the directors for review before going to print. General Manager Jeff Kightlinger responded that the letters received are submitted into the (committee) minutes; because staff disagrees with the Water Authority comments, the Official Statement will not reflect the Water Authority comments. Benion clarified that the financing team reviews the letters and determines how to address the comments. She added that the action includes changes approved by the General Manager and General Counsel before going to print in December or January. Chief Financial Officer Gary Breaux said that any material change would be brought back to the committee for review.

In addition to requests identified in the Water Authority letter, Director Lewinger asked staff to return to the committee to specifically address two concerns: 1) did MWD’s board commit to a conservation goal of 700,000 AF; and 2) what is the impact of MWD continuing to rely on its Integrated Resources Plan (IRP), when an appellate court recently found that Padre Dam Municipal Water District’s Environmental Impact Report (EIR) for Fanita Ranch was inadequate due to its reliance on MWD’s projections (the court found that the EIR failed to adequately describe whether projected water supplies are sufficient – due to regulatory conditions affecting SWP and Central Valley Project operations – to meet projected demands among other things)? Director Edwards (Foothill) also asked staff to return to the committee with an information item on the PERS actuarial report. Kightlinger said that the PERS item may be discussed in the Organizational, Personnel and Technology Committee.

Rick Giardina of Red Oak Consulting gave an overview on the use of contracts (or service arrangements) that exists between wholesale providers and their customers. Director Wunderlich (Beverly Hills) inquired whether a form of take-or-pay contracts, similar to purchasing an “option” or “entitlement” that parties voluntarily agree to buy a block of water at a fixed (lower) price, which could better accommodate those that have greater water demand variability exist. Giardina said that although he had not seen a “future market” arrangement, where the price is fixed in today’s rate, arrangements exist where parties could purchase the “right” to a specified amount of water at a lower price. Giardina noted that on the opposite side of the spectrum, there are also arrangements where parties signed up for interruptible service that allows the purchase of water at a discounted rate, in exchange for agreeing to curtail services during adverse conditions. In response to Director Wilson’s question on whether MWD is similar to the Department of Water
Resources (DWR) in terms of its cash flow needs requiring a high level of fixed revenues in order to operate, Kightlinger said that DWR owns the SWP and ultimately has the final decision on how it operates. Contrary to DWR, MWD board is made up of appointed members of its member agencies, which have decision-making power at the board. Kightlinger said that binding the member agencies to contracts may complicate matters, while allowing the board to make decisions provides flexibility in operating MWD’s system. Kightlinger added that the ability to sustain revenue is a “philosophic issue” and the underlying concern is revenue volatility; he then described the history of MWD’s reliance on fixed revenue to address the revenue volatility, which began with heavy reliance on property taxes when water sales were weak, and as water sales increased, it shifted revenue reliance onto water sales, and as sales became more volatile, it began to utilize reserves to address the volatility. Most recently in fiscal year 2013, Kightlinger said that the board purposely set rates based on a lower sales forecast at 1.7 MAF, knowing there is a 75 percent chance that sales could exceed that volume. He noted, MWD’s sales are trending higher and may result in increased revenue. Wilson observed that take-or-pay contracts would combat volatility as described by Kightlinger. In response to Wilson’s probe on MWD’s funding of Bay-Delta improvements, Breaux said that there are currently no plans to change the rate structure to accommodate the improvements, because MWD is positioned to recover the cost using its existing rate structure. Kightlinger said bonds related to the SWP warrant further discussion, and would be brought back to the committee.

Director Brick (Pasadena) commented that most member agencies have ambitious plans to roll-off MWD’s system, and these plans call to question whether MWD’s current business model ensures a stable financial future for MWD. Lewinger stated that all can agree that the main purpose of establishing fixed revenues is to bring more stability and certainty to both the customer and water provider. He said MWD’s current practice of decreasing sales projection to increase reserves does not ensure collection of revenues based on the cost of the service provided. Lewinger said that in a letter sent to Breaux, and as discussed in previous meetings, he asked that staff examine, and report back to the committee, how costs assigned to individual rate components are tracking against actual expenditures (for a copy of the Lewinger letter, see Attachment 3). Committee Chair Grunfeld (Los Angeles) said that staff will return with a report that addresses Lewinger’s request. Wunderlich added that he advocates increasing revenue with property taxes; and requested that staff also return with a schedule on pending committee items. Breaux said staff will also bring back alternatives on increasing fixed charges to meet MWD’s cost of service.

MWD staff also reported on its financial highlights.

**Legal and Claims Committee**
In closed session, the committee discussed the rate litigation with the Water Authority and received a report on the Delta Smelt and Salmonid Consolidated Cases. In open session, the committee and board authorized an increase to an existing contract with Hanson Bridgett LLP for legal services by $500,000 to a new not to exceed amount of $600,000 in connection with the rate litigation case; the delegates abstained on this item.

**Organization, Personnel and Technology Committee**
The committee and board approved an employment contract for the General Auditor containing terms and conditions similar to the General Manager, General Counsel, and Ethics Officer, who report directly to the board. Committee Chair John Murray (Los Angeles) reiterated that staff will
provide a report on the latest PERS actuarial report in December. Kightlinger said that staff will also report on potential issues resulting from the State’s pension reform activities.

**Water Planning and Stewardship Committee**

Recently appointed Bureau of Reclamation (Reclamation) Lower Colorado Region Director Terry Fulp gave an overview of his priorities, which included the implementation of the 2007 interim guidelines on how to operate Lake Powell and Lake Mead, the proposed binational measures in the Colorado River Basin with Mexico (Minute 319), implementation of the Quantification Settlement Agreement (QSA), and cost-efficient operations. He emphasized the importance of the QSA and assured the committee that Reclamation will work “diligently...to solve implementation issues.” Fulp also indicated that Reclamation’s completed study on the Colorado River Basin, which will soon be published, makes clear that storage in the Colorado River Basin is not enough to mitigate the impacts of shortfalls between inflow and demand. In response to Director Morris’ (San Marino) question, Fulp said that Reclamation does not anticipate reduction in staff, unless sequestration was to come to fruition.

The committee and board authorized the execution of agreements related to Minute 319, which may provide surplus and shortage guidelines for the United States and Mexico, and authorized payment of up to $5 million for purchase of supplies from the pilot exchange program. A discussion ensued over Imperial Irrigation District’s (IID) potential participation in the pilot project; upon MWD’s mutual agreement, IID may be able to obtain up to 20 percent of MWD’s pilot project water for new Municipal and Industrial use. Director Peterson (Las Virgenes) and Director Record (Eastern) expressed concern over dealing with IID. John Murray articulated apprehension over precedence being set as a result of IID sharing MWD’s allocation. Kightlinger said that this is a pilot program and does not set a binding precedence. Lewinger pointed out that the funding agreement, the linchpin of the pilot project, requires all Section 5 Contractors approval, which includes IID. Yet, despite staff’s report of efforts seeking all Section 5 Contractors approval, Kightlinger said that MWD has a difference of opinion on who is required to sign this agreement. Because several aspects of the agreements were not finalized, Lewinger made a substitute motion to delegate authority to the Executive Committee to review and execute agreements, rather than the general manager. Kightlinger strongly urged the board not to accept the substitute motion due to timing issues, despite acknowledgement from staff that the Executive Committee is scheduled to meet before the final agreements must be signed. Kightlinger added that if MWD passed on this, it would forego its opportunity, Lewinger’s substitute motion failed; staff’s recommendation passed both committee and board. Subsequent to the meeting, the Colorado River Board adopted a resolution supporting Minute 319.

Staff reported on a proposal to eliminate the existing Replenishment Service Program and adjust member agency Tier 1 limits to reflect historical demand for water used for the purposes of long-term groundwater and surface storage replenishment and limit member agencies’ exposure to Tier 2 rates. In response to Director Steiner’s inquiry, Water Resources Manager Deven Upadhyay said that this proposal would formally eliminate the existing discounted program and that a potential storage credit program with the member agencies will be discussed as a separate item. Brick commented that MWD may not meet its groundwater goals by eliminating the replenishment discount program; he suggested that staff relook at the IRP goals as it relates to groundwater. Kightlinger said that there is strong consensus among the member agency managers that this is a good approach to mitigate risk of running into Tier 2.
The committee received brief reports on Bay-Delta and Colorado River matters. Due to time constraints, a presentation on QSA issues (Part II) was deferred; however, Record said the board should be made aware of QSA implementation challenges, particularly IID’s record of falling short on its transfer obligation, as shown in staff’s planned presentation. Record expressed concern over discussions of moving forward with new agreements with IID in light of its record.

**Board Meeting**
Steiner introduced Director Vince Mudd, who was seated on MWD’s board. Also, during public comments, the retiring AFSCME Executive President Stephen Williams addressed the board describing MWD staff’s morale being at an “all-time low” as a result of budgetary constraints limiting compensation increases for represented employees, while unrepresented employees, Water System Operations managers, and the General Manager received salary increases.

Prepared by: Debbie Discar-Espe, Senior Water Resources Specialist
Approved by: Communications and Legislation Committee by Keith Lewinger
Finance and Insurance Committee by Keith Lewinger and Doug Wilson
Engineering and Operations Committee by Fern Steiner
Legal and Claims Committee by Fern Steiner
Organization, Personnel and Technology Committee by Doug Wilson
Water Planning and Stewardship Committee by Keith Lewinger and Fern Steiner

Attachment 1: Letter on Official Statement, November 5, 2012
Attachment 2: 2012 MWD’s November board meeting agenda and Summary of Actions
Attachment 3: Letter on Tracking Revenues from Rate Components against Actual Expenditures, November 4, 2012
November 5, 2012

John (Jack) V. Foley and
Members of the Board of Directors
Metropolitan Water District of Southern California
P. O. Box 54153
Los Angeles, CA 90065-0153

RE  Board Memo 8-1: Authorize the execution and distribution of the Official Statement in connection with the issuance of the Water Revenue Refunding Bonds, 2012 Series G -

OPPOSE

Dear Mr. Foley and Members of the Board:

We have reviewed Board Memo 8-1, including its attachments, and determined that we must again vote against the staff recommendation to authorize execution and distribution of the Official Statement in connection with the sale of bonds. We have also reviewed and taken into account the October 25, 2012 response from the Chief Financial Officer to our October 8, 2012 letter commenting on the changes he made to the last Revised Appendix A – many of which could have been, but were not, made available to the board members for review prior to the distribution of that Official Statement. We appreciate the opportunity to engage in a dialogue on these issues, if only through correspondence.

The Chief Financial Officer’s October 25 Letter

We will respond to the points raised in Mr. Breaux’s October 25 letter in the order they were presented (headings ours).

Duty to disclose material information. We agree that Metropolitan’s offering statements are prepared to give investors material information about Metropolitan and its bond offerings. However, in addition to disclosure of material facts, it is also required that the information be presented in a manner that tells the “whole truth,” that is, in a manner that is not misleading. In addition to the specific factual issues we have identified in past correspondence, this is where we believe Metropolitan’s offering statements fall short. As one specific example (others have been identified in past letters on this subject), while Metropolitan discloses that none of its customers are required to purchase any water from Metropolitan, it does not tell the “whole truth” about its reduced sales, the nature and extent of local water supply development that is occurring throughout Southern California, or, that Metropolitan itself is so worried about its own reduced sales that it is engaging in a public relations campaign to try to impede local water supply development – at least here, in San Diego.
We do not agree that Appendix A “includes primarily historical information.” Or, that Metropolitan’s budget documents, resources planning documents and financial reports may be relied upon as a reasonable basis of future projections stated in the offering statements where those – materially outdated – documents are inconsistent with actual facts. By the measure described in Mr. Breaux’s letter, actual facts would be dismissed as “speculation” if those facts are inconsistent with Metropolitan’s planning documents. We have in past correspondence provided you and the other board members and staff many details why we believe Metropolitan’s fundamental planning documents are at best, materially outdated. All of these letters have been provided to you and the other board members and the complete inventory of letters may be accessed, as this letter may be, at www.MWDFacts.com.

Conservation “commitment” to the BDCP. Mr. Breaux appears to be saying that 1) Metropolitan has, indeed, made a “commitment” and 2) that it was made when the board adopted its Integrated Resources Plan (IRP), therefore, no further board action required. To argue that such a “commitment” was made because it is “consistent with the IRP and planning goals approved by the board” calls into question what the legal effect is of board adoption of the IRP.

If Metropolitan is contending that a “commitment” was made to conserve 700,000 acre feet of water beyond the 20x2020 retail mandated conservation savings in its IRP, then a different set of issues emerges, not the least of which is the need for CEQA compliance.¹ We ask again that you provide detailed information to the board of directors regarding this “commitment,” including what share of the 700,000 acre-feet of “additional” conservation is attributable to Metropolitan and how this will be factored into Metropolitan’s water resources plans and financial projections.

Changes to the official statement regarding the Quantification Settlement Agreement (QSA). Metropolitan changed language in the offering statement that had been presented in numerous prior bond offerings. The sole basis for those changes was to conform the language to its own new litigation theories. The Water Authority provided specific changes back to the prior language – which was consistent with the QSA agreements – but those changes were not accepted by Metropolitan.

Regarding the offering statement’s failure to adequately describe what would happen if the QSA agreements were interrupted, Metropolitan is fully able to describe what the impacts would be

¹ The Water Authority has advocated for an update to Metropolitan’s IRP, to take into account materially changed circumstances since the time the IRP was adopted by the board. Now, as a result of a recent court decision, Metropolitan must make its IRP more certain if it expects water suppliers to rely upon it in making water supply assessments associated with future development. See Preserve Wild Santee v. City of Santee, 2012 WL 5077156 (Cal.App. 4 Dist.) (Cal.App. 4 Dist.,2012) or 12 Cal. Daily Op. Serv. 11,906, 2012 Daily Journal D.A.R. 14,541. In its current form, the IRP is not a reasonable basis for projecting water resources or the need for water resources because it is not grounded in a reasoned estimate of future demand, and does not even purport to “account” for the future water supplies that will be developed in order to meet that demand. Instead, it promotes a “do everything” approach without taking into account what the cost would be or the likelihood of stranded investments.
under the existing QSA agreements. No one is claiming that there couldn’t be negotiations or asking Metropolitan to speculate what the outcome of those negotiations might be.

*Possibility that “all” future Southern California water supplies will be provided by Metropolitan.*
Based on your own explanation, the edit should be made to delete the phrase, “if any.”

*Discrepancy for standard of reporting local water supply development.* Mr. Breaux’s response to our letter does not address the issue we raised asking why the standard of disclosure of local water supply development for the City of Los Angeles is based upon its Urban Water Management Plan (UWMP), while for other agencies, including the Water Authority, the standard of disclosure Metropolitan is using is whether projects are “producing water or are under construction at the time a water sales projection is made.” See our August 20, 2012 letter to Metropolitan RE: Board Memo 8-1 (OPPOSE), section A-28 – Regional Water Resources, at page 4 (the August 20 letter). We believe investors would want to know what plans all Metropolitan’s member agencies have to buy less water from Metropolitan in the future, not just the City of Los Angeles. This is especially important information to be provided for the Water Authority, because it is Metropolitan’s largest steady water purchaser.

Our letter did not dispute that the Los Angeles Aqueduct is a significant source of water supply within Metropolitan’s service area. Nor did we dispute that certain disclosures are made about plans by the Water Authority to reduce its purchases of imported water from Metropolitan. What we asked is that Metropolitan “connect the dots” by making these disclosures in the appropriate sections of the offering statement regarding impacts on sales and revenues. See the August 20 letter, section A-28 – Regional Water Resources, at page 4.

**LA-AVEK turnout.** We agree that the “not-to-exceed” amount is a fact relevant to investors, however, the agreement itself does not contain such a limitation. That’s precisely why we were concerned with Metropolitan’s edits to the offering statement deleting the word “limits.” We renew our request for an updated board report on this project and the amount of and limitations on anticipated reduced sales by Metropolitan when it is implemented.

**Description of the IID-SDCWA water transfer.** We have commented many times previously on how misleading it is to describe the provision of transportation and exchange services as the “sale of water” by Metropolitan in most contexts of its offering statement. While it is true that the fact of the water transfer is disclosed, the offering statement is misleading because it reports San Diego’s purchase of water from IID as a water sale by Metropolitan. See the August 20 letter at page 1, Reduced Sales.

**Metropolitan Sales Projections.** There are a number of problems with Mr. Breaux’s description of Metropolitan’s process for estimating water sales that are then used in “MANAGEMENT’S DISCUSSION OF HISTORICAL AND PROJECTED REVENUES AND EXPENDITURES.” We have described the problems in past letters which may be viewed at www.MWDFacts.com. A short summary is

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2 See, as an example, September 10, 2012 letter RE Update on “Rate Refinement” (Board Information Item 7-b); August 16, 2012 letter RE Rate Refinement Workshop and July 9, 2012
that Metropolitan’s evaluation of six agencies\(^3\) showed its demand projections to be lower than the member agency projections in DRY years (an important fact not mentioned by Mr. Breaux in his letter). We do not disagree with that conclusion. However, in AVERAGE years, the member agency forecasts are LOWER than Metropolitan’s forecast. For purposes of disclosures in Metropolitan’s offering statements estimating future sales and revenues, a comparison of AVERAGE demands is much more informative to investors than a comparison of the occasional single or multiple dry year scenario. This is especially so since Metropolitan has also failed to “connect the dots” for investors to explain how its rate structure currently allows agencies to pay for water only in dry years when they need it, or that its failure to account for or properly allocate the cost of this dry-year capacity during average and wet years is one of the issues being challenged in the San Diego rate litigation.

Our past letters have raised two other critical facts not taken into account by Metropolitan or Mr. Breaux’s letter: (1) Metropolitan’s forecasted demands have decreased significantly in every iteration of its UWMP; and (2) Metropolitan has excluded from its UWMP plan significant local supplies that members are NOW developing. These projects include but are not limited to the Groundwater Reliability Improvement Program (GRIP) being developed by the Water Replenishment District of Southern California, the Carlsbad seawater desalination project being developed by the Water Authority, and the water transfers now being planned by the Los Angeles Department of Water and Power in order to fill the aqueduct connection authorized by Mr. Gastelum. If Metropolitan’s “resources plan” included even a portion of these and other water supplies its customers are NOW developing, its future water sales would be greatly reduced.

**Replenishment rates.** The edits made to the offering statement do not address the fundamental problem that a significant portion of Metropolitan’s projected water sales depend on the availability of discounted water – whether cast as a discounted replenishment water rate or as a new “incentive” based program. As we have pointed out in prior letters, it is inherently misleading for Metropolitan to report on the basis of “average” sales and “average” water prices that bear no relation to the actual economic factors investors need to make informed decisions about Metropolitan’s future water sales and revenues.

**PAYGo funding.** Accurately describing the reason why Metropolitan’s actual pay-as-you-go funding has consistently been less than *budgeted* does not require speculation – it is because Metropolitan’s sales and revenues have consistently and substantially failed to meet budget.

**Alleged cost-shifting.** Metropolitan and the rest of its member agencies have contended for years

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\(^3\) Mr. Breaux refers to a “comprehensive analysis of all 26 member agencies,” however, we are not aware of any such comprehensive report. If one exists, we request to be provided with a copy and will reassess the facts in regard to this issue. We are also unaware of any comparison of AVERAGE Urban Water Management Plan demands for all or even the six agencies and again request to be provided a copy if one exists.
that if Metropolitan’s rates were revised as suggested by the Water Authority, it would unfairly “shift costs” to other member agencies. Please provide us with a copy of the financing team comments that have now questioned that premise and that were the basis of the edits made to the last offering statement.

Water purchase estimates for State Water Project. We disagree that the edits Metropolitan recently discovered should be made to the long-standing language of the offering statement are mere “wordsmithing.”

EDIT TO THE OCTOBER 24, 2012 DRAFT OFFICIAL STATEMENT

The following specific comments address the most recent set of edits to the draft Official Statement, dated October 24, 2012. We incorporate by reference all of the prior comments made on the Official Statement, most of which have not been addressed by Metropolitan.4

A-3 – Integrated Water Resources Plan
The description added of the 2010 IRP update as an “adaptive management approach” is misleading. The IRP estimated water sales numbers are substantially higher than those used in Metropolitan’s Urban Water Management Plan or disclosed in its offering statements. As noted in the August 20 letter at page 1, Reduced Sales, Metropolitan has finally reduced its water sales projections by 300,000 AF for FY 2013, 400,000 AF for FY 2014 and 350,000 AF for FY 2015 from those predicted in September 2010. However, these flawed numbers are still contained in Metropolitan’s IRP and Metropolitan’s IRP is still being used as the basis of its water resources planning and spending decisions. Calls to update the IRP or adjust spending decisions to adapt to these reduced demands have gone unheeded. Apparently, Metropolitan believes that its water sales can only “adapt” to increase, but never to decrease. This is a materially flawed planning assumption that is inconsistent with known facts.

Metropolitan should also include in the discussion of its IRP implications of the recent Preserve Wild Santee case noted in footnote 1 of this letter.

A-18 – Sale of Water by the Imperial Irrigation District to San Diego County Water Authority
Add to the last sentence of the first full paragraph at page A-19, “and Metropolitan has agreed to convey and exchange to the Water Authority in 2012 an additional 16,722 acre-feet of Conserved Water, regardless of the pending dispute between the parties as to whether the water was actually made available in 2011.”

A-31 – Los Angeles Aqueduct
Disclosure should be made of the litigation that the City of Los Angeles has recently filed challenging its Eastern Sierra environmental mitigation obligations. The implications of this litigation should also be added at page A-12 discussing the open-ended “decision tree” process for determining

4 Past comments were provided in 2012 letters dated August 29, August 20, June 11, April 9 and February 13. All letters may be viewed at www.MWDFacts.com.
environmental mitigation requirements associated with the BDCP.

**A-34 – Seawater Desalination**

The offering statement has embedded Metropolitan’s disclosure of the Water Authority’s Carlsbad seawater desalination project in the discussion about its own subsidy program in a manner that is misleading and creates the impression that implementation of the Water Authority’s project depends upon execution of the original multi-party incentive agreement in which Metropolitan was a party. Metropolitan is not a party to the Water Authority’s draft water purchase agreement with Poseidon. We suggest deleting the following sentence that was added to the middle of the last paragraph on page A-34, “In late September 2012, SDCWA released a draft water purchase agreement with Poseidon for public review.” The same sentence is included in the paragraph that has been added at the top of page A-35, where it is less misleading.

**A-48 – Water Sales**

While we appreciate the addition of footnote 3 to disclose that 225,000 acre-feet of Metropolitan’s 1,676,855 acre-feet of water sales in 2012 were replenishment sales, the report of Metropolitan’s water sales remains misleading as a result of its use of “averages” and its inclusion of its transportation and exchange of the Water Authority’s Colorado River water as “water sales” by Metropolitan. Providing more detailed information about actual sales rather than “average” sales would help investors understand important and substantial trends in the volume of sales and price of Metropolitan water.

**A-52 – Member Agency Purchase Orders**

Metropolitan fails to disclose the conclusion reached by Metropolitan’s own staff and reported to the board of directors, that the use of Purchase Orders fails to meet the board’s articulated objective of providing for an annual assured revenue stream sufficient to pay Metropolitan’s costs. Metropolitan’s Purchase Orders are also subject to the requirements of state law and the state constitution including but not limited to Proposition 26.

**A-53 – Classes of Water Service (Replenishment)**

The description of the “Replenishment Service Program” as a sound water resource and financial program is inconsistent with Metropolitan’s own assessment of the Program as featuring “questionable and unquantifiable performance criteria for a discounted water program,” loss of full service sales due to the availability of discounted water and the unequal distribution of costs and benefits among the member agencies. Given that Metropolitan has disclosed that it remains in

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5 Although it will not solve the bigger problem associated with Metropolitan’s use of averaging, we suggest that you include the word “discounted” before “replenishment sales” in footnote 3.

6 See the Water Authority’s September 10, 2012 letter to the board RE Update on “Rate Refinement” (Board Information Item 7-b), available at www.MWDFacts.com.

7 See Metropolitan’s April 26, 2011 Board Memo 5-1 and a long series of letters on this subject included in the Discounted Replenishment Water section of www.MWDFacts.com.
discussion with its member agencies about how to continue discounted water sales under a new label (“incentive-based water storage program”), the last paragraph of this section, describing the fact that discounted water sales offset full service water sales, should not be deleted.

**A-65 and A-70 – Variable Rate and Swap Obligations**

Metropolitan has added a number of disclosures in its official statement regarding a possible loss in the value of its existing swap transactions that could be as high as $169 million if interest rates remain unchanged or do not increase substantially during the remaining life of the swap agreements which range between 8-12 years. Further, it appears that the counterparty holding the swap can elect to terminate during optional dates which would result in an immediate loss to Metropolitan. This should also be disclosed in Metropolitan’s offering statement. Please advise if this is a correct interpretation of the disclosures added to the offering statement and whether these investments are consistent with the board’s investment policy.

**A-79 – Historical Projected Revenues and Expenditures**

See discussion at A-48 and footnote 5 of this letter, that the word, “discounted” should be added before the words, “replenishment sales” in footnote (b) at page A-80.

In addition, given (1) Metropolitan’s actual water rate increases as described; (2) Metropolitan’s reduced water sales as described at section A-3 of this letter; (3) the time line within which Metropolitan is legally required to disclose and begin to manage payment of its combined unfunded retiree health care obligation and unfunded pension obligation currently totaling $757 million; and (4) the projected time line for BDCP implementation, there is no reasonable basis for the statement by MANAGEMENT that “rates and charges are projected to increase 3.0 percent per fiscal year” beginning in 2015 and thereafter. The actual rate increases over the past five years are a far better indicator of Metropolitan’s future rate increases than the projection by MANAGEMENT.

**A-81 – Board direction to staff to evaluate cost-of-service methodology to ensure that all rates and charges recover the full cost of service effective January 1, 2011**

It should be disclosed that the Water Authority’s MWD rate litigation alleges that Metropolitan has failed to properly allocate its costs proportionally among the member agencies that benefit. The staff has also failed to comply with this board direction by failing to include in its cost of service a credible plan to pay the cost of Metropolitan’s unfunded retiree health care obligation and unfunded pension obligation – currently totaling $757 million. Given that investors rely upon the willingness of the Metropolitan board to raise water rates sufficiently to cover its expenses, it should be clearly disclosed in the Official Statement that these costs are not covered by the water rates and charges recommended by staff and approved by the board of directors.  

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8 Indeed, development of a program for the sale of discounted water has been stated by the member agency managers to be one of Metropolitan’s top three “priorities.” See slide 2 of August 24, 2012 MWD Member Agency Managers Meeting PowerPoint Presentation.

9 Jerry Sanders, the Mayor of the City of San Diego, recently wrote to Metropolitan expressing his concern about this unfunded liability and the fact that Metropolitan does not have a plan to
A-81 – “Unrestricted” Reserve Balances
We do not understand how reserve balances that are held as collateral can be described as “unrestricted.” Please explain.

Except as otherwise noted, the comments in this letter, including those that are incorporated by reference, address only those issues that are actually highlighted in the draft revisions distributed by Metropolitan to the board of directors dated October 24, 2012.

Sincerely,

Keith Lewinger
Director

Vincent Mudd
Director

Fern Steiner
Director

Doug Wilson
Director

cc: Jeff Kightlinger, MWD General Manager
San Diego County Water Authority Board Members and Member Agencies
REVISED AGENDA

Adjourned Regular Board Meeting

November 5, 2012
1:30 p.m. -- Board Room

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Meeting Schedule

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<tr>
<td>1:30 p.m.</td>
<td>Board Room</td>
<td>Board Meeting</td>
</tr>
</tbody>
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1. **Call to Order**
   (a) Invocation: Bart Garcia, Engineer, Water System Operations
   (b) Pledge of Allegiance: Director James Edwards

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 9, 2012. (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

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REVISED Date of Notice: October 31, 2012
C. Approve committee assignments

D. Chairman’s Monthly Activity Report

E. Report from Executive Committee on nominations

F. Nomination and election of Board Secretary for two-year term effective January 1, 2013

G. Approve employment contract for General Auditor. (OP&T)

Added

H. Induction of new Director, Vincent Mudd, from San Diego County Water Authority
   (a) Receive credentials
   (b) Report on credentials by General Counsel
   (c) File credentials
   (d) Administer Oath of Office
   (e) File Oath

6. DEPARTMENT HEADS' REPORTS

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

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

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

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

7. CONSENT CALENDAR ITEMS — ACTION

7-1 Authorize easements over various Metropolitan properties in the county of Los Angeles, pending project approvals. (RP&AM)
Recommendation:

Option #1:

Adopt the CEQA determination and authorize the General Manager to grant easements to the city of Santa Clarita.

7-2 Authorize one long-term license agreement on Metropolitan property in the county of Riverside, pending project approvals. (RP&AM)

Recommendation:

Option #1:

Adopt the CEQA determination and authorize the General Manager to enter into a lease agreement with Mark Technologies Corporation and Alta Mesa Phase III Partners.

7-3 Grant conditional approval for the 103rd Fringe Area Annexation to Eastern Municipal Water District and to Metropolitan; and adopt resolution of intention to impose water standby charge. (F&I)

Recommendation:

Option #1:

Adopt the CEQA determination and
  a. Grant conditional approval for the 103rd Fringe Area annexation concurrently to Eastern and Metropolitan, conditioned upon receipt in full of annexation fee of approximately $54,367.33 to Metropolitan if completed by December 31, 2012, or if completed later, at the then current annexation charge rate;
  b. Approve Eastern’s Statement of Compliance with the current Water Use Efficiency Guidelines; and
  c. Adopt the resolution of intention to impose water standby charge within the proposed annexation territory, substantially in the form of Attachment 3 to the board letter.

7-4 Award $747,910.23 procurement contract to OneSource Distributors, LLC for electrical equipment for the Robert A. Skinner Water Treatment Plant (Approp. 15365). (E&O)
Recommendation:

Option #1:

Adopt the CEQA determination and award $747,910.23 procurement contract to OneSource Distributors, LLC for the Skinner Electrical Building Upgrades.

7-5 Appropriate $280,000; and authorize preliminary design of upgrades to the Dam Monitoring System and Inlet/Outlet Tower fish screens at Diamond Valley Lake (Approps. 15419 & 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and
a. Appropriate $280,000;
b. Authorize preliminary design to upgrade the dam monitoring system at Diamond Valley Lake; and
c. Authorize preliminary design to rehabilitate fish screens at the Diamond Valley Lake Inlet/Outlet Tower.

7-6 Appropriate $260,000; and authorize final design to relocate a portion of the Orange County Feeder (Approp. 15441). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and
a. Appropriate $260,000; and
b. Authorize final design to relocate a portion of the Orange County Feeder.

(END OF CONSENT CALENDAR)

8. OTHER BOARD ITEMS — ACTION

8-1 Authorize the execution and distribution of Official Statement in connection with the issuance of the Water Revenue Refunding Bonds, 2012 Series G. (F&I)
Recommendation:

Option #1:

Adopt the CEQA determination and
a. Approve the draft Preliminary Official Statement substantially in the form attached to the board letter, with changes approved by the General Manager and General Counsel;
b. Authorize the General Manager to execute the Official Statement; and
c. Authorize distribution of the Official Statement in connection with marketing of the bonds.

8-2 Appropriate $2.58 million; and authorize final design of solids handling improvements at the Henry J. Mills Water Treatment Plant (Approp. 15479). (E&O)

Recommendation:

Option #1:

Adopt the CEQA determination and
a. Appropriate $2.58 million; and
b. Authorize final design of solids handling improvements for the Mills plant.

8-3 Report on existing litigation; and authorize an increase in maximum amount payable under contract with Hanson Bridgett LLP for legal services by $500,000 to an amount not to exceed $600,000 in connection with San Diego County Water Authority v. Metropolitan Water District of Southern California, et al., San Francisco County Superior Court Case No. CPF-10-510830 and No. CPF-12-512466. (L&C)
Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code Section 54956.9(a)]

Revised 8-4 Authorize execution of agreements related to interim international cooperative measures in the Colorado River Basin; and approve payment of up to $5 million for purchase of supplies from international pilot project. (WP&S)
Recommendation:

Option #1:

Adopt the CEQA determination and

a. Authorize Metropolitan to enter into multiple agreements in support of a five-year program to augment Metropolitan’s Colorado River supply through the funding of an international pilot project in Mexico, on the terms described in the board letter, with changes approved by the General Manager and General Counsel; and

b. Approve payment of up to $5 million for purchase of supplies from the international pilot project.

9. BOARD INFORMATION ITEMS

9-1 Proposal to eliminate the Replenishment Service program and adjust Member Agency Tier 1 limits. (WP&S)

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.

REVISED: Date of Notice: October 31, 2012
Summary Report for
The Metropolitan Water District of Southern California
Board Meetings
November 5, 2012

NOMINATION AND ELECTION OF BOARD SECRETARY

The Board:

Received a report from the Executive Committee on nominations for the office of Board Secretary. (Agenda Item 5E)

Re-elected John T. Morris as Board Secretary for a two-year term effective January 1, 2013. (Agenda Item 5F)

COMMITTEE ASSIGNMENTS

None (Agenda Item 5C)

FINANCE AND INSURANCE COMMITTEE

Approved the draft Preliminary Official Statement substantially in the form attached to the board letter, with changes approved by the General Manager and General Counsel; authorized the General Manager to execute the Official Statement; and authorized distribution of the Official Statement in connection with marketing of the Water Revenue Refunding Bonds, 2012 Series G. (Agenda Item 8-1)

ENGINEERING AND OPERATIONS COMMITTEE

Appropriated $2.58 million and authorized final design of solids handling improvements for the Henry J. Mills Water Treatment Plant (Approp. 15479). (Agenda Item 8-2)

LEGAL AND CLAIMS COMMITTEE

Authorized an increase in the maximum amount payable under the contract with Hanson Bridgett LLP for legal services by $500,000 to an amount not to exceed $600,000 in connection with San Diego County Water Authority v. Metropolitan Water District of Southern California, et al., San Francisco County Superior Court Case No. CPF-10-510830 and No. CPF-12-512466. (Agenda Item 8-3)

WATER PLANNING AND STEWARDSHIP COMMITTEE

Authorized Metropolitan to enter into multiple agreements in support of a five-year program to augment Metropolitan’s Colorado River Supply through the funding of an international pilot project in Mexico, on the terms described in the board letter, with changes approved by the General Manager and General Counsel; and approved payment of $5 million for purchase of supplies from the international pilot project. (Agenda Item 8-4)
CONSENT CALENDAR

In other action, the Board:

Authorized the General Manager to grant easements to the city of Santa Clarita.  (Agenda Item 7-1)

Authorized the General Manager to enter into a lease agreement with Mark Technologies Corporation and Alta Mesa Phase III Partners.  (Agenda Item 7-2)

Granted conditional approval for the 103rd Fringe Area annexation concurrently to Eastern Municipal Water District and Metropolitan, conditioned upon receipt in full of the annexation fee of approximately $54,367.33 to Metropolitan if completed by December 31, 2012, or if completed later, at the then current annexation charge rate; approved Eastern Municipal Water District’s Statement of Compliance with the current Water Use Efficiency Guidelines as stated in (Attachment 2) of the board letter; and adopted the resolution of intention to impose water standby charge within the proposed annexation territory, substantially in the form of Attachment 3 in the board letter.  (Agenda Item 7-3)

Awarded a $747,910.23 procurement contract to OneSource Distributors, LLC for the Robert A. Skinner Water Treatment Plant (Approp. 15365) electrical building upgrades.  (Agenda Item 7-4)

Appropriated $280,000, authorized preliminary design to upgrade the dam monitoring system at Diamond Valley Lake, and authorized preliminary design to rehabilitate fish screens at the Diamond Valley Lake Inlet/Outlet Tower (Approps. 15419 & 15441).  (Agenda Item 7-5)

Appropriated $260,000 and authorized final design to relocate a portion of the Orange County Feeder (Approp. 15441).  (Agenda Item 7-6)

OTHER MATTERS

Vincent Mudd was inducted to the Board of Directors representing the San Diego County Water Authority.  (Agenda Item 5H)

OTHER ACTION

In other action, the Board:

Approved an employment contract with Gerald Riss as General Auditor, containing the terms and conditions set forth in the board letter.  (Agenda Item 5G)

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.
November 4, 2012

Gary Breaux
Assistant General Manager/Chief Financial Officer
Metropolitan Water District of Southern California
P. O. Box 54153
Los Angeles, CA 90065-0153

Gary Breaux

RE: Tracking Revenues From Rate Components Against Actual Expenditures

This letter is to follow up on discussions at the Finance and Insurance Committee meetings last May and June when I requested of staff a year-end report tracking revenues derived from individual rate components against actual expenditures. As you know, revenues from the Water Stewardship Rate (WSR) are currently, not only tracked, but revenues in excess of expenditures from this source are deposited in a separate WSR Fund for future projects.

You indicated in June that you would get back to me on this once you had final audit numbers for FY 2012. Now that these numbers are available, I would appreciate receiving your report on FY 2012 and response to my request that the revenues from each of the individual rate components be tracked in the future. Based on the outreach I have made with other agencies, Metropolitan should be able to track these costs with ease under its standard Chart of Accounts which all governmental agencies maintain.

Aside from any differences we may have in how costs are assigned to the individual rate components, it is important for the Metropolitan staff and board to understand the extent to which rate components are individually under- or over-colllecting the actual cost of service.

I plan to raise this question at tomorrow’s Finance and Insurance Committee meeting, hence, this letter to remind you of this outstanding request. Please let me know if you have any questions. Thank you.

Sincerely,

Keith Lewinger
Director

cc: Aaron Grunfeld, Finance and Insurance Committee Chairman
Jeff Kightlinger, MWD General Manager
San Diego Delegation
November 29, 2012

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 14, 2012 CRB meeting.

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

Water supply and reservoir operations
At the end of October, storage in major reservoirs decreased by almost 400,000 af from the same time last year. As of November 18, total system storage was 33.4 million acre-feet (maf), or 56 percent of capacity, which is about 4.9 maf less than a year ago. Observed water inflow to Lake Powell for the month of October 2012 was 37 percent of normal, continuing the dry conditions of water year 2012, which ended at 45 percent of average. Lake Mead is 50 percent full, with 13.1 maf, and Lake Powell holds 13.6 maf, which is 56 percent of capacity.

Binational discussions
The Board met in executive session to discuss the status of Minute 319, a proposed binational agreement for managing Colorado River water. Subsequent to the executive session, the board authorized the chairman to execute a memorandum of agreement regarding implementation of Minute 319, as well as a resolution urging California’s Colorado River contractors to execute related agreements that are necessary to implement the minute. The parties to Minute 319, including federal, state, and local water agencies, planned to execute the minute at a signing ceremony scheduled November 20. The Minute provides surplus and shortage guidelines for Mexico, funds wildlife habitat in Mexico, develops a pilot program to conserve water in Mexico that would become available to U.S. users, and allows Mexico to store water in Lake Mead. A separate board memo was prepared that reviews Minute 319 in more detail.

Status of Colorado River Basin Water Supply and Demand Study
Reclamation and Basin states’ study participants met frequently over the past two months to complete the study by the end of November. The two-year study evaluates potential Colorado River water supplies and projected demand for river resources through 2060. Final drafts of the study and accompanying technical memorandums are being reviewed before the report is released at the end of the month. Water Authority staff have prepared a separate board report for the Imported Water Committee that discusses the report in more detail.
Environmental activities

Proposed Glen Canyon Dam High-Flow Experiment. Reclamation scheduled a High-Flow Experimental (HFE) water release from Glen Canyon Dam to begin November 19, 2012. This release is intended to redistribute up to 700,000 metric tons of sediment that has accumulated in the river below Glen Canyon Dam. The HFE will include a 24-hour release of 42,300 cubic-feet-per-second (cfs), preceded and followed by a fluctuating flow of 7,000 to 9,000 cfs, for a total November monthly release of 724,000 acre feet. About 80,000 af of the release is expected to bypass Glen Canyon Dam’s power generating facilities. The HFE is intended to examine the effects of high-volume releases on sediment accumulation and transport, the aquatic food base, rainbow trout, and riparian vegetation.

Status of the Moab Uranium Mill Tailings Remedial Action Project. The Moab Uranium Mill-Tailings Remedial Action Project (UMTRA) is removing and relocating soils near the river that were contaminated with uranium mining mill tailings. These are radioactive materials that remain after the uranium ore has been processed. The 130-acre tailings removal site is located about three miles northwest of Moab, Utah. To date, the U.S. Department of Energy (DOE) has removed and relocated about 5.6 million tons of the tailings, about a third of the estimated total of 16 million tons that are to be removed. The material is being relocated to a designated repository at a permanent disposal site 30 miles north, near Crescent Junction, Utah. The remediation effort is scheduled to be completed between 2025 and 2029, depending on future funding. The total project cost is estimated to be between $1 billion and $1.05 billion.

Status of the Lower Colorado River Multi-Species Conservation Program. The Lower Colorado River Multi-Species Conservation Program steering committee met in October to approve its FY 2013 budget and work plan. The FY 2013 budget is $34,452,540, which provides for activities that continue the establishment and maintenance of native riparian, marsh and aquatic habitats, species monitoring, and stocking of endangered razorback suckers and bonytail chub in mainstream aquatic habitats. Reclamation reported that three MSCP mitigation tasks have been completed: (1) riparian habitat monitoring below Parker Dam; (2) acquisition and protection of 240 acres of flat-tailed horned lizard habitat; and (3) construction of the Topock Marsh inlet canal (aka Firebreak Canal) and pump station project on the Havasu National Wildlife Refuge. The US Fish and Wildlife Service commended the LCR MSCP partnership for the timely accomplishment of these tasks.
## SUMMARY WATER REPORT
### COLORADO RIVER BASIN

**November 1, 2012**

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<td>98</td>
<td>0.561</td>
<td>447.0</td>
<td>91</td>
</tr>
<tr>
<td><strong>Total System Storage</strong></td>
<td>33.643</td>
<td></td>
<td>56</td>
<td>34.023</td>
<td></td>
<td>56</td>
</tr>
<tr>
<td><strong>System Storage Last Year</strong></td>
<td>38.527</td>
<td></td>
<td>65</td>
<td>38.680</td>
<td></td>
<td>65</td>
</tr>
</tbody>
</table>

**September 30, 2012**

<table>
<thead>
<tr>
<th>MAF</th>
<th>% of Normal</th>
<th>MAF</th>
<th>% of Avg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>55 percent (1.5&quot;)</td>
<td>73 percent (23.9&quot;)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>N/A(N/A)</td>
<td>N/A(N/A)</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**September 17, 2012**

<table>
<thead>
<tr>
<th>MAF</th>
<th>% of Normal</th>
<th>MAF</th>
<th>% of Avg.</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012 April through July unregulated inflow observed</td>
<td>2.063</td>
<td>29%</td>
<td>2.063</td>
</tr>
<tr>
<td>2012 Water Year observed</td>
<td>4.908</td>
<td>45%</td>
<td>4.908</td>
</tr>
</tbody>
</table>

### USBR Forecasted Year-End 2012 and 2011 Consum. Use, November 5, 2012

<table>
<thead>
<tr>
<th>Diversion</th>
<th>Return</th>
<th>Net</th>
<th>2012</th>
<th>2011</th>
</tr>
</thead>
<tbody>
<tr>
<td>Nevada (Estimated Total)</td>
<td>0.463</td>
<td>0.207</td>
<td>0.256</td>
<td>0.221</td>
</tr>
<tr>
<td>Arizona (Total)</td>
<td>3.680</td>
<td>0.871</td>
<td>2.809</td>
<td>2.785</td>
</tr>
<tr>
<td>CAP Total</td>
<td>1.621</td>
<td>1.625</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Az. Water Banking Authority</td>
<td>0.134</td>
<td>0.134</td>
<td></td>
<td></td>
</tr>
<tr>
<td>OTHERS</td>
<td>1.188</td>
<td>1.160</td>
<td></td>
<td></td>
</tr>
<tr>
<td>California (Total)</td>
<td>5.066</td>
<td>0.657</td>
<td>4.409</td>
<td>4.315</td>
</tr>
<tr>
<td>MWD</td>
<td>0.730</td>
<td>0.699</td>
<td></td>
<td></td>
</tr>
<tr>
<td>3.85 Agriculture</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>IID c./</td>
<td>3.196</td>
<td>-0.306</td>
<td>2.890</td>
<td>2.916</td>
</tr>
<tr>
<td>CVWD d./</td>
<td>0.355</td>
<td>-0.031</td>
<td>0.324</td>
<td>0.309</td>
</tr>
<tr>
<td>PVID</td>
<td>0.372</td>
<td>0</td>
<td>0.372</td>
<td>0.320</td>
</tr>
<tr>
<td>YPRD</td>
<td>0.048</td>
<td>0</td>
<td>0.048</td>
<td>0.048</td>
</tr>
<tr>
<td>Island e./</td>
<td>0.007</td>
<td>0</td>
<td>0.007</td>
<td>0.007</td>
</tr>
<tr>
<td>Total Ag.</td>
<td>3.978</td>
<td>-0.337</td>
<td>3.641</td>
<td>3.600</td>
</tr>
<tr>
<td>Others</td>
<td>0.038</td>
<td>0.016</td>
<td></td>
<td></td>
</tr>
<tr>
<td>PVID-MWD fallowing to storage (to be determined)</td>
<td></td>
<td></td>
<td></td>
<td>0</td>
</tr>
</tbody>
</table>

**Arizona, California, and Nevada Total f./ | 9.209 | 1.734 | 7.475 | 7.321 |

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**Notes:**

- a. Incorporates Jan.-Sept. USGS monthly data and 75 daily reporting stations which may be revised after provisional data reports are distributed by USGS. Use to date estimated for users reporting monthly and annually.
- b. California 2012 basic use apportionment of 4.4 MAF has been adjusted to 4.175 MAF for creation of Intentionally Created Surplus Water by IID (-25,000 AF), and Creation of Extraordinary Conservation (ICS) by MWD (-200,000 AF).
- c. In 2012, 0.105 MAF being conserved by IID-MWD Agreement as amended in 2007: 112,500 AF being conserved for SDCWA under the IID-SDCWA Transfer Agreement as amended, 90,000 AF of which is being diverted by MWD; 21,000 AF being conserved for CVWD under the IID-CVWD Acquisition Agreement, 67,700 AF being conserved by the All American Canal Lining Project.
- d. In 2012, 30,850 AF conserved by the Coachella Canal Lining Project (may be amended by 4,850 AF for mitigation).
- e. Includes estimated amount of 6,660 acre-feet of disputed uses by Yuma Island pumpers and 209 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
November 2012

Maximum usable capacity (60.345 maf)

MUC (59.665 maf)

Minimum operation level storage (16.065 maf)

MOL (15.936 maf)

Historic Proj.

Excess deliveries to Mexico for year

* A resurvey of Lake Powell changed the MUC and MOL in June 1991
Figure 2. Lakes Powell and Mead Monthly Pool Elevation Levels

Lake Powell Monthly Pool Elevation Level (Feet)

- Maximum (3700 feet)
- Upper Elevation Balancing Tier (3645 feet)
- Lower Elevation Balancing Tier (3525 feet)

3555.90 ft. in March 2005, lowest since 1969 during the initial filling of Lake Powell.

Lake Mead Monthly Pool Elevation Level (Feet)

- Maximum (1229 feet)
- Surplus (1145 feet)
- Normal Condition
- Shortage (1075 feet)

1081.94 ft. in November 2010, lowest since 1937 during the initial filling of Lake Mead.
Figure 3. NOAA National Weather Service Monthly Precipitation Maps for September and October 2012
Figure 4. Westside SNOTEL basin snow water equivalent (SWE) as a percent of average

Figure 5. SNOTEL Water-Year-To-Date (WYTD) SWE for the CO headwaters basin
The U.S. Drought Monitor is produced in partnership between the National Drought Mitigation Center at the University of Nebraska-Lincoln, the United States Department of Agriculture, and the National Oceanic and Atmospheric Administration.

The Drought Monitor focuses on broad-scale conditions. Local conditions may vary. See accompanying text summary for forecast statements.

http://droughtmonitor.unl.edu/
Figure 7. Current Climate Summary Maps - Powered by **Applied Climate Information System (ACIS)**

The Current Climate Summary Maps are produced daily using data from the Applied Climate Information System (ACIS). Stations used are from the National Weather Service Cooperative Observer Network (COOP), and the Automated Weather Data Network (AWDN). All near-real-time data are considered preliminary and should be used responsibly.

Normal refers to the 1981-2010 Climate Normal for the selected product.
November 29, 2012

Attention: Board of Directors

Report on agency participation in Uniform Contract for Member Agency Purchase of Treated Water from the Water Authority-Carlsbad Desalination Project. (Information)

Purpose
To notify the Board on which member agencies have provided a resolution of intent to purchase Carlsbad Desalination Project water from the Water Authority and of the purchase amount.

Background
On September 27, 2012, the Water Purchase Agreement (WPA) between the Water Authority and Poseidon Resources for production and purchase of Carlsbad Desalination Project supplies was released for public review. On October 25, 2012, the Board approved a uniform contract for member agency purchase of Carlsbad Desalination Project supplies from the Water Authority.

The purpose of the purchase contract is to provide member agencies an opportunity to purchase a local “drought-proof” supply that could provide additional reliability in shortage situations and diversify the agency’s supply portfolio. For the Water Authority, the sale of Water Authority-owned supplies to member agencies at its full cost would provide a fixed revenue stream and reduce the amount of project costs that need to be recovered through Water Authority rates and charges.

The uniform purchase contract was developed in coordination with the member agencies and based on the June 23, 2011 Board adopted guiding principles. The following provides a summary of the principles:

- The member agency will commit to purchase an annual fixed amount of Carlsbad Desalination Project supplies from the Water Authority;
- The member agencies will pay a price that reflects the full costs of the contracted amount of desalinated water;
- Contract water would be classified as treated local water supply;
- A member agency will be obligated to pay for its contracted supplies if produced by Poseidon; and
- Total member agency purchases will be limited to a maximum of 49 percent of the amount of plant production under the WPA.

The principles also include a requirement that member agencies have 60 days from public release of the WPA to provide a resolution of intent to the Water Authority for purchase of a specific quantity of the local supply.
Discussion

With release of the WPA on September 27, 2012, the member agencies had until about
November 26, 2012 to provide a resolution of intent to purchase a fixed purchase amount. The
Water Authority received resolutions from the agencies listed in the table below, which also
includes the requested annual purchase amount.

<table>
<thead>
<tr>
<th>Member Agency</th>
<th>Annual Purchase Amount (AF)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Carlsbad Municipal Water District*</td>
<td>2,500AF</td>
</tr>
<tr>
<td>Vallecitos Water District</td>
<td>3,500AF</td>
</tr>
<tr>
<td><strong>TOTAL:</strong></td>
<td><strong>6,000AF</strong></td>
</tr>
</tbody>
</table>

*On November 27, 2012, the Carlsbad MWD Board approved sending a resolution of intent to the Water
Authority. As of the mailing of this memo, the resolution was being processed and the Water Authority
had not yet received the document from Carlsbad.

Staff will work with member agency staff to develop individual contracts for each agency, based
on the October 2012 Board adopted uniform contract. Minor modifications to the uniform
contract may be necessary to take into account unique conditions, such as separate delivery point
for the supply. The Board will then consider approval of the individual agency contracts. Staff
anticipates completing drafts of the contracts for Board consideration in early 2013.

At the Carlsbad MWD Board meeting on November 27, 2012, the Carlsbad Board expressed
concerns regarding Section 7d of the adopted uniform purchase contact and the potential for the
Water Authority to modify its shortage allocation methodology to eliminate or reduce the local
supply benefit. This issue will be discussed between the Water Authority, Carlsbad MWD and
Vallecitos WD, and resolved, prior to finalizing the individual contracts for Board consideration.

Prepared by: Dana L. Friehauf, Principal Water Resources Specialist
Reviewed by: Ken Weinberg, Director of Water Resources