

- **Board of Directors**
Water Planning and Resources Committee

December 12, 2000 Board Meeting

10-4

Subject

Status report on the State Water Project Initiative Action Plan and benefits [Any discussion of real property negotiations will be heard in closed session pursuant to Gov. Code § 54956.8 – Conference with Real Property Negotiator: Ron Gastelum, General Manager; Negotiating Party: California Department of Water Resources; Property: water rights under State Water Contract. Any discussion of existing litigation will be heard in closed session pursuant to Gov. Code § 54956.9(a) – Conference with Legal Counsel; one case: Planning & Conservation League v. Dept. of Water Resources, Case No. C024576.]

Description

In February of this year, Metropolitan's desire to maximize the value and reduce the costs of the State Water Project (SWP) was expressed in a letter to the Director of the Department of Water Resources (DWR). A review of issues and opportunities related to the SWP contract – referred to as the "SWP Initiative" – began with a Board workshop in February of this year. Since that time, staff evaluated strategy options and actions under the oversight of representatives of the Legal and Claims and Water Planning and Resources committees. The results of that assessment have been aggregated through the SWP Initiative into a comprehensive 5-point Action Plan (Action Plan). The Action Plan provides a framework for quarterly progress reports to the Board and provides the Board opportunity to direct staff. The Action Plan is outlined in the following paragraphs and described in detail in [Attachment 1](#).

1. Water Supply and Quality Reliability

Near- and long-term actions for water supply and quality reliability would integrate CALFED, water quality exchange and improved water treatment technology. Those actions pursue:

- least-cost solutions,
- near-term actions that complement long-term strategies,
- regulatory assurances in the Delta through CALFED, and
- outside financial assistance for development of local resources in Southern California.

Accomplishments. Progress occurred through securing bond funding from Proposition 13. More than \$365 million will be provided to Southern California, of which \$69 million has been directed to Metropolitan for desalination investigations, water quality exchanges and groundwater conjunctive use; \$235 million has been allocated for use in the Santa Ana River watershed. In addition, Metropolitan is pursuing criteria for conveyance of non-project water through the SWP system that promotes prudent water supply management and water quality protection.

2. Efficiency

Identified actions would improve efficiency of the SWP in the areas of:

- reduced project operation, maintenance and power costs,
- choices in decisions regarding major SWP facility investments, and
- reduced cost of financing SWP debt.

Accomplishments. Metropolitan and DWR agreed to a partnership agreement in June 2000 to implement actions that enhance operation, maintenance and power operations that include Metropolitan providing reimbursable

maintenance support to DWR. Metropolitan, DWR and the Bureau of Reclamation are jointly conducting operations benchmarking studies that will identify additional opportunities for efficiency.

3. Recreation

Separate, but related, actions would:

- improve Lake Perris storage access and water quality, and
- result in State General Fund payment of SWP recreation and fish and wildlife costs.

Accomplishments. Metropolitan and responsible State agencies initiated discussions regarding development of management and physical solutions for Lake Perris. Metropolitan, in concert with other SWP contractors, is pursuing inclusion of General Fund monies in the State's budget for Fiscal Year 2001-2002 to pay for recreation, fish and wildlife costs associated with the SWP.

4. Management of SWP Entitlement

Actions that would result in benefits from Metropolitan's management of SWP entitlement include:

- transferring supplies to other State Water Contractors through existing contract provisions, and
- contracting with the federal government, the State of California and others to periodically exchange or transfer Metropolitan's SWP entitlement.

Accomplishments. Discussions have progressed regarding Metropolitan's participation in water service agreements to support the Environmental Water Account under CALFED's proposed program.

5. Facility Use by Others

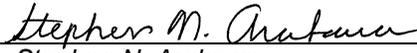
Approaches to preserve Metropolitan's SWP contractual rights and promote fair compensation for use by others of SWP facilities paid for by Metropolitan were evaluated. The evaluation considered appropriate responses to actions by others that conflict with the SWP contract or existing law. The general conclusion drawn during the analysis is that existing Metropolitan policies provide an appropriate framework for issues related to use of facilities by others. Ongoing review of such proposals will continue to focus on the cost and water quality implications as provided for by contract and law.

Policy

The Board has adopted detailed policies regarding: CALFED; wheeling; the SWP contract; water-use efficiency; groundwater management; water quality; water marketing; and water rights that are related to the SWP Initiative Action Plan. The SWP Initiative is expected to conclude with a comprehensive strategy for consideration by the Board that will enhance supply reliability, water quality and financial fairness.

Fiscal Impact

Metropolitan's annual costs for the SWP included in the fiscal year budget – which recently have been in the range of \$250 to \$300 million – could potentially be reduced by \$20 million or more if the Action Plan outlined above is fully implemented.

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|  | 12/4/2000 |
| Stephen N. Arakawa | Date |
| Manager, Water Resource Management | |
|  | 12/5/2000 |
| General Manager | Date |

Attachment 1

State Water Project Initiative Action Plan

The following summarizes a 5-point Action Plan to enhance supply reliability, water quality and fairness regarding Metropolitan's State Water Project (SWP) investments.

1. Water Supply and Quality Reliability

Analyses show that supply reliability is clearly associated with greater flexibility in the timing of pumping water from the Delta. To the extent that water quality in the Delta is compromised – particularly in the winter months – reliability of that supply is at risk. Accordingly, supply reliability can be enhanced by water quality actions that complement actions that seek to improve source (Delta) supply and quality.

Near-term actions include continued pursuit of:

- SWP operations that balance water supply and environmental objectives in the Delta,
- The Department of Water Resources (DWR) policies that protect water quality in the SWP system,
- State Water Resources Control Board actions that protect the quality and quantity of source flows into the Delta and require water users in the Delta to share responsibility for meeting water needs of the environment,
- outside financial assistance for development of local resources in Southern California that reduces demands for imported supplies,
- investigation into advanced treatment technology to address disinfection by-products and salinity, and
- water quality exchanges that improve water quality delivered through the SWP system.

Long-term actions for water supply and quality reliability would integrate actions related to CALFED, exchanges of SWP supplies for other higher-quality supplies and improved water treatment technology. Those long-term actions included:

- drawing from the most cost-effective elements of source improvement, water quality exchanges and treatment to identify and implement a least-cost water quality and supply reliability solution,
- keep options open given the uncertainties of regulatory actions related to surface water treatment rules and Delta operations,
- integrating SWP actions with actions on the Colorado River,
- pursuing regulatory assurances in the Delta through CALFED, and
- pursuing outside financial assistance for development of local resources in Southern California that reduce demands for imported supplies.

Accomplishments. Significant near-term progress occurred through securing bond funding from Proposition 13 approved earlier this year by the State's voters. Under the legislation, Metropolitan will receive:

- \$4 million for the Desalination Research and Innovative Partnership program (DRIP),
- \$20 million to develop water quality exchanges that benefit Metropolitan's service area, and
- \$45 million for conjunctive use in Southern California groundwater basins.

Sixty percent of Proposition 13 monies for water recycling have also been set aside for Southern California and \$235 million has been secured for the Santa Ana River watershed to promote supply reliability, quality protection and watershed management. Metropolitan initiated discussions regarding development of criteria for conveyance of non-SWP water through the SWP system that promotes prudent water supply management and water quality protection.

2. **SWP Efficiency**

Actions that pursue improved efficiency of the SWP include:

- participation in decisions regarding significant maintenance, repair and replacement activities,
- integrating power resource operations into water supply operations when possible to reduce net SWP power costs,
- reduced cost of financing existing and future SWP debt through conversion of fixed debt to variable debt.
- participation in decisions regarding development of new SWP facilities, and
- Metropolitan's providing services that would reduce DWR's SWP costs and improve operating efficiencies.

Accomplishments. Metropolitan and DWR signed a joint partnering letter in June 2000 that committed the two agencies to implement actions that enhance operation, maintenance and power operation efficiencies. Staff is pursuing an expanded effort to include system-wide efficiencies in concert with the other SWP contractors. Working with DWR and the United States Bureau of Reclamation, operations benchmarking studies are being conducted that compare the operations of similar water delivery systems in an effort to identify areas for which improved efficiencies might be realized.

3. **Recreation**

Separate but related actions have been developed regarding:

- resolving water quality issues at Lake Perris related to MTBE; taste and odor; and pathogen risk from body-contact recreation,
- resolving constraints on lake level fluctuation at Lake Perris related to fisheries and recreational facility designs, and
- inclusion of monies in the State's annual General Fund budget to pay SWP costs allocated to recreation, fish, and wildlife.

Accomplishments. A task force that includes representatives from Metropolitan and the responsible State agencies (DWR, Parks and Recreation, Health Services, Fish and Game) is developing management and physical solutions for improving Lake Perris operations and water quality. The task force will forward recommendations to the policy level representatives of each of the involved agencies for consideration and action. Metropolitan, in concert with the SWP contractors, is also pursuing inclusion of General Fund monies in the State's budget for Fiscal Year 2001-2002 to pay for recreation and fish and wildlife costs associated with the SWP.

4. **Management of SWP Entitlement**

Actions that would result in benefits from Metropolitan's management of SWP entitlements include:

- improving existing SWP contract provisions that permit transfer of entitlement supplies to other SWP contractors by removing constraints on and increasing value of the turnback pool,

- exchanges of entitlement that provide water supply storage benefits or improved water quality, and
- use of contract provisions to enter into periodic entitlement transfer contracts with parties outside the SWP service area, federal government and the State of California as well as to contractors within the SWP service area.

Accomplishments. The SWP Initiative analysis has examined the relationship between actions taken on the SWP and the ongoing discussions regarding the future of supply reliability from the Colorado River. It has been tentatively concluded that long-term commitments to divestment of entitlement that would compromise imported supply reliability in dry years should not be considered given current planning assumptions and evaluations.

Discussions have progressed regarding Metropolitan's participation in water service agreements to help establish an operable Environmental Water Account, which would assist in developing regulatory assurances under CALFED's proposed program.

5. Facility Use By Others

Approaches were evaluated to preserve Metropolitan's contractual rights and promote fair compensation for use by others of SWP facilities paid for by Metropolitan that include:

- working with DWR and other SWP contractors to enforce existing contract provisions that ensure appropriate wheeling fees are imposed for wheeling water,
- appropriate steps to enforce existing SWP contract provisions,
- informing the Legislature of the implications of wheeling proposals, and
- participation in the legislative process if a proposal would affect Metropolitan's rights under existing law.

Accomplishments. DWR's administrative actions related to third-party requests to permit wheeling in the SWP system have been consistent with the positions of Metropolitan. The California Court of Appeals' recent decision upholding Metropolitan's wheeling rate methodology is an additional indicator of the appropriateness of Metropolitan's existing wheeling policy. It has also been recognized that provisions of existing wheeling law that are protective of water quality must be an integral part of actions that address proposals by others for facility use.