



● Semiannual Report on SWP Strategic Initiatives

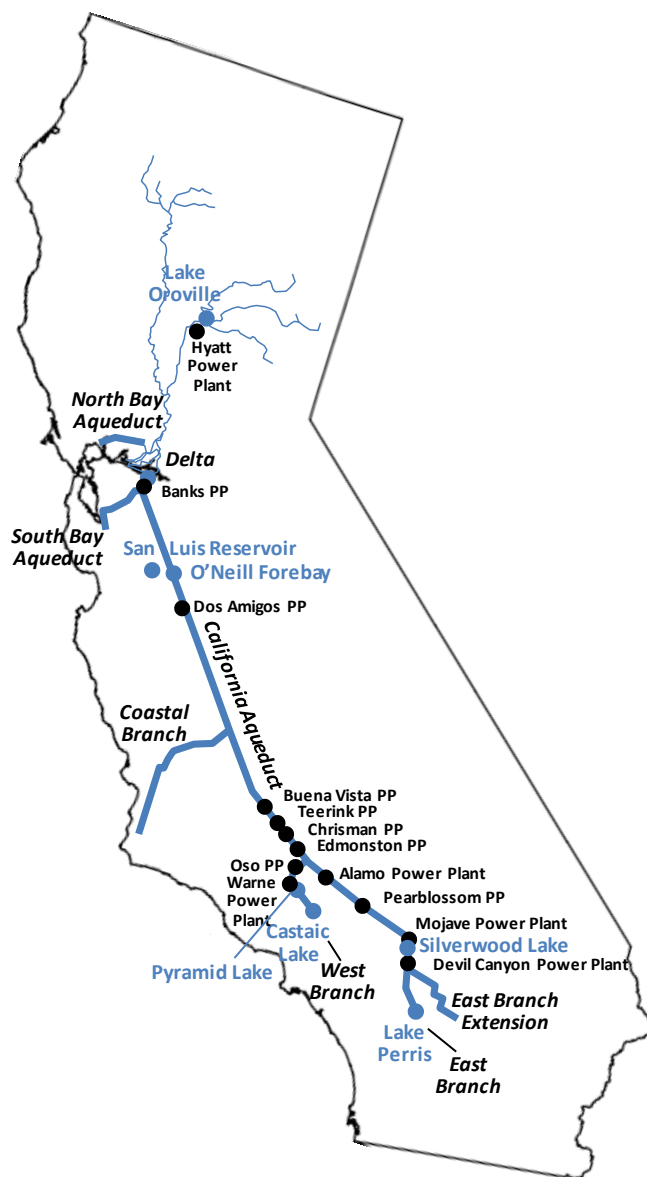
Summary

This report summarizes recent events pertinent to Metropolitan’s State Water Project contract. Staff is taking actions to protect Metropolitan’s contract rights and benefits in five strategic areas: costs, energy, infrastructure reliability, supplies, and water quality. Highlights are listed below and explained in the subsequent pages.

Detailed Report

Highlights

- DWR released its Draft EIR for rehabilitation of Lake Perris Dam (page 4),
- Metropolitan increased its ability to store supplies in San Luis Reservoir and carried over more than 119,000 AF of supplies from 2009 into 2010 (page 5),
- In February, DWR certified the final EIR for the Monterey Amendment to the State Water Project contracts (page 5),
- The five percent initial allocation for 2010 is the lowest in SWP history (page 5).



Ensure Costs are Accurate and Reasonable and Promote Efficient Business Processes

Metropolitan repays the State for its costs of developing and transporting water. Because of significant cost exposure and need for reliable supplies, Metropolitan strives to influence efficiency of operations and equity of benefits provided.



Lake Oroville in February 2009 – approx. 30 percent of max. capacity (DWR Photo).

MILESTONE:

AUDIT OF 2010 STATE WATER PROJECT CHARGES COMPLETED

Richardson and Company, Metropolitan's outside auditor, completed its 2010 audit of the SWP charges. Their report noted that DWR corrected previously reported errors in our charges resulting in a \$17 million reduction in Metropolitan's 2010 charges. In January, the Board approved payment of the calendar year 2010 SWP fixed charges and variable energy charges in the amount of \$598 million should deliveries reach 1.2 MAF.

EMERGING CHALLENGE:

CASH RESERVES FOR SWP OPERATIONS

Very limited SWP cash reserves and volatile cash requirements, particularly for purchased energy, represent a potentially significant constraint upon DWR's ability to purchase energy for water deliveries. Metropolitan and other water contractors are working with DWR to identify actions to strengthen SWP cash reserves and improve overall SWP cash flow.

Ensure Cost Effective Reliable Energy Sources

With the expiration of long-standing contracts and radical changes in energy market regulations, the SWP is experiencing increased exposure to energy and fuel price fluctuations, credit risk, and power plant reliability risk.



Edmonston Pumping Plant (DWR Photo).

MILESTONE:

SWP ENERGY INTEGRATED RESOURCES PLAN

DWR has drafted an Energy IRP that identifies how the SWP energy needs should be managed over the next 20 years. The plan outlines an approach to reducing SWP carbon emissions, procurement of renewable energy and opportunities for long-term power contracts. The SWC has been working with DWR to qualify the recommendations and to develop metrics, reporting, and update protocols in the final plan.

MILESTONE:

LODI ENERGY CENTER

DWR has joined 13 other public agencies in the process of executing the 30-year agreement to construct and operate a 280-MW natural gas-fired generation plant, strategically located in the City of Lodi. Metropolitan staff were the initial points of contact with the NCPA regarding the participation of the SWP in the LEC. DWR's share of the LEC will be between 25-35 percent of plant capacity. The plant will be a state-of-the-art generation facility that balances carbon/air emissions, generation flexibility reliability and energy efficiency. Capital cost, to be shared by the partners, is estimated to be a little over \$400 million.

EMERGING CHALLENGE:

MANDATES UNDER GLOBAL WARMING SOLUTIONS ACT OF 2006 (AB 32)

The CARB has continued to draft regulations that will go into effect in January 2012 and require reduced carbon emissions, new renewable energy by 2020, energy efficiency mandates, and creation of a cap-and-trade program. The SWC supported DWR developing a SWP policy regarding AB32 goals. The SWC commented on CARB's proposed cap-and-trade regulation to limit the SWP's financial exposure and to clarify that the proposed regulations for municipal energy utilities do not fit the SWP's unique circumstances.

Ensure Sufficient Infrastructure Reliability

Metropolitan and other contractors' water delivery schedules call for the SWP system to move more water through its aging infrastructure, requiring increased focus on maintaining infrastructure reliability.

MILESTONE:

OROVILLE RIVER VALVE WALL REMEDIATION

The Lake Oroville river valves are used during drought years to maintain releases to the Feather River under low reservoir conditions. During a routine test of the valves in July 2009, a wall near the valve control systems failed. DWR received citations from Cal/OSHA for the incident which it is appealing, and plans to reinstall the wall in April during a planned outage and return the valves to operation in July. Metropolitan staff is coordinating with DWR to ensure that non-operation of the river valves does not result in water supply losses in 2010.



Warne Power Plant, located just upstream of Pyramid Lake (DWR Photo).

EMERGING CHALLENGE:

SWP INFRASTRUCTURE RELIABILITY

Due to aging facilities, state worker furloughs, and problems retaining experienced operations and maintenance personnel, SWP infrastructure reliability has declined in recent years. For example, repairs to damaged generator units at the William Warne Power Plant have been delayed. DWR management is working with Metropolitan and the SWC to address the staffing issues. Metropolitan staff is working with DWR to minimize impacts to water supply and lost hydropower generation during equipment outages.

EMERGING CHALLENGE:

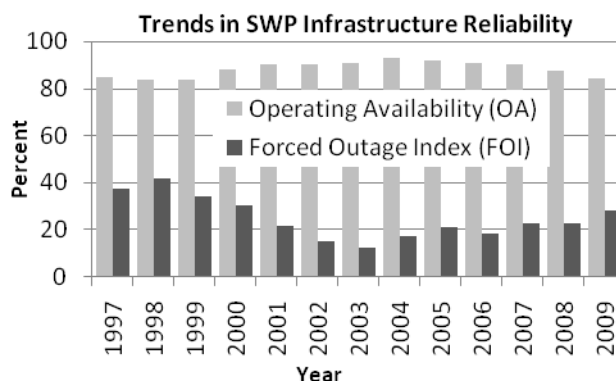
LAKE PERRIS DAM REHABILITATION

DWR released a Draft EIR for the Lake Perris Dam Remediation Project in January. Metropolitan, DWA and CVWD submitted comments on the document encouraging DWR to further examine the non-water-supply alternative. DWR's Preferred Alternative includes upgrading the dam to current seismic safety standards, replacing the existing outlet tower and constructing a new emergency outlet extension. Following certification of the Final EIR, DWR intends to complete design in late 2010 and start construction in 2011.

EMERGING CHALLENGE:

CASTAIC OUTLET TOWER DEFICIENCY

DWR considers the Castaic Lake outlet towers susceptible to failure during a major earthquake along the San Gabriel fault. Metropolitan coordinated with Castaic Lake Water Agency and DWR to determine operational needs in the event of tower failure. Metropolitan's primary objective is to receive water immediately after a failure event and during construction of a replacement facility.



The proportion of unplanned outages relative to all outages (FOI) has been increasing while the percentage of time that a unit was operated or could have been operated (OA) has been decreasing. A low FOI and high OA are considered favorable.

Ensure Cost-Effective Water Supplies

Staff participates in activities to optimize Metropolitan’s water supply benefits, including protection of its contract rights.

MILESTONE:

INCREASED STORAGE CAPABILITY IN DWR FACILITIES

In late 2009, DWR approved Metropolitan’s request to store non-project water acquired by Metropolitan in San Luis Reservoir. As a result, Metropolitan was able to carry over 119,212 AF of supplies from 2009 to 2010, exceeding the 100,000 AF maximum amount of project water carryover provided for in the State Water Contract. The stored water improves Metropolitan’s operational flexibility, by ensuring access to water early in the year when SWP allocations are typically low.

MILESTONE:

PROGRESS TOWARD LONG-TERM DELTA SOLUTIONS

Metropolitan staff is participating in processes to develop long-term Delta solutions for improving conveyance, source water quality, and fish conservation. In November, a special session of the California legislature enacted a sweeping package of water reform legislation supported by Metropolitan, including measures to establish new state policy for restoring the Delta ecosystem and California’s water supply reliability.

MILESTONE:

DRAFTED PRINCIPLES FOR SECURING SWP SUPPLIES FOR MEMBER AGENCIES

Metropolitan staff drafted preliminary terms for the delivery of SWP supplies procured by an individual member agency. The SWP supplies available to a member agency would be supplies to which the Metropolitan service area would otherwise not have access. The terms have been developed to ensure equity to the non-participating member agencies and also to provide Metropolitan with flexibility in regulating the additional SWP supplies.

MILESTONE:

DWR CERTIFIES FINAL EIR FOR MONTEREY AMENDMENT AND SETTLEMENT AGREEMENT

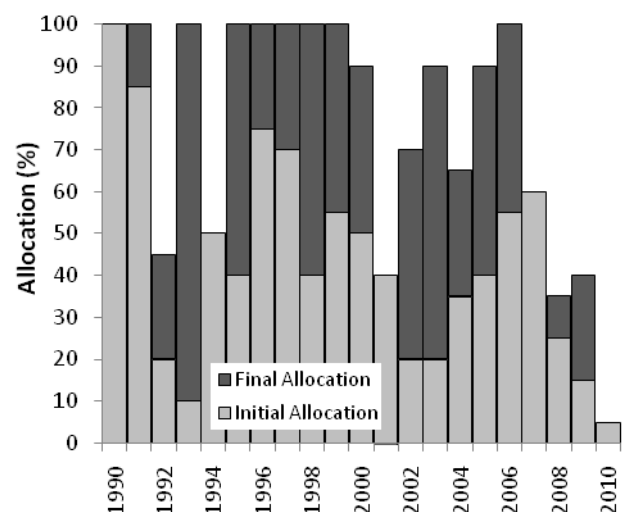
On February 1, 2010, DWR certified the Final EIR on the 1994 Monterey Amendment and 2003 Settlement Agreement. Metropolitan had coordinated with the SWC to provide analysis and comments on the draft EIR. The Monterey Amendment, an integrated package of negotiated SWP contract modifications among state water contractors and DWR, provides water management and financial benefits to Metropolitan.

EMERGING CHALLENGE:

HISTORIC LOW INITIAL ALLOCATION

On December 1, 2009, DWR announced an initial SWP allocation of 5 percent its lowest in history, which increased to 15 percent in February. The previous low for an initial allocation was 10 percent in 1993, but that number increased to 100 percent as supply conditions improved. The initial allocation is a conservative estimate of what DWR expects it can deliver in a given calendar year. In the event of a sustained low allocation, Metropolitan staff plans to maximize usage of SWP resources to meet service area demands that are met exclusively by SWP supplies.

Historical Initial and Final State Water Project Allocations



Protect and Improve Water Quality

The quality of SWP water is highly variable, creating challenges in meeting drinking water standards, integrating various water supply sources, and supporting service area needs for groundwater and recycling.



California Aqueduct in Southern California (DWR Photo).

MILESTONE:

MANAGED WATER QUALITY OF AQUEDUCT PUMP-IN PROGRAMS

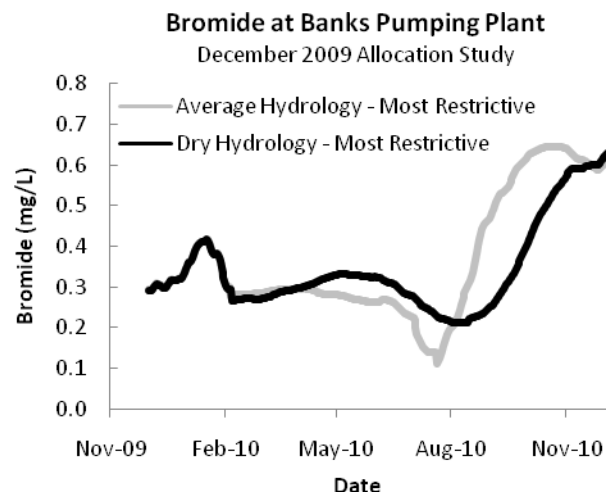
Metropolitan staff have been working with DWR and agencies that introduce water into the California Aqueduct to manage water quality. Groundwater pump-in programs have improved aqueduct water quality with respect to TDS, TOC, and bromide. With respect to arsenic, the pump-in programs have increased levels slightly, but well below the safe drinking water standard of 10 ppb. A demonstration arsenic treatment program with Semitropic Water Storage District provides Metropolitan with the means to help manage the increase. Metropolitan has also requested pump-in agencies to manage their groundwater wells to minimize the contribution of arsenic to the aqueduct.

MILESTONE:

MUNICIPAL WATER QUALITY INVESTIGATIONS MODELING PROGRAM

DWR's MWQI program has made progress developing a computer forecasting model. In 2010, DWR began producing seasonal forecasts of electrical conductivity and bromide at various locations within the Delta and extending to aqueduct entry points to Metropolitan's service area.

The forecasts have already demonstrated the deleterious effects to water quality of the recent court-ordered Delta pumping restrictions, such as higher concentrations of the disinfection by-product precursor bromide. Ultimately, the forecasts will assist Metropolitan treatment plant operators with the planning of chemical purchases, the type of treatment processes needed, blend ratios, and emergency events such as spills or flooding in the Delta.



Forecast of bromide at Banks Pumping Plant from the DWR MWQI January Seasonal Forecast. The chart shows bromide concentration with the most restrictive court-ordered pumping restrictions under average and dry hydrologic conditions.



Castaic Lake (DWR Photo).

Acronyms

AF	– Acre-Feet
BO	– Biological Opinion
CAL/OSHA	– California Division of Occupational Safety and Health
CARB	– California Air Resources Board
CEC	– California Energy Commission
CVP	– Central Valley Project
CVWD	– Coachella Valley Water District
CY	– Calendar Year
DWA	– Desert Water Agency
DWR	– California Department of Water Resources
EIR	– Environmental Impact Report
IRP	– Integrated Resources Plan
LEC	– Lodi Energy Center
MAF	– Million Acre-Feet
MW	– Megawatt
MWQI	– Municipal Water Quality Investigations
NCPA	– Northern California Power Agency
NMFS	– National Marine Fisheries Service
PP	– Pumping Plant
PPB	– Parts Per Billion
SWC	– State Water Contractors, Inc. (includes Metropolitan)
SWP	– State Water Project
TDS	– Total Dissolved Solids
TOC	– Total Organic Carbon
USBR	– United States Bureau of Reclamation