

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

March 8, 2005 Board Meeting

9-2

Subject

Report on strategy to enhance the value of the State Water Project

Description

As a result of a collaborative process with the member agency managers a White Paper on Strategic Initiatives Related to the State Water Project (Paper) (**Attachment 1**) was developed to guide future staff efforts to enhance the value of Metropolitan's State Water Project. Implementation is expected to improve effectiveness and efficiency of Metropolitan's largest annual expenditure and largest source of water supply.

Description of process

At the request of the member agency managers, staff organized a series of special meetings to discuss issues related to the State Water Project to develop a Paper to guide staff. The Paper evolved from the staff working with a member agency managers' task force over the past summer to review member agency concerns and recommendations. The task force met four times to review State Water Project issues that have the greatest impact on Project costs, water supply and quality. One meeting included a comprehensive and candid dialogue with Department of Water Resources Director Lester Snow and Deputy Director Tom Glover concerning their current challenges.

Description of Plan

The Paper is organized around the following six strategic priorities:

- Ensure costs are accurate and reasonable
- Promote efficient business practices
- Ensure cost-effective and reliable energy resources
- Ensure sufficient infrastructure reliability
- Ensure cost-effective water supplies
- Protect and improve water quality

The Paper documents Metropolitan's strategy and approach for meeting the Chief Executive Officer's 2004/05 Business Plan related to administering the State Water Project contract to ensure an adequate supply of cost-effective, high-quality water supplies through the California Aqueduct and improving access to Lake Perris water supply.

Future Steps

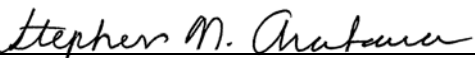
Staff is currently organizing assignments to effectively advance Metropolitan's position in each of the six strategic priorities. Staff is also developing performance measures that would be used to identify deliverables, develop schedules, and assess progress. Periodic progress reports will be provided to both the Board and Member Agency Managers.

Policy

By Minute Item 45828, dated July 13, 2004, the Board was informed that the Executive Committee approved the Chief Executive Officer's 2004/05 Business Plan.

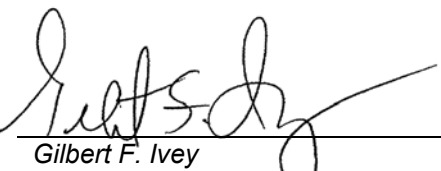
Fiscal Impact

None



Stephen N. Arakawa
Manager, Water Resource Management

2/2/2005
Date



Gilbert F. Ivey
Interim Chief Executive Officer

2/11/2005
Date

Attachment 1 – SWP Task Force – White Paper on Strategic Initiatives Related to the State Water Project

BLA #2860

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project

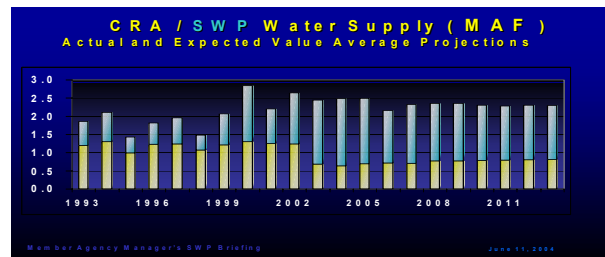
Section I
Background

Introduction

The Metropolitan Water District of Southern California and Member Agency Managers initiated a task force to focus on opportunities to enhance the value of its State Water Project (SWP) investments. The Task Force reviewed SWP background information, identified and considered issues facing the SWP and met with the California Department of Water Resources Director and Deputy Director. The process included the development of this “White Paper” which identifies priorities related to the SWP supported by Metropolitan and its member agencies.

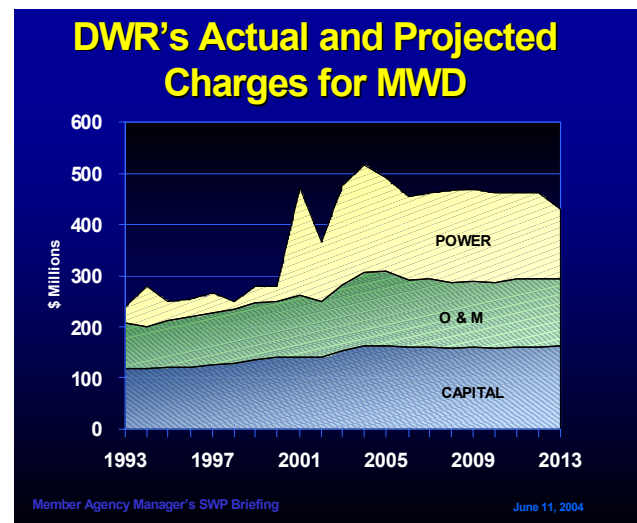
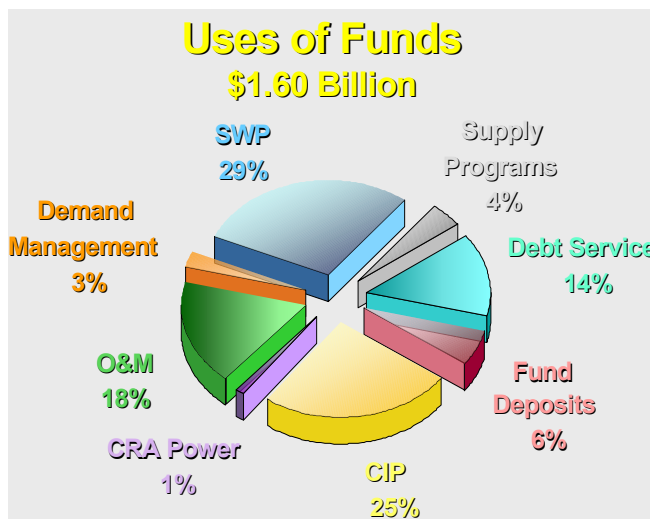
SWP Importance

The SWP is the single largest source of imported water supply for Metropolitan’s service area and Metropolitan’s largest budget expenditure. The adjacent Figure characterizes how Metropolitan relied on the SWP over the past ten years. Metropolitan also depends upon SWP conveyance facilities to access water from management programs such as water transfers and groundwater storage programs.



In 2004, payments were made to DWR of approximately \$350 million representing 29 percent of Metropolitan’s total budget (see pictorial below).

SWP charges vary significantly from year to year, with power as the most volatile component. The SWP charges for 2005 are estimated to be \$504 million. Expiration of a major energy supply contract in 2004 with Southern California Edison will require DWR to secure replacement energy services far beyond 2004 and creates greater uncertainty regarding future power costs.



SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project**Section II
Strategic Initiatives for 2005**

A number of issues have been identified for examination and action. Actions have been organized into six strategic initiatives to provide focus and structure as part of an implementation plan:

1. Ensure Costs are Accurate and Reasonable
2. Promote Efficient Business Practices
3. Ensure Cost-Effective and Reliable Energy Resources
4. Ensure Sufficient Infrastructure Reliability
5. Ensure Cost-Effective Water Supplies
6. Protect and Improve Water Quality

These six strategic initiatives will serve as a blueprint for developing staff workplans, setting specific objectives and deliverables and schedules for monitoring progress on an ongoing basis. Metropolitan will organize its annual business plans and work initiatives based upon these strategic priorities. The management process is expected to evolve as issues mature and the relative importance of priorities changes to reflect the needs and requirements of our Member Agencies and Metropolitan. Metropolitan plans to routinely report on the status of activities being pursued under these strategies. Status reports will not only highlight accomplishments, but will also identify where course corrections may be necessary. Adjustments or course corrections, for activities under these strategies, may be necessary as a result of changing conditions, evolving inter-agency relationships, and shifting political climates. Periodic consultation with the Member Agencies and the Board of Directors may occur to address situations where major changes in direction are anticipated. Forward thinking, course corrections or adjustments, and flexibility will ensure that, over the long-term, continued progress will be achieved regarding controlling costs and increasing the value of the SWP.

The following discussion describes the issues, provides Department of Water Resources and State Water Contractors perspectives, and identifies the next steps to be pursued by Metropolitan to ensure progress and success:

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project**1. ENSURE COSTS ARE ACCURATE AND REASONABLE****1a. COMPLETE OROVILLE FERC RELICENSING**

Issue - Obtaining an extended license (50 years) to operate energy generation facilities at the Lake Oroville Hyatt-Thermalito Complex will result in increased cost obligations to the SWP contractors. The current license expires in 2007 and an application to Federal Energy Regulatory Commission (FERC) for a new license was submitted January 2005. Efforts must manage exposure to increased cost while ensuring that the significant value of energy generation is maintained. In collaboration with SWC, DWR is working to meet FERC mandated relicensing deadlines for the Oroville facilities.

DWR & SWC Perspective - The SWC identified the Lake Oroville Hyatt-Thermalito FERC relicensing process as a priority in its FY 2004/05 Work Objectives. DWR's Strategic Business Plan establishes the relicensing as a high-priority initiative.

MWD Perspective – Metropolitan places a high priority on ensuring DWR obtains a license that (1) avoids the loss of water and power, (2) contains costs, (3) retains operational flexibility, (4) avoids uncertainty, and (5) contractor costs are appropriately allocated based on current power cost and revenue sharing among contractors.

Next Steps – Metropolitan will ensure that DWR submits the relicensing application on time and will continue to work with the SWC and DWR management to ensure that adequate settlement and license conditions are achieved. Metropolitan will continue to provide the Board with status reports as the licensing process proceeds.

1b. SEEK COMPENSATION FOR SERVICES PROVIDED TO SWP

Issue - Metropolitan has the capability to perform services and operate in a manner that provides benefits to the overall SWP. The SWP Task Force suggested that Metropolitan seek compensation for increased flexibility to SWP operations as a result of Diamond Valley Lake operations. DWR Director Lester Snow pointed out that there have been agreements associated with the Environmental Water Account, whereby Metropolitan is compensated for using its storage resources to shift demands. In addition, Metropolitan's Shop Services Agreement with DWR provides compensation for services such as pump and valve refurbishment. This agreement not only compensates Metropolitan for costs, but it provides overall value to the SWP by reducing the need for DWR to contract with more expensive firms.

DWR & SWC Perspective – DWR has compensated Metropolitan for certain services (including use of storage for the EWA and for maintenance/rehabilitation work) that provide a value to the SWP. The SWC 2004-05 Work Objectives do not address this issue.

MWD Perspective – Metropolitan has actively pursued an agreement with DWR to perform services and seek reimbursement where such actions would improve SWP efficiency and reduce Metropolitan costs. Metropolitan will protect its SWP contract rights and seek to avoid situations where unreimbursed use of its facilities occurs.

Next Steps – Metropolitan will seek to enhance its business services partnership with DWR and others that provides revenue to Metropolitan, and contributes to a more cost-effective and reliable SWP supply.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project**1. ENSURE COSTS ARE ACCURATE AND REASONABLE****1c. MAINTAIN VALUE FROM INVESTMENT IN HYATT-THERMALITO POWER GENERATION**

Issue - Kern County Water Agency (KCWA), a State Water Contractor, raised an issue that could result in significant accounting changes regarding Hyatt-Thermalito power benefit, shifting benefit from among the contractors. The Hyatt-Thermalito facility, DWR's largest and most cost-effective generation asset, generates SWP power as water is released from Lake Oroville. DWR has administered the contract consistently since it reorganized its energy operations in the early 1980s. Recently, several Northern California SWP contractors have indicated that they may support KCWA's position. While a coalition of southern contractors has been formed to oppose KCWA's position, DWR's ability to conduct business, in a number of other energy and water related issues, is being adversely impacted by the dispute at a growing rate.

DWR & SWC Perspective – To date, DWR has administered the SWP Contract in regards to Hyatt-Thermalito energy charges in a manner that ensures that Metropolitan receives a benefit that is commensurate with its payment obligation. SWC organization has not been engaged in the dispute, nor has it taken a position regarding KCWA's concern because the dispute divides its membership.

MWD Perspective – Metropolitan will place a high priority on maintaining the current Hyatt-Thermalito cost allocation approach to ensure that the benefits are received by those who have paid for the generation facilities.

Next Steps – Metropolitan supports DWR's existing cost and revenue allocation for Hyatt-Thermalito. Metropolitan and other contractors, who are similarly positioned, will closely monitor the issue and prepare legal responses as needed to maximize Metropolitan benefits.

1d. ENSURE THAT DWR'S BILLINGS ARE CORRECT

Issue – Each year, DWR issues a Statement of Charges (SOC) to each SWP contractor that identifies the amounts each contractor is required to pay for the subsequent year. The SOC is a projection, actual costs occur later and the difference is subsequently reconciled. The SOC consist of several charge categories that recover the costs that DWR incurs in constructing, maintaining, and operating the SWP system. Because DWR continues to incur costs, which vary from month-to-month and year-to-year, estimates and assumptions are made in developing the SOC. To protect cash flow, estimates are usually high. In the past, error and conservative assumptions have led to actual costs that are quite different than those contained in the SOC. Errors and conservative assumptions can result in overpayments, while credited against future year charges, can have a significant financial impact on the SWP contractors.

DWR & SWC Perspective – DWR retains an independent accounting firm to examine the SWP annual financial statement. The SWC, through its Audit-Finance Committee, works with DWR to ensure that the annual SOC are submitted on time and are as accurate as possible.

MWD Perspective – Metropolitan devotes a considerable amount of time reviewing, monitoring and providing comments to DWR regarding the SOC to ensure that errors are minimal. Despite these efforts, mistakes occur which in many cases may be unique to Metropolitan's bill. To protect its unique interests, Metropolitan retains the services of an independent auditing firm to examine the SOC. These efforts, over the past years, saved Metropolitan millions of dollars in overpayments. Metropolitan will continue with these efforts to ensure an accurate SOC. In addition, Metropolitan will seek changes in DWR business practices to improve upon the accuracy of the annual SWP SOC.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project

Next Steps – Metropolitan continues to work with the SWC to seek improvements in DWR's business practices that affect development of the annual SOC. Metropolitan continues to retain an independent auditing firm to review the annual SOC to Metropolitan.

2. PROMOTE EFFICIENT BUSINESS PRACTICES**2a. EXEMPT SWP FROM THE STATE'S ADMINISTRATIVE REGULATIONS**

Issue - DWR's SWP operation is constrained by legislation and regulations administered by the Departments of General Services, Finance, Personnel Administration, the State Personnel Board, the State Controller's Office and the Attorney General. Examples of these constraints include DWR having to rely on another state department to procure and install certain needed computer technology, or DWR encountering constraints imposed by other departments in procuring staff with expertise needed to administer its computerized accounting and management system or needed to manage power purchasing activities. In both cases, the impact is delayed use of new technology, diminished realization of its expected benefits and higher costs.

DWR & SWC Perspective – DWR is constrained by state administrative procedure; however, it has been working with the SWC to seek solutions whereby the SWP Contractors Joint Powers Authority (JPA) could provide services to improve efficiency and implement projects. The SWC have focused on working with DWR to identify potential areas where services could be provided to the SWP. SWC could assist DWR in pursuing broad exemption from periodic hiring freezes, contracting restrictions, and restrictions on job classification additions and changes.

MWD Perspective – Metropolitan is committed to working with DWR to remove constraints, if possible, or seek alternative mechanisms to reduce obstacles that impair its effectiveness in operating the SWP.

Next Steps – Metropolitan will work with DWR and other contractors to identify solutions to existing state agency constraints. In addition, Metropolitan continues to explore opportunities to provide services, individually or in coordination with the JPA, to better support DWR in the operation of the SWP in an efficient manner.

2b. INCREASE DWR'S USE OF IMPROVED MANAGEMENT TOOLS AND COST REPORTING

Issue - Seek use of improved management cost reports and budget reports as key control tools to ensure efficiency in business operations.

DWR & SWC Perspective – DWR management began developing regular cost reports and overall business priorities as a way to manage operations and costs. The SWC made DWR's use of improved management controls, including the use of management reports, a work plan objective for FY 2004/05.

MWD Perspective – Metropolitan supports DWR's efforts to provide relevant management cost reports regarding issues of critical importance and seeks to enhance the manner in which DWR's management team utilizes these reports for discussion

Next Steps – Request that DWR management provide and explain financial management and project status reports regarding issues of critical importance, organized by the six strategic initiatives of this Paper, to Metropolitan such as, the East Branch enlargement. Encourage the use of the management reports by DWR managers in making financial and personnel decisions, and in reporting activities to the SWC committees.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project**3. ENSURE COST-EFFECTIVE AND RELIABLE ENERGY RESOURCES****3a. MANAGE NEAR-TERM ENERGY PORTFOLIO**

Issue - The SWP is involved in energy market transactions that total \$300 million annually. Controlling power costs is a critical fiduciary responsibility of DWR. Metropolitan and other SWP contractors rely on DWR's success in energy trading. If understaffed, DWR may fail to utilize the existing operational flexibility of the SWP's loads and resources or delay critical actions with adverse cost outcomes. Energy must be constantly bought and sold to match changing supply, delivery and generation conditions. State administrative processes put a constraint on DWR's ability to adequately staff SWP power operations and enter essential power contracts. The result is expanded financial risk that impacts affordability of SWP supplies.

DWR & SWC Perspective - DWR recognizes that it needs additional staff with high competency skill to effectively accomplish its short-term energy planning and trading duties. Metropolitan and the other SWC expect DWR to improve its capability. State personnel and contracting rule constraints limit DWR. The SWC are interested in providing staff and consulting support to DWR through the JPA. DWR is cooperatively working with the SWC to assess the scope of staff support.

MWD Perspective - Metropolitan pays about 80 percent of the energy utilized on the SWP because of the large amount of water it orders and the high-lift pumping needed to reach its service area. It is in Metropolitan's best interests to invest staff and other resources to ensure DWR has the capability to accomplish competitive energy transactions. Metropolitan supports SWP actions that manage energy cost volatility and make efficient use of SWP energy assets. The JPA offers a means for the SWC to pool resources to support DWR's immediate energy planning and trading functions.

Next Steps - Working through the SWC and JPA to develop a services contract to support DWR energy functions. Provide oversight using Metropolitan staff and consultants to guide DWR decision-making and implementation actions.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project

3. ENSURE COST-EFFECTIVE AND RELIABLE ENERGY RESOURCES**3b. DEVELOP A LONG-TERM ENERGY PORTFOLIO**

Issue - SWP energy requirements and associated costs are the dominant factor influencing present and future cost variability. The SWP is undergoing a significant change in the way energy resources are acquired and managed as a result of the expiration of major energy exchange agreements, increasing water and power demands, and changes in the energy markets. The SWP's historically more stable energy management environment is changing and DWR needs to be adequately prepared to enter into a new, more volatile and opportunistic energy market. An attempt to implement a power hedging strategy to provide insurance against short-term natural gas price increases has been held up by other departments in the state government. There is a need for long-term energy procurement and sales strategy due to uncertainty in supply and transmission capacity. Competition for peak energy use will drive up costs. However, state policy and procedures can impede effective energy management. While SWP is the largest consumer of electrical energy in California, and subject to political and business risks, it is also a major energy producer. The SWP must position itself to achieve a diversified portfolio to reduce uncertainty and risk, and manage costs. Decisions involving committing hundreds of millions of dollars are necessary. DWR also needs to be an advocate for favorable regulations at the state and federal level.

DWR & SWC Perspective - Metropolitan and other SWC expect DWR to ramp up its approaches of developing a competitive energy portfolio. Future energy procurement decisions require careful planning to address resource diversity and risk mitigation. The SWC has placed a high priority on establishing a cost-effective, long-term energy strategy and portfolio. The SWC is encouraging DWR to establish positions and recruit needed staff expertise to accomplish this work.

MWD Perspective - Competitively priced and stable energy supplies are fundamental to Metropolitan's ability to provide reliable water supplies at a reasonable cost. Metropolitan places a high priority on these goals through direct intervention in energy planning, procurement and trading activities. Dependent upon hydrologic conditions, energy costs comprise one-third to one-half of Metropolitan's SWP bill.

Next Steps - Working with SWC and State Water Project Contractors Authority, Metropolitan will develop mechanisms to establish an adequate work plan and ensure needed skilled staff are available to initiate a comprehensive investigation of long-term energy contracts/strategies. Using SWC or internal resources, Metropolitan will coordinate and support DWR's analysis for developing their long-term energy portfolio. Initially JPA or Metropolitan's contracting abilities could be used to assist DWR with needed expertise for short-term trading and long-term planning.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project

4. ENSURE SUFFICIENT INFRASTRUCTURE RELIABILITY**4a. MAINTAIN COST-EFFECTIVE HIGH LEVELS OF INFRASTRUCTURE RELIABILITY**

Issue - As the SWP ages, major replacements or refurbishment are needed more frequently. In the past, DWR has operated the SWP facilities with frequent high-level equipment outages. More recently, DWR has made significant gains in increasing operational availability of units and reducing forced outages. The increases in infrastructure reliability are a result of improved scheduling, preventative maintenance, and increased rehabilitation or replacement of equipment. A focus on expenditures, as well as the desired level of infrastructure reliability, is necessary to ensure the facilities are maintained in the most cost-effective manner.

DWR & SWC Perspective - The SWC have not identified infrastructure reliability in its 2004/05 work objectives. DWR has created an incentive program that rewards staff when operational availability targets are met.

MWD Perspective – Metropolitan has been examining DWR's performance with regard to infrastructure reliability since 1998, as plans were being made to fill Diamond Valley Lake. Staff continues to monitor DWR's activities to ensure that infrastructure reliability gains are accomplished in a cost-effective manner.

Next Steps – Develop a SWP Infrastructure Reliability plan and supporting reports that allow Metropolitan and the SWC to evaluate the reliability of DWR's operation and management of the system. Metropolitan continues to monitor DWR performance and participates in an ongoing benchmarking program that compares DWR results to other large water delivery projects. Metropolitan will explore cost-effective methods to expedite procurement of spare parts, replacement equipment and services.

4b. ENSURE TIMELY AND COST-EFFECTIVE ENLARGEMENT OF THE EAST BRANCH OF THE CALIFORNIA AQUEDUCT

Issue - Recent studies indicate that the next planned increment of enlargement of the East Branch of the California Aqueduct, to meet demands, could be needed by 2011 and full enlargement needed by 2015. Additional capacity could be utilized sooner to move excess supplies into storage facilities when hydrologic conditions are favorable. DWR's initial project schedule shows 11 years (6.5 years for design) to complete construction and make the facility operational. Its plan includes costly conservative design features and could benefit from more contemporary and innovative approaches.

DWR & SWC Perspective - DWR needs to increase the priority of achieving the next expansion of the East Branch a priority. They may not have the resources or ability to meet the critical timing needs of the East Branch Enlargement contractors. The East Branch Enlargement Contractors are working together to actively plan and provide oversight of the enlargement project. The East Branch Enlargement Specific Project JPA (which is a subset of the JPA formed by the SWP contractors) is exploring plans to support the design and construction management, and other related activities for the project.

MWD Perspective - Metropolitan would pay about 80 percent of the enlargement cost, proportionate to its share of capacity. As a result, Metropolitan is placing a high priority on ensuring careful oversight and involvement in the project, if necessary. Further completion of the enlargement is needed to ensure sufficient water management flexibility that was envisioned in the Integrated Resources Plan. Action needs to commence in 2005, to ensure timely completion of the facilities.

Next Steps - Notify DWR regarding the timing needed for enlargement capacity. Explore actions to ensure the facilities are cost-effectively designed and constructed to ensure that Metropolitan's conveyance demands are met for supplies delivered through the California Aqueduct.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project**4. ENSURE SUFFICIENT INFRASTRUCTURE RELIABILITY****4c. DEVELOP A SWP SECURITY AND EMERGENCY RESPONSE PLAN FOR MAJOR SERVICE INTERRUPTIONS**

Issue – Ensuring that adequate security measures are in place, as well as emergency plans to respond to natural disasters, accidents and sabotage, is critical for a high profile water facility that provides critical water supplies throughout the state. Recent events, including fires and levees' failures, have heightened the concern that adequate plans and procedures need to be in place.

DWR & SWC Perspective – DWR, post-September 11, 2001, has made security a high priority for SWP facilities. However, it is unclear that DWR is prepared to respond to the many types of natural disasters that could threaten water deliveries along the California Aqueduct. The SWC O&M committee is seeking information on DWR emergency preparedness plans.

MWD Perspective – Metropolitan, located at the end of the SWP system, is vulnerable to operational disruptions that could be caused by a variety of events. Its interests are that DWR is adequately prepared with a comprehensive plan.

Next Steps – On a high priority basis, increase Metropolitan's efforts to work jointly with the SWC and DWR to ensure that adequate plans are in place to prevent and respond to disruptions of service caused by natural disasters, accidents and sabotage.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project

5. ENSURE COST-EFFECTIVE WATER SUPPLIES**5a. COMPLETE EXPANSION OF BANKS PUMPING PLANT PERMITTED CAPACITY**

Issue – The CALFED Water Supply Program is expected to increase supply to Metropolitan from the SWP. The Delta Improvement Package, which focuses on improvement in the south and central Delta, is expected to increase export capacity at Banks Pumping Plant to 8,500 cfs. This increased permitted capacity at Banks Pumping Plant will provide additional windows of opportunity to export or transfer water across the Delta. There will be times when current regulatory constraints may continue to limit export capacity.

DWR & SWC Perspective - DWR supports the implementation of the Delta Improvement Package to increase its ability to meet supply needs from the SWP contractors, and is pursuing this project as part of the CALFED program.

MWD Perspective – Implementation of the Delta Improvement Package is a key component in meeting the water supply targets in Metropolitan's IRP by providing greater wet-period delivery capability for replenishing storage programs. In addition, the effort will benefit Metropolitan by improving conveyance capacity for dry-year transfer programs.

Next Steps – Support DWR's efforts to issue an EIR for the expansion of Banks Pumping Plant Permitted Capacity.

5b. SUPPORT IMPLEMENTATION OF AN ENVIRONMENTAL WATER ACCOUNT

Issue - Obtaining authorization to increase Banks operating capacity to 8,500 cfs, consistent with the CALFED Record of Decision, is key to meeting the goals of the IRP. Approval of a funding package for the Environmental Water Account is critical to support this activity.

DWR & SWC Perspective - Both DWR and the SWC place a high priority on pursuing the permitted capacity to export supplies at Banks Pumping Plant.

MWD Perspective – Support for the effective funding and implementation to the Environmental Water Account will provide for successful implementation of CALFED water supply programs.

Next Steps – Support development of the financing plan for the EWA, expected to be completed by May 2005.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project

5. ENSURE COST-EFFECTIVE WATER SUPPLIES**5c. STREAMLINE WATER TRANSFER PROCESS**

Issue - Water transfer, exchange, and groundwater banking programs involve extensive, costly and lengthy administrative requirements. As a result, it can be difficult to gain the benefit of using available SWP conveyance capacity in which Metropolitan has invested. In addition, DWR's role in water purchase programs appears to have an effect on the willingness of sellers to participate. Overall, DWR's involvement in water transfer, exchange, and groundwater banking programs can have an impact on the water supply costs (e.g. by increasing costs) and reliability of water management programs (e.g. by delaying implementation) that Metropolitan pursues.

DWR & SWC Perspective – DWR has begun to recognize that its administrative procedures can impact a contractor's ability to access supplies that contractors have acquired. The SWC have established a Water Transfers Committee to support efforts to simplify and increase the availability of water transfers for SWP contractors. The SWC are also working with DWR to develop procedures to expedite approvals of SWP contractor's transfer proposals by directly negotiating agricultural transfer terms. The JPA would be involved in the actual financial transaction.

MWD Perspective – Metropolitan depends upon SWP capacity for dry-year transfers as part of the IRP resource. Metropolitan pursues approvals from DWR as water management and transfer programs are being developed, to ensure that such programs are timely and can be implemented when needed. Metropolitan is also reviewing proposed transfers to ensure that its contract rights are protected.

Next Steps – Metropolitan will work with DWR and the SWC Water Transfer Committee to seek streamlined or simplified approval processes and establish fair guidelines for use of capacity and protection of water quality.

5d. COMPLETE MONTEREY AMENDMENT EIR

Issue - Completion of the Monterey Amendment EIR is one of the terms of the May 2003 legal settlement agreement governing the implementation of the Monterey Amendment to the SWP Water Supply Contract. The Monterey Amendment was based upon a set of negotiated principles intended to settle a long-standing water allocation dispute. The negotiated principles also contained a number of changes to the SWP Contract to provide greater water management flexibility and cost management.

DWR & SWC Perspective - DWR has committed to completion of the EIR as required by the settlement agreement. However, the EIR development process, which included input from a number of parties, has been slow and costly. Participating in the completion of the EIR process is a high-level priority of the 2005 work objectives.

MWD Perspective – Metropolitan participates in a key committee, established through the settlement agreement, to guide EIR development. This effort is necessary to ensure Metropolitan's benefits under the Monterey Amendment and the SWP Contract as a whole are protected.

Next Steps - Review an administrative draft EIR and provide comments to ensure the earliest possible date for public issuance of the document to commence public review. Prepare for additional legal challenges.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project**5. ENSURE COST-EFFECTIVE WATER SUPPLIES****5e. IMPROVE ACCESS TO LAKE PERRIS WATER SUPPLIES**

Issue – Lake Perris, the terminal SWP reservoir along the East Branch of the California Aqueduct, stores approximately 131,000 AF of SWP supplies. Nearly half of Lake Perris’ storage, 65,000 AF, is dedicated to Metropolitan as “flexible storage”. The SWP Contract provides that Metropolitan may draw upon “flexible storage”, in addition to its annual allocated amount, provided that the account is repaid within five years.

During the late 1970s and early 1980s, Lake Perris was drawn upon regularly to meet MWD’s demands for SWP supplies. In the 1990s, however, a number of factors led to less reliance upon Lake Perris including expanded aqueduct capacity, construction of a bypass power generating facility, water quality concerns, and recreation use. More recently, the need to draw upon Lake Perris has occurred with an increasing frequency.

DWR & SWC Perspective – The other SWP contractors have not been interested in Metropolitan’s efforts at Lake Perris, because they do not receive water supplies or pay costs associated with the facilities. DWR relies upon Metropolitan to guide water operations. Recreation activities and state Recreation Area lands are managed with relative independence by the Department of Parks and Recreation.

MWD Perspective – Metropolitan has been in the process of seeking solutions to obstacles that have impaired its ability to draw upon Lake Perris supplies. Metropolitan, with the Lake Perris Task Force, has been successful in reducing some of the constraints associated with water quality, fishery needs, and recreational uses. Metropolitan continues to pursue solutions to constraints involving water quality issues and recreational concerns. Metropolitan has obtained state grant funds to contribute towards the study of and construction of solutions to water quality problems caused by body contact and low dissolved oxygen conditions.

Next Steps – Complete the grant studies and develop stakeholder support for improvements at Lake Perris.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project**6. PROTECT AND IMPROVE WATER QUALITY****6a. PURSUE SOURCE WATER PROTECTION ACTION**

Issue - Highly variable water quality conditions driven by hydrology pose significant challenges to Metropolitan. Agricultural water users at times challenge water quality improvement actions. In addition, water use and discharges throughout California can affect the quality of SWP water conveyed in the California Aqueduct. Reliable and suitable water quality is necessary for effective water management in Southern California, for both public health protection and water supply management. Water quality and salinity reduction improvement projects are identified in the CALFED Delta Improvement Package.

DWR & SWC Perspective - Water quality issues need a higher priority within DWR. There have been significant advancements in recent years through implementation of the Municipal Water Quality Investigations Program, but the urban contractors desire continuing improvement in overall focus and customer service.

MWD Perspective – Metropolitan is actively engaged in attempting to raise attention to water quality concerns and increase customer service within DWR. Metropolitan is also attempting to keep the focus on programs within the CALFED program that could improve water quality in the future. Metropolitan also works closely with the SWC and California Urban Water Agencies to pursue source water quality protection actions throughout the state.

Next Steps – Work through DWR and CALFED management to protect and improve water quality. Provide oversight to non-SWP water conveyed in the California Aqueduct to protect water quality. Participate with the SWC and California Urban Water Agencies on source water protection actions.

6b. IMPLEMENT WATER QUALITY ACTIONS IDENTIFIED IN THE CALFED DELTA IMPROVEMENT PACKAGE

Issue - The CALFED Delta Improvement Package includes actions to improve source water quality from the Delta. These actions include: completion of the Franks Tract improvements, development of a San Joaquin River Salinity Management Plan, and actions to improve south Delta and San Joaquin River water quality.

DWR & SWC Perspective - The SWC is working with the California Urban Water Agencies and Central Valley agricultural interests to develop and implement a plan to reduce salinity on the lower San Joaquin River and improve dissolved oxygen in the Stockton Deep Water Channel.

MWD Perspective – Metropolitan is actively working with Central Valley agricultural interests on San Joaquin River water quality improvements and other mutual beneficial water quality and delivery improvements. Metropolitan is also working with other urban interests to develop a long-term solution for needed Franks Tract improvements. Metropolitan should not be responsible for mitigating the impact of other users impacts on water quality.

Next Steps – Participate in efforts to develop further water quality improvement projects identified in the Delta Improvement Package. Work with other water interests. Identify and initiate a mechanism to advance work on Franks Tract.

SWP TASK FORCE

White Paper on Strategic Initiatives Related to the State Water Project

**Section III
Summary**

1. Ensure Costs Are Accurate and Reasonable

- a. Complete Oroville Relicensing
- b. Seek Compensation for Services Provided to SWP
- c. Maintain Value from Investment in Hyatt-Thermalito Power Generation
- d. Ensure that DWR's billings are correct

2. Promote Efficient Business Practices

- a. Exempt SWP from the State's Administrative Regulations
- b. Increase DWR's Use of Improved Management Tools and Cost Reporting

3. Ensure Cost-Effective and Reliable Energy Resources

- a. Manage Near-Term Energy Portfolio
- b. Develop a Long-Term Energy Portfolio

4. Ensure Sufficient Infrastructure Reliability

- a. Maintain Cost-Effective High Levels of Infrastructure Reliability
- b. Ensure Timely and Cost-Effective Enlargement of the East Branch of the California Aqueduct
- c. Develop a SWP Security and Emergency Response Plan for Major Service Interruptions

5. Ensure Cost-Effective Water Supplies

- a. Complete Expansion of Banks Pumping Plant Permitted Capacity
- b. Support Implementation of an Environmental Water Account
- c. Streamline Water Transfer Process
- d. Complete Monterey Amendment EIR
- e. Improve access to Lake Perris water supplies

6. Protect and Improve Water Quality

- a. Pursue Source Water Protection Action
- b. Implement Water Quality Actions Identified in the CALFED Delta Improvement Package