

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

June 12, 2007 Board Meeting

8-5

Subject

Authorize payment of \$1.373 million for participation in the State Water Contractors, Inc. for fiscal year 2007/08

Description

Authorization is requested to pay \$1.373 million in the upcoming fiscal year for participation in the State Water Contractors, Inc. (SWC), a nonprofit mutual benefit corporation. Metropolitan benefits from the SWC by advancing Metropolitan's State Water Project strategic initiatives: (1) accurate and reasonable costs, (2) cost-effective and reliable energy, (3) reliable and sufficient infrastructure, (4) cost-effective water supplies, and (5) protect and improve water quality.

Purpose and Need for the State Water Contractors

The SWC was formed in 1982 under the Nonprofit Mutual Benefit Corporation Law to advance the common interests of the water supply agencies who have contracts for State Water Project (SWP) water supply. Advocacy roles include: reviewing and/or entering into litigation; and presenting the views to legislative and administrative agencies, to the general public, and to other interested groups. In addition, SWC undertakes and provides support for technical studies.

The SWC staff maintains active relationships with the California Department of Water Resources (DWR). DWR is a more effective advocate for addressing the challenges facing the SWP with its contractors' involvement. Metropolitan's staff participates in the SWC board and SWC committees to craft positions and strategies, and participates in litigation support and settlement negotiations. Additionally, the SWC provides Metropolitan a valuable forum to learn of and influence proposals by other contractors before they are presented to DWR, regulatory agencies and other decision makers affecting our SWP benefits.

Recent Accomplishments by the State Water Contractors

Over the last fiscal year SWC accomplishments include:

1. **Cost:** SWC staff assisted resolving issues to assure continued revenue bonds financing of SWP facilities. Staff also participated in a review of future cash flow to support the capital rate reductions under the Monterey Amendment.
2. **Energy:** The SWC staff participated in DWR's initial efforts outlining and applying a Strategic Energy Resource Planning process, which includes supporting DWR in its assessment of long-term open energy positions, participating in the future viability of the Reid Gardner #4 unit and assessing energy supply alternatives.
3. **Infrastructure:** Metropolitan worked with SWC members and staff in identifying approaches to assure water supply reliability in the Delta with the existing conveyance configuration.
4. **Water Supply:** The SWC staff and members have initiated processes to develop and evaluate the performance of alternative Delta conveyance alternatives to meet various goals including estuarine habitat and water quality.
5. **Water Quality:** The SWC staff worked with DWR on Bay-Delta Water Quality Control Plan South Delta salinity issues including Cease and Desist order negotiations, review of the 2006 Revised Bay-Delta Water Quality Control Plan, and participation in a salinity workshop.

State Water Contractors' Objectives for Upcoming Year

In fiscal year 2007/08 Metropolitan's objectives working through the SWC include:

1. **Cost:** Influence DWR to provide greater customer value by including improved processes that use sound business cases for initiation of new programs/projects and/or additional staff (similar to a capital investment program prioritization process).
2. **Energy:** Interface with DWR in its development of a mid- and long-term strategic energy resource procurement. Manage the rehabilitation costs at Reid Gardner to ensure appropriate levels of investment and cost allocations given that the energy contract expires in 2013. Support FERC acceptance of filed Settlement Agreement to preserve water supply and power benefits provided by Oroville Reservoir.
3. **Infrastructure:** Provide input for completion of Delta Risk Management Study and oversee improvements in facilities at Hyatt-Thermalito Power Plant and Edmonston pumping plant.
4. **Water Supply:** Take action to defend Delta water supply from recent legal proceedings, advance a mid-term and long-term Delta Vision, and multi-species plan for the Bay-Delta agencies. Influence DWR completion of an EIR for the Monterey Amendment.
5. **Water Quality:** Participate in efforts to prevent impacts from the Sacramento Regional County Sanitation District's planned expansion and implementation of a groundwater pump-in policies.

Summary of Cost

The SWC board approved its budget for FY 2007/08 at its March 2007 Board of Directors meeting, which is listed in [Attachment 1](#). The SWC accomplishments for FY 2006/07 and objectives for FY 2007/08 are listed in [Attachment 2](#). Each year, Metropolitan staff reviews SWC budget for reasonableness and appropriateness. Metropolitan's SWC representative is Stephen N. Arakawa, who votes on the budget as a director on the SWC board. Metropolitan's dues for FY 2007/08 are \$1.373 million compared to \$1.597 million for FY 2006/07. The Energy Fund payments decreased from previous fiscal years as less work is anticipated because of the recent completion of the FERC relicensure application and settlement agreement. The Bay-Delta Fund Payment increased to provide additional funding for activities such as the California Endangered Species Act litigation, the OCAP litigation and the Delta Conveyance alternative analysis. The Municipal Water Quality Investigations were transferred to the State Water Project Contractors Authority ¹ (Joint Powers Authority) and will no longer be managed by the SWC. Metropolitan's share of the current and coming year's payment allocations are listed below:

| Component | FY 2006/07 | FY 2007/08 |
|--|--------------------|----------------------|
| SWC Dues Fund | \$ 876,200 | \$ 872,800 |
| Energy Fund | \$ 419,313 | \$ 312,255 |
| Bay-Delta Fund | \$ 167,500 | \$ 187,500 |
| Municipal Water Quality Investigation Program Fund | \$ 134,440 | Transferred to SWPCA |
| TOTAL | \$1,597,453 | \$1,372,555 |

The dues allocations among the SWC members recognize Metropolitan's in-kind services, resulting in an annual reduction totaling approximately \$175,000 from the Dues and Energy Funds.

¹ In 2003, Metropolitan's Board approved entering into an agreement with the Joint Powers Authority. The Joint Powers Authority is comprised of SWC members and has the ability to contract with DWR to undertake specified projects and services. In 2006, a special projects committee was formed to manage the water quality services previously provided by the SWC.

Policy

Metropolitan Water District Administrative Code Sections 11202 and 11203: Payment of Dues and Participation in Projects or Programs Serving District Purposes. This item is subject to a two-thirds vote requirement.

By Minute Item No. 46707, the Board, at its June 13, 2006 meeting, adopted the CEQA determination and authorized the General Manager to make payment of \$1,597,453 to the State Water Contractors, Inc.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1 and #2:

The proposed action on the funding components associated with the membership dues does not meet the definition of a project under CEQA and is therefore not subject to CEQA (Section 15378(b) of the State CEQA Guidelines). For carrying out a variety of studies in conjunction with the participation through these memberships, the proposed actions are exempt under the provisions of CEQA and the State CEQA Guidelines, since they involve basic data collection and resource evaluation activities which do not result in a serious or major disturbance to an environmental resource. These activities may be strictly for information gathering purposes, or as part of a study leading to actions that a public agency has not yet approved, adopted, or funded. Accordingly, these proposed actions qualify under a categorical exemption (Class 6, Section 15306 of the State CEQA Guidelines). For proposed projects identified within the context of this funding mechanism, the appropriate lead agencies will be responsible for complying with all applicable federal and state environmental laws and regulations.

The CEQA determination is: Determine that the proposed actions are exempt from CEQA pursuant to Sections 15306 and 15378(b) of the State CEQA Guidelines.

Board Options

Option #1

Adopt the CEQA determination and, by a two-thirds vote, authorize the General Manager to make payment of \$1,372,555 to the SWC in July 2007.

Fiscal Impact: \$1,372,555 from the Operations and Maintenance Fund under the General District Requirement budget. Sufficient funds are included in Metropolitan's FY 2007/08 Operations and Maintenance Fund.

Business Analysis: Metropolitan would benefit from the State Water Project Contractors representing positions with DWR, legislators, regulatory and third-party groups that advance its SWP strategic initiatives.

Option #2

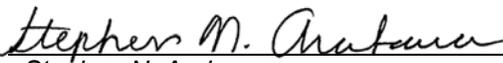
Adopt the CEQA determination and, by a two-thirds vote, make payments to a selected grouping of one or more of the three components comprising Metropolitan's 2007/08 SWC dues.

Fiscal Impact: Less than \$1,372,555 from the Operations and Maintenance Fund under the General District Requirement budget. Sufficient funds are included in Metropolitan's FY 2007/08 Operations and Maintenance Fund.

Business Analysis: Metropolitan would be less effective in advancing its SWP strategic initiatives if the full membership suite is not approved.

Staff Recommendation

Option #1



Stephen N. Arakawa
Manager, Water Resource Management

5/24/2007

Date



Jeffrey Kightlinger
General Manager

5/25/2007

Date

Attachment 1 – Detailed Report

Attachment 2 – Accomplishments of the State Water Contractors

BLA #5286

Detailed Report

Introduction

Metropolitan’s membership in the State Water Contractors, Inc., a nonprofit mutual benefit corporation, advances Metropolitan’s State Water Project strategic initiatives. Metropolitan received an invoice from SWC totaling \$1.373 million to fund Metropolitan’s share of the SWC activities for FY 2007/08. This report begins with **Section A** describing the SWC’s organization, budgeting process and Metropolitan’s participation. **Section B** discusses the current budget and Metropolitan’s share of the dues. **Sections C, D and E**, respectively, provides background and budget information for the SWC Dues, Energy Funds and Bay-Delta Fund.

Section A – SWC and Metropolitan Participation

The SWC has a full-time staff of eight consisting of a general manager, six professional specialists and one office administrator. The SWC relies on specialized technical consultants and legal counsel services as needs arise. Each year, Metropolitan staff reviews the SWC prior year’s actual costs and budget, and the next year’s proposed budget for reasonableness and appropriateness. Metropolitan’s SWC representative is Stephen N. Arakawa, who votes on the budget as a director on the SWC board.

Metropolitan staff participates in the SWC committees to advance its interests. Metropolitan’s participation includes crafting positions and strategies to be presented to DWR and others; participating in litigation support and settlement negotiations; resolving issues among the contractors, exchanging ideas and concerns, selecting consultants and guiding their work.

Section B – SWC Budget Summary and Metropolitan’s Allocation

The SWC’s combined budgets for the FY 2007/08 total \$3.662 million, a 5.1 percent decrease from the previous fiscal year. This decrease is due to the transfer of the Municipal Water Quality Investigations program and costs to the State Water Project Contractors Authority, which will no longer be budgeted or managed by SWC, and decreased cost within the Energy Fund because of less projected activity on FERC relicense of Oroville power generation facilities. As illustrated in the table below, the costs collected from members will be \$3.2 million since carryover funds from FY 2006/07 will be available. A “beneficiaries pay” approach is used to allocate payments among SWC’s members. The resulting allocation of \$1.372 million to Metropolitan for FY 2007/08 represents a 14 percent decrease from last year.

**Summary of State Water Contractors, Inc.
FY 2007/08 Budgets, Dues
and Metropolitan's Share**

| SWC Budget Component | FY 2007/08 Budget | Reserve Adjustment | Cost Allocated To Members | Metropolitan Share | |
|-------------------------------|--------------------|--------------------|---------------------------|--------------------|--------------------|
| Dues Fund ⁽¹⁾ | \$2,200,000 | (200,000) | \$2,000,000 | 43.64% | \$872,800 |
| Energy Fund ⁽¹⁾ | 712,000 | (262,000) | 450,000 | 69.39% | 312,255 |
| Bay-Delta Fund ⁽¹⁾ | 750,000 | 0 | 750,000 | 25.00% | 187,500 |
| Total | \$3,662,000 | | \$3,200,000 | | \$1,372,555 |

(1) Budgets are shown on the following sheets.

Metropolitan’s costs are summarized below:

- **Dues Fund.** The SWC’s general operating expenses are funded through the Dues Fund. The fund is allocated among the contractors based on the maximum Table A amount and prior year’s actual delivery. Metropolitan’s share of \$872,800 decreased 0.17 percent from the previous fiscal year’s share of 44 percent.
- **Energy Fund.** Energy Fund includes the direct and indirect costs for SWC staff working on energy issues, energy consultants and other costs related to energy. The fund is allocated among the contractors based on

power use for maximum Table A delivery and prior year’s actual power use. Metropolitan’s share of \$312,255 decreased 1.7 percent from previous fiscal year’s share of 71 percent.

- **Bay-Delta Fund.** Bay-Delta funding supports implementation of the actions identified in the CALFED Record of Decision, including efforts to increase the Banks pumping plant capacity to 8,500 cfs; implementation of in-Delta and San Joaquin River water quality improvement projects; and development of an emergency response strategy in the event of levee failures. Metropolitan’s negotiated share of \$187,500 is 25 percent, which is in recognition of Metropolitan providing in-kind contributions.

Section C – Dues Fund

The Dues Fund provides basic funding for the SWC activities; energy and Bay-Delta activities are excluded. Basic funding includes general operating expenses and support activities such as promoting cost-effective business practices, ensuring sufficient infrastructure reliability, and ensuring accurate and reasonable water supply costs. The Dues Fund allocations are based partially on prior year’s water use and partially on Maximum Table A amounts.

The Dues Fund budget total for FY 2007/08 is \$2,220,000 and is shown on the following Table. Activities supported by the Dues Fund include the Monterey Settlement Legal activities, half of the FERC relicensing costs (half will be through the Energy Fund), and SWP Public Outreach.

**State Water Contractors, Inc.
FY 2007/08 Proposed
Dues Fund Budget**

| | FY 2004/05 Actual | FY 2005/06 Actual | FY 2006/07 Approved | FY 2006/07 Projected | FY 2007/08 Proposed |
|-----------------------------------|------------------------------|------------------------------|--------------------------------|---------------------------------|--------------------------------|
| <u>CONSULTANT SERVICES</u> | | | | | |
| Business Processes | \$101,340 | \$74,658 | \$30,000 | \$24,000 | \$0 |
| Delta Ops Contingency Planning | 0 | 0 | 100,000 | 0 | 0 |
| FERC Relicensing | 357,883 | 386,412 | 200,000 | 240,000 | 250,000 |
| Financial | 33,568 | 39,327 | 30,000 | 30,000 | 30,000 |
| Miscellaneous | 56,776 | 5,616 | 10,000 | 0 | 70,000 |
| Monterey Settlement Legal | 105,736 | 54,500 | 100,000 | 60,000 | 100,000 |
| Operations & Maintenance | 19,137 | 9,223 | 10,000 | 5,000 | 10,000 |
| Public Information | 7,872 | 24,775 | 40,000 | 25,000 | 40,000 |
| SWP Public Outreach | 0 | 193,000 | 225,000 | 180,000 | 225,000 |
| Water Operations | 20,021 | 13,900 | 20,000 | 25,000 | 20,000 |
| Legal Consulting (B B & K) | 0 | 0 | | 15,000 | 20,000 |
| <u>OFFICE EXPENSES</u> | | | | | |
| Rent | 92,329 | 83,592 | 130,000 | 150,000 | 130,000 |
| Equipment Leasing | 6,896 | 6,820 | 8,000 | 8,000 | 8,000 |
| Miscellaneous | 17,782 | 10,879 | 12,000 | 10,000 | 12,000 |
| Telephone | 15,997 | 13,865 | 17,000 | 13,000 | 17,000 |
| Office Equipment | 15,228 | 10,006 | 10,000 | 35,000 | 10,000 |
| <u>SALARIES</u> | | | | | |
| | 530,903 | 684,879 | 725,000 | 690,000 | 790,000 |
| <u>EMPLOYEE EXPENSES</u> | | | | | |
| Life Insurance | 2,566 | 2,359 | 3,100 | 4,000 | 3,000 |
| Medical Insurance | 58,900 | 48,645 | 78,000 | 50,000 | 70,000 |
| Disability Insurance | 2,506 | 0 | 0 | 0 | 0 |
| Retirement (PERS) | 104,290 | 190,299 | 190,000 | 180,000 | 205,000 |
| Retired/Former Employees | 12,975 | 14,105 | 32,000 | 25,000 | 40,000 |
| Personal/legal Consulting | 0 | 26,876 | 5,000 | 2,000 | 2,000 |
| State & Fed Unemployment | 10,841 | 14,753 | 8,000 | 18,000 | 12,000 |

| | FY 2004/05 | FY 2005/06 | FY 2006/07 | | FY 2007/08 |
|------------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | Actual | Actual | Approved | Projected | Proposed |
| <u>OTHER EXPENSES</u> | | | | | |
| Travel & Meetings | 80,856 | 92,983 | 90,000 | 60,000 | 80,000 |
| Auto Allowance & Parking | 9,127 | 11,275 | 15,000 | 15,000 | 15,000 |
| Insurance & Bonds | 18,867 | 15,737 | 25,000 | 15,000 | 25,000 |
| Audit | 3,545 | 3,795 | 3,700 | 3,700 | 4,000 |
| Bookkeeping | 18,436 | 20,776 | 15,000 | 25,000 | 13,000 |
| Taxes | 349 | 370 | 800 | 800 | 1,000 |
| Printing & Publications | 6,441 | 3,482 | 8,000 | 1,000 | 8,000 |
| Miscellaneous | 10,432 | 9,331 | 10,000 | 20,000 | 10,000 |
| <u>TOTAL EXPENSES</u> | \$1,721,600 | \$2,066,239 | \$2,150,600 | \$1,929,500 | \$2,220,000 |

Section D – Energy Fund

Energy Fund includes the direct and indirect costs for SWC staff working on energy issues, energy consultants and other costs related to energy. Activities include working with SWP energy management and staff at both the strategic and technical levels in developing and implementing strategies for addressing essential high level energy issues, and close coordination between SWC staff, SWC consultants, SWC agency representatives and the SWP in key energy planning and risk management decision processes. Half of the cost related to FERC-Relicensing cost is included in the Energy Fund. The allocation for the Energy Fund is based partially on annual energy usage for water deliveries and partially on the energy required to convey Maximum Table A amounts. The reimbursement of in-kind consulting services from SWC to Metropolitan is budgeted at \$50,000 for FY 2007/08. The actual expenditure for the previous year and the FY 2007/08 proposed budget for Energy Fund are shown below.

**State Water Contractors
FY 2007/08 Proposed
Energy Funds Budget**

**FY 2007/08 Proposed
Dollars (\$)**

| | FY 2004/05 | FY 2005/06 | FY 2006/07 | | FY 2007/08 |
|-----------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | Actual | Actual | Approved | Projected | Proposed |
| <u>CONSULTANT SERVICES</u> | | | | | |
| FERC Relicensing | 357,883 | 392,294 | 200,000 | 240,000 | 250,000 |
| FERC Intervention | 0 | 2,123 | 30,000 | 25,000 | 30,000 |
| Energy Resources | 126,018 | 131,210 | 330,000 | 100,000 | 260,000 |
| SALARIES | 98,302 | 113,385 | 115,000 | 115,000 | 120,000 |
| <u>EMPLOYEE EXPENSES</u> | | | | | |
| Life Insurance | 200 | 105 | 500 | 500 | 500 |
| Medical Insurance | 16 | 359 | 7,500 | 1,000 | 10,000 |
| Disability Insurance | 716 | 0 | 0 | 0 | 0 |
| Retirement (PERS) | 19,267 | 7,713 | 32,000 | 17,000 | 34,500 |
| Retired/Former Employees | 0 | 0 | 0 | 0 | 0 |
| State & Fed Unemployment | 0 | 0 | 0 | 0 | 0 |
| <u>OTHER EXPENSES</u> | | | | | |
| Travel & Meetings | 13,500 | 10,229 | 8,000 | 5,000 | 5,000 |
| Auto Allowance & Parking | 2,500 | 1,488 | 2,500 | 2,000 | 2,000 |
| Miscellaneous | 0 | 1,600 | 0 | 3,000 | 0 |
| <u>TOTAL EXPENSES</u> | \$618,402 | \$660,506 | \$725,500 | \$508,500 | \$712,000 |

Section E – Bay-Delta Fund

The SWC board of directors initiated the Bay-Delta Fund in 1986 to support the interests of the SWP contractors in the State Water Resources Control Board’s (SWRCB) Bay-Delta Hearings. Those hearings continued through seven phases ending in the late 1990s. Phase 8 of that process, the determination of who should provide the water to meet the requirements of the 1995 Water Quality Control Plan, was suspended to allow the parties to develop a settlement agreement. Implementation of the Sacramento Valley Phase 8 Water Management Agreement, which was signed by the parties in 2001, is now underway. The SWC has been actively involved in the environmental documentation for the overall ten-year program, which will yield up to 185,000 AF. Participating with the other contractors through the SWC helps reduce Metropolitan’s cost and enhances its influence.

Bay-Delta funding supports implementation of the actions identified in the CALFED Record of Decision, including efforts to increase the Banks pumping plant capacity to 8,500 cfs; implementation of in-Delta and San Joaquin River water quality improvement projects; and development of an emergency response strategy in the event of levee failures.

Bay-Delta Fund activities are expected to concentrate on four areas: Fisheries analysis and advocacy, Litigation Activity, Delta Conveyance and State Water Resources Control Board representation. Fisheries analysis will continue strategic SWC-funded analysis of critical fisheries issues, particularly the pelagic fisheries. Litigation activity will include participation in the OCAP Biological Opinion, California Endangered Species Act and other court actions.

Annually, the SWC board of directors approves the proposed budget and establishes member dues to pay for Bay-Delta activities. The Bay-Delta Fund expenditures have been adjusted over time to address areas of critical interest to the contractors related to the Delta. Bay-Delta Fund costs are allocated based on Maximum Table A amounts. Metropolitan’s in-kind support is recognized in a reduced allocation of 25 percent. The FY 2007/08 proposed budget and actual expenditures for previous years are shown below.

**State Water Contractors
FY 2007/08 Proposed
Bay-Delta Funds Budget**

| | FY 2004/05 | FY 2005/06 | FY 2006/07 | | FY 2007/08 |
|-------------------------------------|-------------------|-------------------|-------------------|------------------|-------------------|
| | Actual | Actual | Approved | Projected | Proposed |
| LEGAL SUPPORT | | | | | |
| Best, Best & Krieger - Legal | \$72,499 | \$116,725 | \$80,000 | \$80,000 | \$80,000 |
| ESA Litigation Support | 6,783 | 2,609 | 10,000 | 0 | 10,000 |
| Splittail Litigation | 0 | 0 | 5,000 | 0 | 5,000 |
| KMT&G -- Legal | 95,773 | 137,083 | 120,000 | 150,000 | 120,000 |
| Economic Analysis | 19,089 | 0 | 0 | 40,000 | 20,000 |
| Public Education (South Delta) | 0 | 30,444 | 0 | 0 | 0 |
| SWRCB Transcripts | 0 | 0 | 0 | 3,000 | 0 |
| SWRI | 92,858 | 121,623 | 85,000 | 35,000 | 40,000 |
| FISHERIES SUPPORT | | | | | |
| Jim Buell -- Fish Screens | 0 | 0 | 10,000 | 0 | 0 |
| Bill Bennett | 0 | 62,744 | 0 | 0 | 0 |
| Chuck Hanson – Fisheries | 85,555 | 67,796 | 100,000 | 90,000 | 100,000 |
| Chuck Hanson – Smelt Special Survey | 0 | 31,681 | 0 | 12,000 | 0 |
| Science Review/OCAP Input | 188,060 | 29,392 | 75,000 | 0 | 75,000 |
| OTHER EXPENSES | | | | | |
| San Joaquin Agreement | 64,006 | 71,714 | 75,000 | 75,000 | 75,000 |
| Delta Conveyance Studies | 0 | 0 | 0 | 50,000 | 145,000 |
| Contingency Reserve | 0 | 0 | 100,000 | 0 | 80,000 |
| TOTAL EXPENSES | \$624,624 | \$671,840 | \$660,000 | \$535,000 | \$750,000 |

Accomplishments of the State Water Contractors

Significant recent accomplishments include:

Monterey Amendment

- Under a settlement agreement, DWR is preparing a new EIR for the Monterey Amendment, scheduled for release in 2007. The SWC participated in an advisory committee that is reviewing the administrative draft EIR. The SWC staff have raised concerns with the EIR process, provided technical input, and disputed points raised by the plaintiffs.

Delta Regulatory Issues

- The SWC has taken a lead in developing a Bay-Delta Conservation Plan that will provide future regulatory protection to water users through voluntary measures that include habitat improvements for improved fisheries conditions. The BDCP currently being developed is planned for implementation in 2008.
- The SWC has been active in preparing and filing legal briefs supporting the adequacy of existing California Endangered Species Act take authorization and the Federal Endangered Species Act biological opinions. SWC staff coordinated responses to the Delta Pumping Plant outage proposed by the Judge in the CESA incidental take case and worked with SWC consultants in developing public outreach material on the issue.

Delta Conveyance and Water Supply Reliability

- SWC staff and members have initiated processes to develop and evaluate the performance of alternative Delta conveyance alternatives to meet various goals including estuarine habitat and water quality. An SWC consultant prepared a cost estimate of a Delta Conveyance alternative to provide input into the overall evaluation.
- Metropolitan worked with SWC members and staff in identifying approaches to assure water supply reliability in the Delta with the existing conveyance configuration.

Oroville FERC Relicensing

- The SWC participated in DWR's ongoing efforts to relicense Oroville power facilities with FERC. The SWC has worked to support DWR's settlement agreements on the new license through coordination with DWR, Oroville-area partners and resource management agencies. The SWC submitted comments on the Draft Environmental Impact Statement and will be preparing comments on the Draft Environmental Impact Report mid-2007.
- The SWC also reviewed and submitted comments on the Reconnaissance Study of Potential Future Facilities Modifications to address cold water reservoir release needs.
- The SWC participated in the crafting of the habitat expansion agreement to address fishery issues and the sharing of responsibilities between PG&E and DWR and as a non-voting member of the Supplemental Benefits Fund Steering Committee.

SWP Energy Management

- Assessment of long-term power and transmission options: The SWC staff participated in DWR's initial efforts in outlining and applying a Strategic Energy Resource Planning process. This work includes supporting DWR in its assessment of long-term open energy positions, the future viability participating in the Reid Gardner #4 unit with Nevada Power Company and assessing power supply options. SWC staff also tracked the state's developments of Renewable Portfolio Standards, greenhouse gas regulations and resource adequacy requirements.
- Risk Management Implementation: The SWC staff continued to provide input to DWR's Executive Risk Oversight Committee in order to influence natural gas hedging protocols and nearer-term power purchase and sales targets. SWC staff also monitored SWP purchase and sales transactions to ensure the sales strategy was

followed. SWC staff and consultants also supported and participated in outreach efforts to power entities within California and the surrounding states. The SWC staff participated in the development and review of assumptions for the initial variable Operation, Maintenance, Power & Replacement component of the transportation charge.

- SWP Staffing Plan: The SWC staff and consultants have monitored DWR's implementation of a new staffing plan and its efforts to contract for technical consulting services. SWC staff and consultants have continued to interact with DWR staff to provide mentoring on long-term planning and operational planning issues.
- Metered Subsystem: The SWC staff and consultant were active in the assessment of the benefits of pursuing a Metered Subsystem (MSS) agreement with The California Independent System Operator (CAISO). Pursuit of an MSS was deferred due to the ever-changing market design structure under the CAISO's Market Redesign and Technology Upgrade.

Protection of Rate Management Credit (RMC)

- The SWC staff worked with DWR through the Audit Finance Committee to quantify cash available to Metropolitan and other contractors and to develop management measures to increase available funds.

Water Quality

- The SWC staff advanced water quality initiatives including reviewing the technical analysis of proposed alternatives for a pilot project at Franks Tract.
- The SWC staff worked with DWR on Bay-Delta Water Quality Control Plan South Delta salinity issues including Cease and Desist order negotiations, review of the 2006 Revised Bay-Delta Water Quality Control Plan, and participation in State Water Resources Control Board South Delta salinity workshops.
- The SWC staff managed CEQA litigation by the SWC, Metropolitan and several SWC member agencies against the Sacramento Regional County Sanitation District wastewater treatment plant expansion project through budget maintenance, litigation review, and modeling effort review. Litigation and settlement activities are in progress.

DWR Business Processes

- SWC staff assisted DWR in implementing a major upgrade of its business enterprise computer system project, which was completed on time and on budget. The SWC committed staff to directly work with DWR staff and managers on the development of SWP-related business reports.
- SWC staff monitored DWR's implementation of a contract (procurement/service) improvement project which streamlined process, transferred responsibility, updated skills, and tracked performance.
- SWC staff worked with DWR on the development of a new State Water Project Business Committee, which serves as a forum for board members to discuss business issues with DWR's executive branch.

FY 2007/08 Objectives of the State Water Contractors

Key objectives of the SWC for FY 2007/08 include:

Operate the State Water Project as a Business

- The SWC staff will continue to develop mechanisms with DWR to provide greater customer value. The SWC views managing and operating the SWP as a business as a top priority for the DWR director. A new Business Committee has been formed to serve as a regular forum for SWC Staff, SWC Directors, and DWR Executives to review progress on SWP business issues as well as areas that need attention. In the upcoming year, focus will be placed on the optimization of the new business process software, the development of management tools that effectively monitor costs, and the use of sound business cases for the initiation of new programs/projects and/or the addition of staff (similar to a capital investment program prioritization process).

Advance Bay-Delta Improvements

- SWC will continue to work with DWR and other agencies to provide input for completion of the Delta Risk Management Study, and will participate in the development of a multi-species conservation plan for the Bay-Delta and the development of a long-term Delta vision for the Bay-Delta, for completion by 2008.

Develop Long-term SWP Energy Portfolio

- SWC staff and consultants will continue to interface with DWR in its development of a Strategic Energy Resource Plan (SERP). The SERP will lay out a long-term power sales and procurement strategy for the SWP. Strategic planning issues anticipated for FY 2007/08 include: ensuring proper capital contribution for Reid Gardner #4 betterments, assessing long-term power procurement options including taking ownership-type positions in power plants, pursuing physical alteration of the SWP pumping and generation system, and continuing to support DWR's mid-term power procurement and power marketing efforts.

Complete New EIR for Monterey Settlement

- The SWC staff will continue to influence DWR in its efforts to complete the draft EIR targeted for 2007 and final EIR planned for 2008.

Oroville Relicensing

- The SWC staff will continue to support FERC acceptance of the filed Settlement Agreement and to defend the settlement agreement against legal or regulatory challenges that are detrimental to the Settlement Agreement. SWC staff will coordinate the review and filing of comments on the draft EIS, the Clean Water Act (Section 401) certification and review of the project under the Endangered Species Act.

Water Quality

- The SWC staff will continue to take actions to protect SWP water quality. These will include participating in efforts to prevent impacts from the Sacramento Regional County Sanitation District's planned expansion and implementation of a groundwater pump-in policy. SWC staff will support advancement of a water quality project at Franks Tract. SWC staff will participate in State Water Resources Control Board South Delta salinity workshops.