

- Chief Executive Officer's February Activity Report

Summary

- CALFED/Bay-Delta Matters
- Colorado River
- Legislative Activities
- Communications/Outreach

Detailed Report

The following details the activities for the Department of the Chief Executive Officer for the period following the January Board meeting:

COLORADO RIVER REPORT

Palo Verde Land Management, Crop Rotation, and Water Supply Program

As of mid-February, nearly 40 percent of the 24,000 acres participating in the program has been sent to escrow to establish the program's fallowing easements. To facilitate participants' fallowing during the sign-up processing, Metropolitan has offered landowners an Interim Fallowing Agreement. Under the Interim Fallowing Agreement, landowners would be compensated for the early fallowing of their lands at the agreed land maintenance rate found in their long-term agreements. The implementation of interim fallowing agreements increases the likelihood that the projected water savings of 86,000 acre-feet will be produced in calendar year 2005.

Excess Lower Colorado River Flows

The magnitude and duration of recent rainfall in the Lower Colorado River Basin have resulted in a significant reduction in agricultural water demand and high Lower Colorado River tributary flows. Water demand below Parker Dam has fallen to 1,900 cubic feet per second (cfs) at the same time that releases from dams on tributaries (Bill Williams and Gila Rivers) to the Colorado River are at about 8,200 cfs and are likely to stay at that level through mid-March for flood control purposes. In order to maximize use of tributary water in order to conserve Lake Mead storage, releases from Davis Dam have been cut back to 1,400 cfs. This will result in Parker Dam releases being between 3,500 and 6,000 cfs.

Metropolitan and others had requested that the Corps of Engineers and the Bureau of Reclamation (Reclamation) coordinate such releases in order to conserve system storage and those agencies have made special efforts to do so. In turn, Reclamation has asked water users to modify their supply operations to also help conserve these excess flows. This will also result in approved 2005 water orders being revised upward for Metropolitan and other lower priority users to reflect reductions in agricultural water use. Metropolitan's diversion has been increased to a six-pump flow in response to these events.

February 24 storage behind Painted Rock Dam on the Gila River and Alamo Dam on the Bill Williams River of about 273,000 acre-feet and 377,000 acre-feet, respectively, required flood control releases from both facilities. As such, releases from Davis, Parker, Alamo, and Painted Rock Dams are apt to continue at the previously described levels through at least mid-March or until agricultural water demands increase above these levels.

The coordinated releases are resulting in substantial savings in Lake Mead storage. (This had been identified as a drought and shortage mitigation measure in the drought management work of the Basin states). In addition, about 600,000 to 700,000 acre-feet above the long-term average tributary inflow into Lake Mead occurred with the January and February rains. That is equivalent to about a 6 to 7 feet rise in Lake Mead water surface elevation.

This all points to the importance of providing additional Lower Colorado regulatory storage being sought collectively by all of the Basin states to more effectively manage and conserve such flows.

Basin Water Supply Outlook

The Colorado River snow pack is at its highest level in more than five years and currently measures 121 percent of normal. Currently, Lake Powell water surface elevation is 148 feet below historic maximum water surface. Reclamation's current forecast for Lake Powell water storage level for 2005 end of the year is about 40 feet higher than the present level.

Lake Mead on the other hand is expected to continue to decline over the year because outflow will still be greater than inflow, even though its level will be higher than previously forecasted because of increased tributary inflow. Lake Mead will continue to decline until Lake Powell storage is greater than Lake Mead and equalization of storage occurs.

Colorado River Drought Management

Representatives of the Governors of the Colorado River Basin States for Colorado River operations met to discuss proposals for conjunctive operation of Lakes Powell and Mead, both for this year and a longer period. The representatives will reconvene to discuss the proposals on March 1. Draft principles for interim guidelines for delivering Colorado River water during shortages to users in Arizona, Nevada and California have been developed for discussion.

The representatives of the Governors signed a joint letter dated February 9, 2005 to the Basin States' Senators requesting 2006 federal funding of \$30 million for construction of a Drop 2 Lower Colorado River regulatory storage reservoir near the All-American Canal and \$7.6 million for restoring regulatory storage at Laguna Dam for improved river management and a drought mitigation measure. Such additional regulatory storage can result in conserving over 200,000 acre-feet of Colorado River water per year.

Arizona Entities' Efforts to Change Water Use Priority in the 1968 Colorado River Basin Project Act

On February 9, the Colorado River Board of California voted unanimously to adamantly oppose efforts by the Arizona State Legislature and entities within the State of Arizona to usurp "The Law of the River" and place California's existing water rights and investments in jeopardy. The California Department of Water Resources also strongly opposes this action by the Arizona Legislature and entities in Arizona. The House Concurrent Memorial 2007 has been introduced into the Arizona House of Representatives by 37 members of the State Legislature. The memorial would urge the Congress of the United States to enact legislation that would revise

the water use priority status of the Central Arizona Project that was established in 1968 by the Colorado River Basin Project Act. This action would undermine California's major investments and water supply and management programs for both the Colorado River and CALFED. The Executive Director of the Colorado River Board of California has written the California Congressional delegation alerting them as to these actions and encouraging them to take all necessary actions required in this regard to protect California's water and power rights in the Colorado River for the future of all Californians.

Colorado River Board of California

The Governor has withdrawn his plan to eliminate 88 regulatory and policy-setting boards and commissions that were outlined in the California Performance Review. The CRB had been identified for elimination with the California Department of Water Resources assuming its responsibilities. Fundamental problems with that proposal are that California's rights to Colorado River water rest with permanent federal water service contracts with the water users pursuant to the Boulder Canyon Project Act as opposed to the State. In addition, there would be no forum to coordinate contract users' interests, and the proposal would result in increased State costs as opposed to a cost savings. State policy input is already effectively provided for by the Directors of Departments of Water Resources and Fish and Game being on the CRB.

The managers of the agencies represented on the CRB sent a joint letter to the Little Hoover Commission opposing the proposal to eliminate the CRB.

Salton Sea Ecosystem Management Plan

On March 16, the Salton Sea Advisory Committee will be meeting in the Board Room at Metropolitan's headquarters building at Union Station in furtherance of the development of a recommended ecosystem management plan for the Salton Sea. In addition, the Secretary for the Resources Agency will hold special technical meetings for the Advisory Committee to be held on March 4 for selenium issues, March 10 for air quality and hydrology issues, and April 14 for data gaps and long-term data collection or research needs. Metropolitan staff will be participating in these meetings and providing information and suggestions to the California Department of Water Resources and its consultants for use in developing the ecosystem management plan.

CALFED/BAY DELTA MATTERS

CALFED Financing.

Staff has been participating in the development of a ten-year Finance Plan for the CALFED/Bay-Delta Program, consistent with the Board's CALFED finance policy principles. The plan proposes water user fees to finance portions of three CALFED program elements: the Ecosystem Restoration Program, the Environmental Water Account, and the Levee Program. These fees would contribute towards the expansion of Banks pumping capacity and to a suite of assurances to protect against regulatory or financial impacts to Metropolitan.

Financing for the California public share of the CALFED Program is more controversial. CALFED staff has proposed a surcharge on connections and/or water use in all urban areas of the state to fund the taxpayer share of program costs. Metropolitan staff, along with the

Association of California Water Agencies and other urban and agricultural water agencies, strongly oppose this proposal. This coalition's proposed alternative is for CALFED to reduce the scope of its activities until sufficient public funds are available and to refocus on its core mission.

LEGISLATIVE ACTIVITIES

Washington D.C.

The President's newly released \$2.5 trillion 2006 budget request to Congress has several requests that are of interest to the water industry. Every year Metropolitan provides comments to the Congressional appropriations committees on the President's budget. We supported all the following items and actively worked for CalFed funding, remediation cleanup efforts at Moab, desalination research, and perchlorate cleanup.

- \$35 million for CALFED, about a third of which goes to storage planning, and \$52.2 million for the Central Valley Restoration Fund;
- \$30 million for Water 2025 – more than half again the amount appropriated by Congress in FY 2005. The program promotes voluntary water banking and other market-based water management measures, the use of new technology for water conservation and efficiency (including desalination research and development), system optimization reviews of water delivery infrastructure, research to lower the cost of new water treatment technologies, and increased cooperation and collaboration among federal, state, tribal, and private organizations through the removal of institutional barriers;
- \$10.2 million for Title XVI (Reclamation Wastewater and Groundwater Study and Facilities Act) projects and planning; (Metropolitan supports the Title XVI program in all of our comment letters to the appropriations committees).
- \$28 million to remediate uranium mill tailings at the Atlas Site in Moab, Utah.

Metropolitan staff briefed Rep. Gary Miller's office, on benefits and possible impacts as a result of the Central Pool Augmentation (CPA) Project. Issues included the construction impacts to the cities and county residents in the Cleveland National Forest area (located within the 42nd Congressional District) and also how future notification and outreach should be handled with the Congressman's office.

Brad Hiltcher of the Washington, D.C. office and I accompanied Metropolitan directors at the Association of California Water Agencies' Federal Symposium in Washington, D.C. Mr. Hiltcher coordinated meetings with many key legislators on the current status of the drought, appropriations opportunities and other priorities in an effort to engage the directors with elected officials in Washington.

Sacramento

A hearing of the joint Senate Natural Resources and Water Committee and Budget and Fiscal Review Subcommittee was held to discuss the policy and fiscal issues in the CALFED Financing Plan.

The Assembly Public Employees, Retirement and Social Security Committee held a hearing on The State of California's Public Pension Systems and the Assembly Budget and Fiscal Review Subcommittee held a hearing on the Budget Implications of the Privatization of Public Pensions. Metropolitan staff continues to meet and discuss the potential impacts to Metropolitan and its employees.

Senator Sheila Kuehl (D-Los Angeles), chair of the recently formed Senate Natural Resources and Water Committee, has introduced a comprehensive water policy bill (SB 820), which would purportedly strengthen water conservation policy, reduce uncertainty about the use and abundance of our water resources and increase the integrity and integration of water resources planning and management. Other bills introduced include CALFED finance legislation (SB 113) introduced by Senator Mike Machado (D-Linden); and a parks, open space and clean water bond (SB 153) by Senate Budget Committee Chair Wes Chesbro (D-Arcata). Senator Deborah Ortiz (D-Sacramento) has re-introduced her special district "reform" legislation from last year; this year's version is SB393. Alternative local government "sunshine" legislation has been introduced by Simon Salinas (AB 1234) which would affect not only special districts, but also cities, counties and school districts.

The "flood management" white paper released last month by the Department of Water Resources was the subject of an informational hearing of the Senate Natural Resources and Water Committee. The white paper lays the foundation for Administration-sponsored legislation, AB 1665 by Assemblyman John Laird (D-Santa Cruz) and ACA 13 by Assemblyman Tom Harman (R-Huntington Beach), to explore options for funding the state's flood protection efforts and the state's liability under the Paterno court decision.

COMMUNICATIONS AND OUTREACH

Metropolitan and city of Compton coordinated the signing ceremony of an agreement between Metropolitan and the City of Compton to improve water reliability and drought protection of the city and the region for the next 25 years. Chairman Bannister and the Interim Chief Executive Officer participated in the signing ceremony with Compton City Councilman and Metropolitan Director Isadore Hall III and Compton Water Department General Manager Kambiz Shoghi. This historic agreement provides for 2,289 acre feet of MWD water into the local groundwater basin.

The highly anticipated "California Friendly" Model Home program was unveiled to the public at The Preserve - the newest master planned community by Lewis Operating Corporation. The Preserve, in Chino, opened to the public on Feb. 12 and included five residential builders showcasing several of their models that were designed to be "California Friendly." Inland Empire Utilities Agency and Metropolitan were on hand to educate VIPs and the local media on the importance of the new water conservation program with residential builders. Participating residential builders include: Shea Homes, John Laing Homes, Lennar Homes, K. Hovnanian, and Centex Homes.

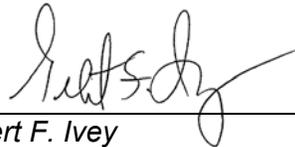
Metropolitan's "California Friendly" landscaping program was incorporated into the design of a home to be featured on ABC's popular "Extreme Makeover: Home Edition." ABC picked Pardee Homes to design and build the Santa Fe Springs home under their commitment to environmental programs, which they call "Living Smart." MWD provided technical expertise in designing a "California Friendly" landscape into the front and back yard during the show's taping. Chairman Bannister and directors Phillip Pace and Robert Apodaca, both of West/Central Basin Municipal Water District, were on hand for one afternoon of the 24-hour taping cycle. Chairman Bannister presented Michael McGee, Pardee's CEO and president, with a board proclamation to honor their achievement on the implementation of "California Friendly" landscaping with this development project.

Staff and Water Resources Management also coordinated a workshop with Director John Morris and California-American Water to discuss the complexities of local and regional partnerships in water and wastewater. Meeting participants included vice presidents from the Chicago and New York offices of A.T. Kearney, Inc., a global management-consulting firm.

Metropolitan hosted more than 130 mayors, city council members and city managers from the California Contract Cities Association at Union Station. During the meeting, Director Bud Lewis welcomed the guests to Metropolitan and spoke briefly about the agency and the important roles its employees have played throughout its history. He also encouraged every city to compete for City Makeover landscaping grants by submitting their applications before the March 30 deadline.

In conjunction with Upper San Gabriel Valley Municipal Water District, Metropolitan participated in the unveiling of a water recycling plant at Whittier Narrows. Chairman Bannister was the keynote speaker and was quoted in news coverage. The plant is expected to recycle more than 200,000 acre-feet during the facility's life cycle.

Staff managed various news media inquiries regarding whether recent rains were helping to end the Western drought. Coverage included Chairman Bannister appearing on the CBS Evening News.



Gilbert F. Ivey
Interim Chief Executive Officer

2/28/2005
Date