

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

June 10, 2008 Board Meeting

**8-8**

**Subject**

Authorize payment of \$2,231,090 for participation in the State Water Contractors, Inc. for fiscal year 2008/09

**Description**

Authorization is requested to pay \$2,231,090 in the upcoming fiscal year for participation in the State Water Contractors, Inc. (SWC), a nonprofit mutual benefit corporation. Increases in funding compared to FY 2007/08 are needed to engage in critical issues surrounding the Bay-Delta, and protect Metropolitan's financial exposure to SWP energy use.

Metropolitan benefits from participating with the SWC organization and its 26 other member contractors by, influencing the efforts and activities of the Department of Water Resources (DWR) and other State, Federal and local agencies. The SWC aligns its work effort similar to Metropolitan's State Water Project (SWP) strategic initiatives: (1) cost management, (2) cost-effective energy, (3) infrastructure reliability, (4) supply reliability, and (5) water quality.

**SWC Summary of Cost**

The SWC board approved its budget for FY 2008/09 at its March 31, 2008 Board of Directors meeting. Each year, Metropolitan staff reviews SWC budget for reasonableness and appropriateness. Metropolitan's payment for FY 2008/09 is \$2,231,090. Metropolitan budgeted \$1,612,500 for SWC payments within the FY 2008/09 budget, leaving a difference of \$618,590 that would be funded from Metropolitan's operating and maintenance contingency funds. Metropolitan's cost reflects a credit for in-kind services for Energy and Bay-Delta Funds. For next year, such credits will result in annual offset totaling approximately \$659,450. Metropolitan's share of the current and coming year's payment allocations are listed below:

<b>Component</b>	<b>FY 2007/08</b>	<b>FY 2008/09</b>
SWC Dues Fund	\$ 872,800	\$ 1,173,600
Energy Fund	\$ 312,255	\$ 419,990
Bay-Delta Fund	\$ 187,500	\$ 637,500
<b>TOTAL</b>	<b>\$ 1,372,555</b>	<b>\$ 2,231,090</b>

A detailed report of the purpose and the need for the SWC, and its board-approved budget is in [Attachment 1](#).

**SWC Budget Overview**

The higher cost for FY 2008/09 is due to increased and accelerated activities primarily relating to Delta issues and addressing carbon reduction strategies. During the current fiscal year, the SWC engaged in the following key efforts due to the critical stage of Delta activities: the recent Federal court case on Delta smelt, the Bay-Delta Conservation Plan (BDGP) development process, and the Delta Vision process. The SWC goal is to protect its collective interest in these processes and to build public awareness of the need for a conveyance solution. These efforts would also promote support by key decision makers and opinion leaders for a solution that will balance improving the Delta ecosystem with meeting the supply and quality needs of the SWP.

### Dues Fund

Metropolitan's Dues Fund payment for the upcoming year is \$1,173,600. The fund is allocated among the contractors based on the maximum Table A contract amount and prior year's actual delivery. Metropolitan's upcoming year Dues Fund allocation is 48.9 percent of total collections. The \$300,800 increase is attributable to increased public outreach on the importance of the SWP. The outreach effort is aimed at building public support for immediate commencement of environmental documents and other related planning steps for the Bay-Delta Conservation Plan including Delta conveyance facilities and ecosystem improvements. The approach will use public education to reach news media, opinion leaders and the general public to develop support for a comprehensive solution in the Delta.

### Energy Fund

Metropolitan's Energy Fund payment for the upcoming year is \$419,990. The fund is allocated among the contractors based on a formula using estimated power use required for maximum Table A and the prior year's actual power use. Metropolitan's upcoming year Energy Fund allocation is 71.25 percent. This 2007/08 Energy Fund payment of \$312,255 was less than normal, primarily because the budget relied on unspent money from the prior year. In addition, expanded work activities have resulted in an increase in the upcoming budget. The activities include support to review DWR's \$20 million gas hedging program, participation in legislative and regulatory processes regarding new regulations and greenhouse gas and renewable energy resources, helping to protect the SWP's financial exposure to \$70 million of groundwater cleanup responsibilities at the Reid-Gardner power plant and assisting DWR in creating a strategic plan for future energy acquisitions and sales. Metropolitan would receive about a \$50,000 refund for its in kind work in energy management.

### Bay-Delta Fund

The Bay-Delta Fund payment for the upcoming year is \$637,500. Metropolitan's allocation is fixed at 25 percent, which reflects a credit for Metropolitan providing in-kind services. The \$450,000 increase primarily is a result of a new coordinated initiative between SWP contractors and Central Valley Project contractors. This initiative will evaluate in-Delta users water rights, negotiate the San Joaquin River/VAMP, evaluate the Endangered Species Act regulations, analyze facilities modifications, formulate and evaluate Delta Conveyance alternatives, identify and develop near-term and long-term Delta facilities, and prepare an economic impact study on the effects of the recent court decision. Other activities will focus on areas of fisheries analyses, fishery litigation support and State Water Resources Control Board proceedings.

### **Major Accomplishments by the State Water Contractors**

Key highlights of SWC's accomplishments during the fiscal year 2007/08 include:

SWC staff and members actively participated in the BDCP development process; initiated processes to develop and evaluate the performance of the Delta Conveyance Alternatives to meet estuarine habitat and water quality goals; and developed an understanding and an agreement with DWR indicating responsibilities and decision-making power for the Delta Conveyance Alternatives.

SWC staff worked with DWR on energy resource assessments that include DWR's participation in the Lodi Energy Center generation facility; addressed a Renewable Portfolio Standard; developed strategies for responding to the greenhouse gas standards in AB 32; initialized development of an energy related Integrated Strategic Energy Resource Plan, resolved some Reid-Gardner contractual issues, reached FERC Oroville power facility settlements and intervened in transmission rate setting and refund processes.

### **State Water Contractors' Objectives for 2008/09**

Key highlights of some of SWC's objectives for the upcoming year:

SWC staff will continue to develop mechanisms with DWR to provide greater customer value. In the upcoming year, the focus will be to optimize new business process software, develop management tools that effectively monitor costs, and apply sound business cases for the initiation of new programs/projects and/or addition of staff.

SWC staff will continue to advance Bay-Delta improvements, including working with DWR and other agencies to complete the Delta Risk Management Study, participate in developing the multi-species conservation plan for the Bay-Delta, and develop near-and long term solutions for the Bay-Delta.

SWC staff and consultants will interface with DWR developing policies and procurements related to carbon neutrality and renewable resources, acquiring new long-term power resources, assessing adequacy of the ongoing gas-hedging program, defending DWR's Reid-Gardner position, and developing a Integrated Strategic Energy Resource Plan, which will lay out long-term power sales and procurement strategy for the SWP.

A comprehensive listing of SWC's accomplishments for FY 2007/08 and objectives for FY 2008/09 are in [Attachment 2](#).

## Policy

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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. 47134, the Board, at its June 12, 2007 meeting, adopted the CEQA determination and authorized the General Manager to make payment of \$1,327,555 to the State Water Contractors, Inc.

## California Environmental Quality Act (CEQA)

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CEQA determination for Options #1 and #2:

The proposed action is not defined as a project under CEQA because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves other government fiscal activities, which do not involve any commitment to any specific project, which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the State CEQA Guidelines).

The CEQA determination is: Determine that the proposed action is not subject to CEQA pursuant to Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

## Board Options

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### Option #1

Adopt the CEQA determination and, by a two-thirds vote, authorize the General Manager to make payment of \$2,231,090 to the SWC in July 2008.

**Fiscal Impact:** \$2,231,090 from the Operations and Maintenance Fund under the General District Requirement budget. \$1,612,500 has been budgeted in Metropolitan's FY 2008/09 Operations and Maintenance Fund. The remaining balance of \$618,590, which was not budgeted, would come from Metropolitan's contingency funds.

**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, authorize the General Manager to make payment to the Dues and Bay-Delta Funds and direct the General Manager to not make payments for the Energy Fund.

**Fiscal Impact:** Less than \$1,811,100 from the Operations and Maintenance Fund under the General District Requirement budget. \$1,612,500 has been budgeted in Metropolitan's FY 2008/09 Operations and Maintenance Fund. The remaining balance of \$198,600, which was not budgeted, would come from Metropolitan's contingency funds.

**Business Analysis:** Metropolitan would be significantly less able to effectively influence DWR developing a cost-effective energy portfolio. Metropolitan's annual SWP energy cost is about \$250 million representing about three quarters of all SWP energy cost. Other contractors would then gain influence over DWR actions.



## Detailed Report

### Introduction

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 submitted by other contractors before they are presented to DWR, regulatory agencies and other decision makers affecting our SWP benefits.

Metropolitan's membership in the SWC advances Metropolitan's State Water Project strategic initiatives. Metropolitan received an invoice from SWC totaling \$2,231,090 to fund Metropolitan's share of the SWC activities for FY 2008/09. 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.

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 2008/09 total is \$5,388,000, a 36 percent increase from the previous fiscal year. As listed in the table below, the costs collected from members will be \$5.75 million. A “beneficiaries pay” approach is used to allocate payments among SWC’s members. The resulting allocation of \$2,231,090 to Metropolitan for FY 2008/09 represents a 73 percent increase from last year.

SWC Expense & Revenue	Dues Fund	Energy Fund	Bay-Delta Fund	Total All Funds
Expenses (Budget) FY 2008 - 2009	\$2,577,000	\$861,000	\$1,950,000	\$5,388,000
Revenues (Allocations) FY 2008 - 2009	\$2,400,000	\$800,000	\$2,550,000	\$5,750,000

**Summary of State Water Contractors  
FY 2008/09 Budgets, Dues  
and Metropolitan's Share**

SWC Budget Component	FY 2008/09 Budget	Reserve Adjustment	Cost Allocated To Members	Metropolitan Share	
Dues Fund <sup>(1)</sup>	\$2,577,000	(177,000)	\$2,400,000	48.90%	\$1,173,600
Energy Fund <sup>(1)</sup>	861,000	(61,000)	800,000	71.25%	419,990
Bay-Delta Fund <sup>(1)</sup>	1,950,000	600,000	2,550,000	25.00%	637,500
<b>Total</b>	<b>\$5,388,000</b>		<b>\$3,200,000</b>		<b>\$2,231,090</b>

(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.
- **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.
- **Bay-Delta Fund.** Bay-Delta funding supports activities 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. The 25 percent share remains unchanged from last year, which is in recognition of Metropolitan providing in-kind service 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 2008/09 is \$2,577,000 and is shown on the following Table. Some of the activities the Dues Fund will fund are the Monterey Settlement Legal activities, and half of the FERC relicensing cost will be funded by the Dues Fund and the other half by the Energy Fund. Budget increase for an expanded outreach effort to support a higher level of effort in two areas: coalition building and development of comprehensive position papers for use in public education. Current staff level, salaries and benefits would be the same as the previous fiscal year.

**State Water Contractors  
FY 2008/09 Adopted  
Dues Fund Budget**

	FY 2005/06	FY 2006/07	FY 2007/08		FY 2008/09
	Actual	Actual	Approved	Projected	Adopted
<b><u>CONSULTANT SERVICES</u></b>					
Business Processes	\$74,658	\$17,025	\$0	\$0	\$0
Delta Ops Contingency Planning	0	0	0	0	0
FERC Relicensing	386,412	203,078	250,000	200,000	250,000
Financial	39,327	23,744	30,000	30,000	30,000
Miscellaneous	5,616	0	70,000	0	0
Monterey Settlement Legal	54,500	29,979	100,000	100,000	100,000
Operations & Maintenance	9,223	6,688	10,000	35,000	35,000
Public Information	24,775	12,987	40,000	0	0
SWP Public Outreach	193,000	209,601	225,000	325,000	600,000
Water Operations	13,900	31,606	20,000	20,000	20,000
Legal Consulting (B B & K)	0	0	20,000	20,000	20,000
Davis Dolwig Act	0	29,169	0	500	0
Financial Legal Consulting	0	0	0	25,000	100,000
<b><u>OFFICE EXPENSES</u></b>					
Rent	83,592	190,710	130,000	139,400	130,000
Other Office Expenses	41,571	45,786	47,000	52,199	8,000
<b><u>EMPLOYEE EXPENSES</u></b>					
Salaries	684,879	755,900	790,000	727,000	790,000
Benefits	397,037	265,309	332,000	325,100	322,000
<b><u>OTHER EXPENSES</u></b>					
Travel & Meetings	92,983	61,448	80,000	54,900	60,000
Other Expenses	64,766	84,842	76,000	53,500	58,000
<b><u>TOTAL EXPENSES</u></b>	<b>\$2,066,239</b>	<b>\$1,967,872</b>	<b>\$2,220,000</b>	<b>\$2,107,600</b>	<b>\$2,577,000</b>

**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 energy strategies and resolving issues in close coordination with SWC staff, SWC consultants, SWC agency representatives and the SWP. 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 2008/09. The projected expenditure from the previous year and the FY 2008/09 adopted budget for Energy Fund is shown below.

**State Water Contractors  
FY 2008/09 Adopted  
Energy Funds Budget**

**FY 2008/09 Proposed  
Dollars (\$)**

	FY 2005/06		FY 2006/07		FY 2007/08		FY 2008/09
	Actual		Actual		Approved	Projected	Adopted
<b>CONSULTANT SERVICES</b>							
FERC Relicensing	392,294		203,078		250,000	200,000	250,000
FERC Intervention	2,123		63,009		30,000	45,000	30,000
Energy Resources	131,210		62,890		260,000	254,000	405,000
<b>EMPLOYEE EXPENSES</b>							
Salaries	113,385		118,564		120,000	125,000	125,000
Benefits	8,177		31,514		45,000	38,000	44,000
<b>OTHER EXPENSES</b>							
Travel & Meetings	10,229		1,527		5,000	2,000	5,000
Auto Allowance & Parking	1,488		1,797		2,000	2,000	2,000
Miscellaneous	1,600		1,527		0	2,000	0
<b>TOTAL EXPENSES</b>	<b>\$660,506</b>		<b>\$483,905</b>		<b>\$712,000</b>	<b>\$668,000</b>	<b>\$861,000</b>

**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. Today, in addition to monitoring SWRCB process, the Bay-Delta Fund is used to support SWC involvement in Delta fish monitoring, environmental review process and facilities planning process, such as, coordinated activities with the CVP, the BDCP and the Delta Vision. Metropolitan staff's participation is recognized by other contractors and, therefore, receives credit, which reduces Metropolitan's cost. In addition, through staff's efforts, greater influence is achieved.

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 cost allocation at 25 percent. The FY 2008/09 proposed budget and actual expenditures for previous years are shown below.

**State Water Contractors  
FY 2008/09 Adopted  
Bay-Delta Funds Budget**

	<b>FY 2005/06</b>	<b>FY 2006/07</b>	<b>FY 2007/08</b>		<b>FY 2008/09</b>
	<b>Actual</b>	<b>Actual</b>	<b>Approved</b>	<b>Projected</b>	<b>Adopted</b>
<b>LEGAL SUPPORT</b>					
Best, Best & Krieger - Legal	\$116,725	\$153,369	\$80,000	\$180,000	\$180,000
ESA Litigation Support	2,609	0	10,000	0	10,000
Splittail Litigation	0	0	5,000	2,600	5,000
Longfin Smelt Litigation	0	0	0	43,600	0
KMT&G -- Legal	137,083	130,142	120,000	90,000	120,000
Public Education (South Delta)	30,444	0	0	0	0
SWRCB Transcripts	0	2,823	0	3,000	0
SWRI	121,623	36,310	85,000	20,000	20,000
<b>FISHERIES SUPPORT</b>					
Jim Buell -- Fish Screens	0	0	10,000	0	0
Bill Bennett	62,774	0	0	0	0
Chuck Hanson – Fisheries	50,681	76,406	100,000	100,000	100,000
Chuck Hanson – Smelt Special Survey	39,545	31,808	0	0	0
Science Review/OCAP Input	29,392	1,070	75,000	0	0
<b>OTHER EXPENSES</b>					
San Joaquin Agreement	74,714	83,823	75,000	145,000	145,000
Delta Conveyance Studies	0	49,945	0	75,000	75,000
Bay Delta Policy Advice	0	0	0	120,000	120,000
Bay Water Delivery System	0	49,950	0	0	0
Bay Delta Conservation Plan	0	26,174	0	0	0
Contingency Reserve	0	5,000	100,000	0	0
Miscellaneous	0	130	0	0	0
<b>SWP/CVP COORDINATED BUDGET</b>					
Other Stressor	0	0	0	110,000	325,000
Fisheries	0	0	0	135,000	400,000
Operations Facilities	0	0	0	95,000	275,000
Economic/Technical Evaluation	0	0	0	60,000	175,000
<b>TOTAL EXPENSES</b>	<b>\$662,588</b>	<b>\$646,950</b>	<b>\$660,000</b>	<b>\$1,176,200</b>	<b>\$1,950,000</b>

## **Accomplishments of the State Water Contractors**

Significant recent accomplishments include:

### **Monterey Amendment**

- DWR completed the draft Monterey Plus EIR in October 2007. The SWC commented on the EIR in January 2008 and are continuing to coordinate with DWR to complete the final EIR. DWR is currently preparing a revised EIR that responds to comments received.

### **Delta Regulatory Issues**

- The SWC staff and members have been active participants in the Bay-Delta Conservation Plan. In March 2008, DWR initiated the public scoping process for the Bay-Delta Conservation Plan and the related Delta Conveyance Alternatives.
- SWC efforts were coordinated with San Luis Delta Mendota Water Authority to identify means to minimize water supply impacts and identify alternatives to reduced water supply. This effort included water transfers proposals from the Sacramento Valley. A major focus of this effort was an approach to relate fisheries management measures to distribution of smelt, which was not applied in 2008 but could be a useful tool in the biological opinion and in future years.

### **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.
- SWC staff and members have also initiated processes to develop an understanding and agreement with DWR indicating responsibilities and decision-making power for the Delta Conveyance Alternatives and to develop financing alternatives to fund initial planning costs, which are currently estimated between \$128 and \$140 million.
- 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 Report, responded to issues in the Final Environmental Impact Statement raised by Butte County, supported FERC staff dismissal of socioeconomic and PILOT issues in other ongoing relicensing, and proposed water temperature objectives for South Feather Water and Power Agency.
- The SWC has also coordinated with DWR and members on issues related to the Settlement Agreement cost allocation between SWP and the General Fund responsibilities.
- The SWC participated as a non-voting member of the Supplemental Benefits Fund Steering Committee and ORAC.

### **SWP Energy Management**

- Assessment of long-term power and transmission options: The SWC staff coordinated with DWR on resource assessments including DWR's potential participation in the Lodi Energy Center and the Pastoria generation facility. Staff also coordinated with DWR on developing a Renewable Portfolio Standard, strategies for responding to the greenhouse gas standards in AB 32, completing transmission interconnection studies and the initial work in developing an Integrated Resource Plan and tracked DWR's development and

implementation of its resource adequacy standard. SWC staff also undertook a review of pumping data to investigate if 2006 pump forced outages rates were within or outside of expected ranges.

- **Risk Management Implementation:** The SWC staff continued to interface with DWR at a technical level through the monthly Power Planning Meeting. A review of DWR's natural gas hedging program via a contract with Enterprise Risk Consulting was also initiated. SWC staff also monitored DWR's dispute with Nevada Power Company regarding Reid Gardner capital improvement budget responsibilities over the remaining term of the Participation Agreement and coordinated with DWR on their procurement of Congestion Revenue Rights and local resource adequacy reserves.
- **Monthly Energy Invoicing:** SWC staff actively participated in the development of the 2009 SOC assumptions, the 2008 initial invoicing rate, and monitor the 2008 invoicing and underlying mill rate. SWC staff also developed a graphic presentation for the SWC Board package that, monthly, tracks the projected, actual and invoicing mill rates.
- **Defend SWP Against Energy Litigation:** SWC staff and consultants worked with the Legal Committee to ensure adequate legal representation on Reid Gardner contract issues as DWR's participation ramps down to the end of the contract period in 2013. Staff also coordinated with DWR in looking at issues in PG&E's existing transmission contract and Federal Energy Regulatory Commission rate proceeding and coordinated with the Legal Committee and DWR in reacting to issues in proposed legislation including SB 1761.

#### **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 participated in and planned for SWRCB workshops to discuss new information including South Delta salinity conditions, the Pelagic Organism Decline, Climate Change, and San Joaquin River flows. Staff also coordinated participation in SWRCB Delta Strategic Plan development, a workgroup to identify and analyze impact of other stressors on the Pelagic Organism Decline and participated in an analysis of water rights of in-Delta diverters.
- The SWC staff participated in State Water Resource Control Board workshops on South Delta salinity and San Joaquin River flow and planning workshops for the Frank's Tract pilot project.
- 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. The court ruled in favor of SWC, however, SRCSD is expected to appeal the case. In addition to the litigation, relief is being sought through the Regional Water Quality Control Board (Regional Board) National Pollutant Discharge Elimination System (NPDES) permit renewal process. The NPDES renewal process began in spring of 2007 is expected to continue through the summer of 2008, requiring preparation of materials for and attendance at applicable Regional Board meetings.

#### **DWR Business Processes**

- The SWC committed staff to directly work with DWR staff and managers on the development of SWP-related business reports.

#### **FY 2008/09 Objectives of the State Water Contractors**

Key objectives of the SWC for FY 2008/09 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, will participate in the development of a multi-species conservation plan for the Bay-Delta and will develop 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 2008/09 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 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 Districts 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 Resource Control Board South Delta salinity workshops.