



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

June 9, 2009 Board Meeting

8-6

Subject

Authorize payment of \$2,769,159 for participation in the State Water Contractors, Inc. for fiscal year 2009/10

Description

Authorization is requested to pay \$2,769,159 in the upcoming fiscal year for participation in the State Water Contractors, Inc. (SWC) during FY 2009/10. In this upcoming fiscal year, the SWC will increase its activities to help support intensifying efforts to solve fishery issues, garner public support, and resolve legal disputes surrounding the Bay-Delta.

The SWC is a nonprofit association of 27 public agencies from northern, central and southern California that have contracts to purchase water from the California State Water Project. 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 recently established its FY 2009/10 budget and has invoiced members for two payments, with the initial payment due by July 1, 2009, and the remaining balance due by December 1, 2009. Metropolitan staff carefully reviewed the SWC budget for reasonableness and appropriateness. Metropolitan’s total payment for FY 2009/10 is \$2,769,159. Metropolitan budgeted \$2.238 million for SWC payments within the FY 2009/10 budget, leaving a difference of \$531,659. Metropolitan will meet the unbudgeted amount savings in other operating costs, or savings from reductions in other SWC expenditures in FY 2009/10. Metropolitan reflects a credit for in-kind services for Bay-Delta Funds’ activities. Metropolitan’s share of the current and coming year’s payment allocations are listed below:

| <u>Component</u> | <u>FY 2008/09</u> | <u>FY 2009/10</u> |
|------------------|---------------------|---------------------|
| SWC Dues Fund | \$ 1,173,600 | \$ 1,076,920 |
| Energy Fund | \$ 419,990 | \$ 409,298 |
| Bay-Delta Fund | \$ 637,500 | \$ 1,282,941 |
| TOTAL | \$ 2,231,090 | \$ 2,769,159 |

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 in FY 2009/10 is due to the SWC’s increasing efforts to resolve legal issues relating to the Delta and a change in the Bay-Delta Fund’s payment methodology. During the upcoming fiscal year, the SWC continues to engage public outreach efforts, litigation activities on the salmon, Delta smelt biological opinion and Longfin smelt permits, and technical studies. The SWC’s goal is to protect the contractors’ interest in these processes and to build public awareness of the need for a conveyance solution.

Dues Fund

The Dues Fund is allocated among the contractors based on the maximum Table A contract amount and prior year's actual delivery. Metropolitan's upcoming fiscal year Dues Fund allocation is 49.40 percent of total collections. Metropolitan's payment for the upcoming fiscal year is \$1,076,920. This is nearly \$100,000 less than last fiscal year's payment. The reduction is attributable to carrying over funds into the upcoming fiscal year and incomes from other sources.

Energy Fund

The Energy Fund is allocated among the contractors based on a formula using estimated power use required for maximum Table A amounts and the prior year's actual power use. Metropolitan's upcoming fiscal year Energy Fund allocation is 70.57 percent. Metropolitan's payment for the upcoming fiscal year is \$409,298. This is about \$10,000 less than last fiscal year's payment. The reduction is attributable to income from other sources.

Bay-Delta Fund

Under the revised payment allocation method, Metropolitan's share of the Bay-Delta Fund will continue to be at a fixed 25 percent for expenses that are non-legal related in the Bay-Delta budget. The fixed 25 percent is in recognition of, and credit for, Metropolitan's funded Delta activities that will provide an overall benefit to the SWC's Bay-Delta activities. These non-legal activities include the SWC's effort in the State Water Project/Central Valley Project coordinated projects and fisheries support. The legal expense budget has increased, and the funding of the legal expenses has changed. The SWC elected to continue using, Best, Best & Krieger (BBK), previously under contract with Metropolitan. Instead of reimbursing Metropolitan for incurred cost for BBK as in the past, the SWC negotiated a new contract directly with BBK. The SWC members agreed to share legal expenses based on their maximum Table A amount, including Metropolitan and Kern County Water Agency who had previously contributed at a fixed percent.

Metropolitan's Bay-Delta Fund payment for the upcoming year is \$1,282,941. The increase of about \$600,000 from the previous fiscal year is attributable to the allocation methodology and increased legal activities with the salmon and Delta smelt biological opinion, Longfin smelt permits, South Delta Water Rights, and a larger contingency reserve. In addition, a new task item was added to the budget to quantify urban economic impacts from Delta practices.

Key SWC accomplishments regarding Bay-Delta during the fiscal year 2008/09 include:

SWC staff and members actively participated in the Bay-Delta Conservation Plan (BDGP) 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 levels of participation for the Delta Conveyance Alternatives.

State Water Contractors' Objectives for 2009/10

Key SWC objectives for the upcoming year include:

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 will also continue to develop mechanisms with DWR to provide greater customer value by managing and operating the SWP as a business. A Business Committee has been formed to serve as a forum for SWC staff, SWC Directors, and DWR Executives to review progress on SWP business issues. SWC will continue to interface with DWR in its development of a Strategic Energy Resource Plan (SERP), which will lay out a long-term power sales and procurement for the SWP. SWC will continue supporting efforts with the Oroville relicensing, complete the Monterey Settlement final EIR and take actions to protect SWP water quality.

A comprehensive listing of SWC's accomplishments for FY 2009/10 and objectives for FY 2009/10 are in [Attachment 2](#).

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. 47134, the Board, at its June 10, 2008, meeting, authorized the General Manager to make payment of \$2,231,900 for FY 2008/09 to the State Water Contractors, Inc.

California Environmental Quality Act (CEQA)

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

Option #1

Adopt the CEQA determination and, by a two-thirds vote, authorize the General Manager to make payment of \$2,769,159 to the SWC in July 2009.

Fiscal Impact: \$2,769,159 from the Operations and Maintenance Fund under the General District Requirement budget. \$2.238 million have been budgeted in Metropolitan's FY 2009/10 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 2009/10 SWC payment.

Fiscal Impact: Less than \$2,359,861 from the Operations and Maintenance Fund under the General District Requirement budget. \$2.238 million have been budgeted in Metropolitan's FY 2009/10 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. Reduced membership participation would limit Metropolitan's representation on key SWC issues and activities, and may expose Metropolitan to the risk of higher costs or greater operational restrictions on supply deliveries. .

Staff Recommendation

Option #1



Stephen N. Arakawa
Manager, Water Resource Management

5/27/2009

Date



Jeffrey Nightlinger
General Manager

5/27/2009

Date

Attachment 1 – Detailed Report

Attachment 2 – Accomplishments of the State Water Contractors

BLA #6606

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 \$2,769,159 to fund Metropolitan's share of the SWC activities for FY 2009/10. 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 Fund and Bay-Delta Fund.

Section A – SWC and Metropolitan Participation

The SWC has eight full-time staff 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 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 budget of the Dues Fund, Energy Fund and Bay-Delta Fund for FY 2009/10 is \$7,231,500, a 34 percent increase from the previous fiscal year. The table below summarizes the costs that will be collected from the SWC’s members, a combined total of \$6.86 million. A “beneficiaries pay” approach is used to allocate payments among SWC’s members. Metropolitan’s allocated share for FY 2009/10 is \$2,769,159, representing a 24 percent increase from last fiscal year.

Summary of State Water Contractor’s FY 2009/10 Budget Expense & Revenue

| SWC Expense & Revenue | Dues Fund | Energy Fund | Bay-Delta Fund | Total All Funds |
|---|----------------------|------------------------|---------------------------|----------------------------|
| Expenses (Budget) | \$3,005,000 | \$741,500 | \$3,485,000 | \$7,231,500 |
| Revenues (Cost Allocated to SWC’s members) | \$2,180,000 | \$580,000 | \$4,100,000 | \$6,860,000 |
| Metropolitan’s Share | \$1,076,920 | \$409,298 | \$1,282,941 | \$2,769,159 |
| Metropolitan’s Allocated Share (%) | 49.40 | 70.57 | 31.29 | |

- **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 in the State Water Project/Central Valley Project coordinated projects, Bay-Delta Policy advice, San Joaquin River water quality improvement projects; and development of an emergency response strategy in the event of levee failures. The fund is allocated among the contractors based on a blend of maximum Table A amount and a fixed percentage. Metropolitan is fixed at 25 percent for non-legal related expenses and maximum Table A percentage for legal expenses.

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 is allocated among SWC members based partially on prior year’s water use and partially on Maximum Table A amounts.

The Dues Fund budget total for FY 2009/10 is \$3,005,000 and is shown on the following Table. Some of the Dues Fund will pay for Monterey Settlement Legal activities and half of the FERC relicensing cost. The other half of the FERC relicensing is paid from the Energy Fund. The increased budget is for increased legal activities for the Monterey Settlement and the Davis Dolwig Act. Current staff level, salaries and benefits would be the same as the previous fiscal year.

**State Water Contractors
FY 2009/10 Adopted
Dues Fund Budget**

| | | FY 2006-07 | FY 2007-08 | FY 2008-09 | | FY 2009-10 |
|----------------------------|----------------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| | | Actual | Actual | Approved | Projected | Proposed |
| CONSULTANT SERVICES | | | | | | |
| | Business Processes | \$17,025 | \$0 | \$0 | \$0 | \$0 |
| | FERC Relicensing | 203,078 | 96,750 | 250,000 | 200,000 | 250,000 |
| | Financial | 23,744 | 30,232 | 30,000 | 27,000 | 30,000 |
| | Monterey Settlement Legal | 29,979 | 67,514 | 100,000 | 100,000 | 250,000 |
| | Operations & Maintenance | 6,688 | 0 | 35,000 | 0 | 5,000 |
| | Public Information | 12,987 | 0 | 0 | 0 | 0 |
| | SWP Public Outreach | 209,601 | 232,146 | 485,000 | 485,000 | 405,000 |
| | Water Operations | 31,606 | 21,766 | 20,000 | 0 | 20,000 |
| | Legal Consulting | 0 | 13,585 | 20,000 | 20,000 | 20,000 |
| | Davis Dolwig Act | 29,169 | 254 | 0 | 0 | 400,000 |
| | Financial Legal Consulting | 0 | 3,919 | 100,000 | 0 | 100,000 |
| OFFICE EXPENSES | | | | | | |
| | Rent | 190,710 | 107,302 | 132,000 | 139,000 | 120,000 |
| | Other Office Expenses | 45,786 | 41,156 | 50,000 | 61,000 | 65,000 |
| EMPLOYEE EXPENSES | | | | | | |
| | Salaries | 755,900 | 746,650 | 790,000 | 808,000 | 850,000 |
| | Benefits | 265,309 | 340,323 | 322,000 | 355,000 | 375,000 |
| CONTINGENCY | | | | | | |
| | | 0 | 0 | 115,000 | 0 | 0 |
| OTHER EXPENSES | | | | | | |
| | Travel & Meetings | 61,448 | 60,494 | 60,000 | 66,000 | 65,000 |
| | Other Expenses | 84,842 | 59,728 | 68,000 | 41,000 | 50,000 |
| TOTAL EXPENSES | | \$1,967,872 | \$1,821,819 | \$2,577,000 | \$2,302,000 | \$3,005,000 |

Section D – Energy Fund

The 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 2009/10. The projected expenditure from the previous year and the FY 2009/10 adopted budget for Energy Fund is shown below.

**State Water Contractors
FY 2009/10 Adopted
Energy Funds Budget**

| | | FY 2006-07 | FY 2007-08 | FY 2008-09 | | FY 2009-10 |
|----------------------------|-------------------------------------|------------|------------|------------|-----------|------------|
| | | Actual | Actual | Approved | Projected | Proposed |
| CONSULTANT SERVICES | | | | | | |
| | FERC Relicensing | \$203,078 | \$96,751 | 250,000 | \$200,000 | 250,000 |
| | FERC Intervention | 63,009 | 52,682 | 30,000 | 15,000 | 30,000 |
| | Energy Resources | 62,890 | 161,875 | 405,000 | 355,000 | 245,000 |
| EMPLOYEE EXPENSES | | | | | | |
| | Salaries | 118,564 | 131,798 | 125,000 | 156,000 | 165,000 |
| | Benefits | 31,514 | 37,923 | 44,000 | 40,000 | 45,000 |
| OTHER EXPENSES | | | | | | |
| | Travel & Meetings | 1,527 | 5,153 | 5,000 | 2,000 | 2,000 |
| | Auto Allowance & Parking | 1,797 | 1,794 | 2,000 | 2,300 | 2,500 |
| | Miscellaneous | 1,527 | 2,149 | 0 | 2,000 | 2,000 |
| TOTAL EXPENSES | | \$483,906 | \$490,125 | \$861,000 | \$772,300 | \$741,500 |

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 Central Valley Project, the Bay Delta Conservation Plan and the Delta Vision. Metropolitan staff's participation is recognized by other contractors and reduces Metropolitan's cost. In addition, through staff's efforts, greater influence is achieved.

In past years, Metropolitan's payment allocation was fixed at 25 percent. In this upcoming fiscal year, the payment methodology has changed due to how the legal expenses are funded. The SWC will now fund 100% of the legal costs rather than funding 30% of the cost as they had in the past years. This change was due to SWC electing to continue using the current legal firm to represent SWC, while Metropolitan elected to use a different legal firm to represent Metropolitan interests in the Delta.

Under the new payment allocation method, Metropolitan will continue to be at a fixed 25 percent for expenses that are non-legal related in the Bay-Delta budget. These activities include the SWC's effort in the State Water Project/Central Valley Project coordinated projects and fisheries support. The legal related expenses will now be allocated among the SWC's members based on their maximum Table A.

**State Water Contractors
FY 2009/10 Adopted
Bay-Delta Funds Budget**

| | FY 2006-07 | FY 2007-08 | FY 2008-09 | | FY 2009-10 |
|--------------------------------------|------------|------------|------------|-----------|------------|
| | Actual | Actual | Approved | Projected | Proposed |
| LEGAL SUPPORT | | | | | |
| Best, Best & Krieger -- Legal | \$153,369 | \$295,305 | \$180,000 | \$555,000 | \$800,000 |
| ESA Litigation Support | 0 | 0 | 10,000 | 0 | 0 |
| Spittail Litigation | 0 | 1,538 | 5,000 | 0 | 0 |
| Longfin Smelt Litigation | 0 | 95,703 | 0 | 83,000 | 0 |
| KMT&G -- Legal | 130,142 | 116,148 | 120,000 | 74,000 | 420,000 |
| Public Education (South Delta) | 0 | 0 | 0 | 0 | 0 |
| South Delta Water Rights | | 0 | 0 | 20,000 | 250,000 |
| SWRCB Transcripts | 2,823 | 0 | 0 | 0 | 0 |
| SWRI | 36,310 | 34,593 | 20,000 | 4,000 | 0 |
| Bay-Delta Policy Advice | 0 | 116,093 | 120,000 | 120,000 | 240,000 |
| FISHERIES SUPPORT | | | | | |
| Jim Buell -- Fish Screens | 0 | 0 | 0 | 0 | 0 |
| Bill Bennett | 0 | 0 | 0 | 0 | 0 |
| Chuck Hanson -- Fisheries | 76,406 | 201,426 | 100,000 | 82,000 | 100,000 |
| Chuck Hanson -- Smelt Special Survey | 31,808 | 0 | 0 | 0 | 0 |
| Science Review/OCAP Input | 1,070 | 0 | 0 | 0 | 0 |

| | FY 2006-07 | FY 2007-08 | FY 2008-09 | | FY 2009-10 |
|-----------------------------------|------------------|--------------------|--------------------|--------------------|--------------------|
| | Actual | Actual | Approved | Projected | Proposed |
| OTHER EXPENSES | | | | | |
| San Joaquin Agreement | 83,823 | 140,003 | 145,000 | 165,000 | 165,000 |
| Delta Conveyance Studies | 49,945 | 0 | 75,000 | 0 | 0 |
| CH2MHill | 0 | 93,269 | 0 | 0 | 0 |
| Bay Water Delivery System | 49,950 | 0 | 0 | 0 | 0 |
| Bay Delta Conservation Plan | 26,174 | 0 | 0 | 0 | 0 |
| Economic Impact Analysis | 0 | 0 | 0 | 0 | 150,000 |
| Contingency Reserve | 5,000 | 0 | 0 | 0 | 110,000 |
| Miscellaneous | 130 | 0 | 0 | 0 | 0 |
| Subtotal | 646,950 | 1,094,078 | 775,000 | 1,103,000 | 2,235,000 |
| SWP/CVP COORDINATED BUDGET | | | | | |
| Project Management | 0 | 5,866 | 0 | 37,500 | 200,000 |
| Other Stressors | 0 | 233,604 | 325,000 | 415,000 | 400,000 |
| Fisheries | 0 | 127,582 | 400,000 | 187,000 | 400,000 |
| Operations Facilities | 0 | 0 | 275,000 | 487,500 | 87,500 |
| Outreach | 0 | 92,887 | 175,000 | 32,500 | 162,500 |
| Subtotal | 0 | 459,939 | 1,175,000 | 1,160,000 | 1,250,000 |
| TOTAL EXPENSES | \$646,950 | \$1,554,017 | \$1,950,000 | \$2,263,000 | \$3,485,000 |

Accomplishments of the State Water Contractors

Significant recent accomplishments include:

Monterey Amendment

- DWR is currently preparing a final Monterey Plus EIR that responds to comments received on the October 2007 draft Monterey Plus EIR. The SWC are continuing to coordinate with DWR to complete the final EIR. The SWC are also participating in the Plumas Watershed Forum as outlined in the Monterey Settlement Agreement.

Delta Regulatory Issues

- The SWC staff and members have been active participants in the Bay-Delta Conservation Plan. In December 2008, the Draft Conservation Strategy was completed. The SWC is actively participating in proposed Bay-Delta Conservation water supply operations, habitat restoration, other stressors actions, and governance.
- The SWC staff and members participated and provided input to the Delta Vision process, including development of the Strategic Plan in November 2008 and the Implementation Report in December 2009.
- 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 focused research on other stressors, particularly ammonia in the Delta.
- SWC coordinated with DWR to provide comment and input on the delta smelt and anadromous fish biological opinions. Once the Delta smelt biological opinion was released in December 2008, SWC initiated litigation against the Delta smelt biological opinion. The SWC staff is currently tracking water supply costs associated with implementation of the biological opinion.
- SWC commented on the Longfin smelt emergency regulation and listing under the California Endangered Species Act. SWC initiated litigation against the emergency regulation once it was adopted and against the listing determination.
- SWC staff and members participated in Vernalis Adaptive Management Plan interim program planning for the period between 2010 and 2012. The SWC is involved in discussions regarding the next phase of the Vernalis Adaptive Management after 2012.

Delta Conveyance and Water Supply Reliability

- SWC staff and members are developing and evaluating Delta conveyance alternatives to meet various goals including water supply, estuarine habitat, and water quality improvements. Environmental documentation for a Delta Conveyance Alternative, the 2-Gate Project, is currently being developed by DWR.
- SWC staff and members have also developed an understanding and agreement with DWR indicating responsibilities and decision-making power for the Delta Conveyance Alternatives and developed a financing plan to fund initial planning costs, which are currently estimated at \$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. Implementation of the initial phase of “no regrets” actions was completed.
- The SWC and members worked with DWR to develop one-year amendments to the Lower Yuba River Accord Water Purchase Agreement. SWC staff is working with DWR and Yuba County Water Agency to ensure sufficient long-term account accounting methods and pricing agreements are in place.

Oroville FERC Relicensing

- The SWC participated in DWR's ongoing efforts to relicense Oroville power facilities with FERC. Following DWR's release of the FEIR in July 2008, both Butte and Plumas Counties filed CEQA suits challenging specific items in the FEIR. SWC staff and members have coordinated the SWC and SWC agencies participation in the suits and related activities. Lake Oroville Relicensing Team and SWC staff also coordinated submittals to the SWRCB supporting the Settlement Agreement, filed comments on the South Feather Project's DEIS regarding water temperature issues, submitted comments to the SWRCB regarding an amendment of the license for the California Aqueduct Project 2426 and participated in the Supplemental Benefit Fund Steering Committee, the Habitat Expansion Agreement Steering Committee and Oroville Recreational Area Committee..

SWP Energy Management

- Assessment of long-term power and transmission options: The SWC staff coordinated with DWR on its potential participation in the Lodi Energy Center including interfacing with DWR on financing and plant participation options. Staff also tracked DWR's activities in establishing a resource adequacy standard and complying with the CAISO's standard for local area requirements and completed and published the SWC Board of Directors Power Resource Reference Document. SWC staff also undertook an assessment of the long-term capacity and energy balances, which form the foundation for the Integrated Energy Resource Plan and investigated several long-term conventional power plant participation opportunities including a Kings River Conservation District development and a Victorville power plant. Additionally, staff coordinated with DWR on the Delta Hub transmission evaluation and Market Redesign and Technology Upgrade (MRTU) implementation issues.
- Risk Management Implementation: The SWC staff continued to interface with DWR at a technical level through the periodic Power Planning Meeting. The review of DWR's natural gas hedging program via a contract with Enterprise Risk Consulting was also continued, and as a result, staff coordinated with DWR on terminating the futures contract based natural gas hedging program when margin requirements depleted the available funding and encouraged DWR to market surplus capacity in the mid-term market. SWC staff also participated in the close-out of the Nevada Power Company Reid Gardner contract. Staff also participated in PG&E's Existing Transmission Contract/ Transmission Owner 10 (ETC/TO 10) rate filing settlements and tracked PG&E's TO 11 and SCE's ETC and TO 4 transmission rate filings settlement proceedings. Additionally, SWC staff interfaced with DWR on their procurement of Congestion Revenue Rights, resource adequacy reporting and MRTU readiness and implementation activities.
- Monthly Energy Invoicing: SWC staff actively participated in the development of the 2010 SOC assumptions, the 2009 initial invoicing rate, and monitored the 2008 and 2009 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.
- Greenhouse Gas/Renewables Policies: SWC staff and the Energy Committee obtained Board approval for a set of carbon emission reduction principles that included a renewables policy element. SWC also encouraged DWR to move forward with procuring a limited amount of renewable energy by issuing an RFP for wind produced energy and working with the Northern California Power Agency and the Southern California Public Power Authority to potentially partner with these entities in their renewable procurement efforts. Staff tracked the California Air Resources Board's implementation of AB 32 along with associated and parallel efforts by other state agencies and the Western Climate Initiative.

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. SWC staff has participated in the Protest Resolution Workgroup with a goal to provide closure on protest items.

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.
- 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, SRCSA appealed 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 2009, 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 2009/10 Objectives of the State Water Contractors

Key objectives of the SWC for FY 2009/10 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 and as a top priority for the DWR director. A 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 Strategy and will participate in the development of a multi-species conservation plan for the Bay-Delta for completion by 2010.

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 2009/10 include: assessing long-term power procurement options including taking ownership type positions in power plants, pursuing physical alteration of the SWP pumping and generation system, continuing to support DWR's mid-term power procurement and power marketing efforts, and supporting DWR in its renewable energy initiatives.

Complete New EIR for Monterey Settlement

- The SWC staff will continue to influence DWR in its efforts to complete the final EIR planned for 2009.

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 participate in State Water Resources Control Board South Delta salinity and San Joaquin River flow workshops.