



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

6/11/2013 Board Meeting

8-6

Subject

Authorize payments of up to \$3.50 million for participation in the State Water Contractors, Inc. and the State Water Project Contractors Authority for fiscal year 2013/14.

Executive Summary

Authorization is requested to continue participation with the State Water Contractors, Inc. (SWC) and with the State Water Project Contractors Authority (SWPCA). Participation in these organizations allows Metropolitan to advocate for the effective management of the State Water Project (SWP), particularly activities in the Bay-Delta, by working with other contractors. The SWC provides a unified voice among the contractors to provide input to Department of Water Resources (DWR) on the management of the SWP. The SWPCA provides a means, through service agreements, for DWR to utilize the expertise and capabilities of participating SWP contractors in the implementation of SWP programs and projects. A total of \$3.97 million was included in the fiscal year 2013/14 budget for Metropolitan's participation in both organizations. The requested authorization amount is up to \$3.50 million, \$470,000 below budget.

Details

The Organizations

[Attachment 1](#) is a schematic showing the financial support mechanisms of the SWC and SWPCA, which are discussed further below.

State Water Contractors

The SWC is a nonprofit association of 27 public agencies from northern, central, and southern California with contracts to purchase water from the SWP. The SWC's role and activities are intended to provide input into DWR's policy decision making process. As a SWC participating member, Metropolitan can effectively represent Metropolitan's position and the SWC's interests in discussions with DWR, and through interactions with other state, federal, and local entities. The SWC's work efforts and associated revenue collections are broken into three basic groupings:

1. **Basic Dues Fund**: Provides basic funding for SWC activities including general operating expenses and supporting activities such as cost management, ensuring sufficient infrastructure and supply reliability, and water quality;
2. **Energy Fund**: Provides funding for SWC staff and consultants working with SWP energy and management staff at both the strategic and technical levels to develop and implement energy strategies to achieve cost-effective energy for the SWP; and
3. **Bay-Delta Fund**: Supports SWC involvement in Delta fish monitoring, environmental review process, facilities planning process, coordinated activities with the Central Valley Project and the Bay Delta Conservation Plan (BDCP), protect existing operations, collect scientific data, and plan for the future.

Experience has shown that the united voice of the SWC provides value in achieving favorable outcomes. The SWC's influence is especially focused on restoring supply benefits currently impaired by Delta constraints.

Refer to [Attachment 2](#) for a more detailed report on SWC accomplishments in FY 2012/13 and [Attachment 3](#) for objectives for FY 2013/14.

State Water Project Contractors Authority

The SWPCA was formed in 2003 as a joint powers organization of interested SWP contractors. Its objective is to provide DWR the additional resources required to improve the reliability and efficiency of the SWP. It consists of an organization overseeing three specific project committees. The SWPCA can provide services in those areas where the DWR is challenged including lack of experienced staff, state budget-related constraints, need for specialized expertise, and assistance in implementation of the BDCP. It also provides an opportunity for greater responsiveness and influence over major decisions.

Metropolitan actively participates in the following organizational units:

1. SWPCA Board of Directors; and
2. Specific Project Committees which include:
 - a. Delta Specific Project Committee (DSPC) – Established to provide a mechanism for broad SWP contractor participation in the BDCP and the Delta Habitat Conservation and Conveyance Program (DHCCP). Funding for the State and Federal Water Contractors Authority Joint Powers Authority is managed through the DSPC.
 - b. Municipal Water Quality Investigation (MWQI) - Provides SWP contractors with Delta water quality information as it relates to drinking water regulations – through monitoring, studies, analyses and forecasting.
 - c. East Branch Enlargement Specific Project Committee (EBESPC) – Formed to provide a mechanism for seven SWP contractors to participate in the design and review of the enlargement of the SWP's East Branch. (No activities planned in FY 2013/14).

Summary of Payment Distribution

Both the SWC and the SWPCA require payments from Metropolitan as summarized in the tables below:

<u>SWC Payments</u>	FY 2012/13	FY 2013/14
Dues Fund	\$ 1,162,355	\$ 1,204,458
Energy Fund	\$ 398,036	\$ 463,115
Bay-Delta Fund	\$ 1,038,083	\$ 999,262
Total:	\$ 2,598,474	\$ 2,666,837

Last year's Energy Fund budget was reduced due to carryover from the prior year. However, under the FY 2013/14 budget, there is less carryover from the previous year.

<u>SWPCA Payments</u>	FY 2012/13	FY 2013/14
SWPCA	\$ 70,796	\$ 125,147
DSPC	\$ 628,073	\$ 572,878
MWQI	\$ 110,000	\$ 134,000
EBESPC	\$ 0	\$ 0
Total:	\$ 808,869	\$ 832,025

In FY 2012/13, MWQI budget had additional contribution from a non-contracting water agency, reducing Metropolitan's share during FY 2012/13. SWPCA increase is due to supporting potential legal consulting services. DSPC decrease is due to reduced SFWCA expenditures.

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. 45348, the Board, at its May 13, 2003, meeting, authorized entering into an agreement with the State Water Project Joint Powers Authority.

By Minute Item No. 47735, the Board, at its December 9, 2008, meeting, authorized the General Manager to execute the Delta Habitat Conservation and Conveyance Program Memorandum of Agreement and three related funding and management agreements.

By Minute Item No. 48302, the Board, at its June 8, 2010, meeting, authorized the General Manager to make payment of \$2,578,548 to the State Water Contractors and up to \$866,831 to the State Water Project Contractors Authority for FY 2010/11.

By Minute Item No. 48708, the Board, at its June 14, 2011, meeting, authorized the General Manager to make payment of \$2,629,897 to the State Water Contractors and up to \$815,000 to the State Water Project Contractors Authority for FY 2011/12.

By Minute Item No. 49094, the Board, at its June 12, 2012, meeting, authorized the General Manager to make payment of \$2,598,474 to the State Water Contractors and up to \$809,000 to the State Water Project Contractors Authority for FY 2012/13.

California Environmental Quality Act (CEQA)

CEQA determination for Option #1 and Option #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 that 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 two-thirds vote

- a. Authorize the General Manager to make payment of \$2.67 million to the State Water Contractors; and
- b. Authorize the General Manager to make payment up to \$832,025 to the State Water Project Contractors Authority.

Fiscal Impact: Expenditures for participation in SWC and SWPCA in FY 2013/14 would be up to \$3.50 million. The authorization is approximately \$470,000 less than the FY 2013/14 budget for participation in the SWC and SWPCA.

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

Option #2

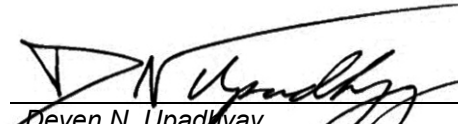

Adopt the CEQA determination and by a two-thirds vote authorize the General Manager to make payments to a selected grouping of one or more of the components comprising Metropolitan's FY 2013/14 SWC and SWPCA payments.

Fiscal Impact: Expenditures for participation in SWC and SWPCA in FY 2013/14 would be less than \$3.50 million. A total of \$3.97 million has been budgeted for these activities in Metropolitan's FY 2013/14 budget.

Business Analysis: Metropolitan would be less effective in advancing its SWP and SWPCA strategic initiatives if the full membership is not approved. Reduced participation would limit Metropolitan's representation on key issues and activities. Metropolitan would need to develop alternative means to manage the risk of higher costs or greater operational restrictions on supply deliveries.

Staff Recommendation

Option #1

 Deven N. Upadhyay Manager, Water Resource Management	5/29/2013 Date
 Jeffrey Kightlinger General Manager	5/30/2013 Date

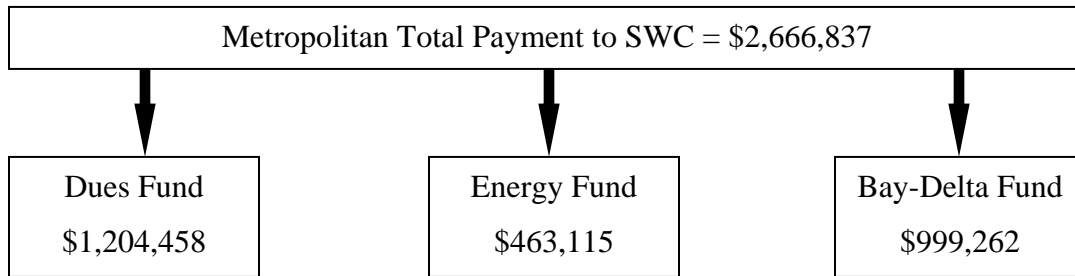
- [Attachment 1 – Organizational Schematic Financial Pathways](#)
- [Attachment 2 - FY 2012/13 Accomplishments of the State Water Contractors](#)
- [Attachment 3 - FY 2013/14 Objectives for State Water Contractors](#)

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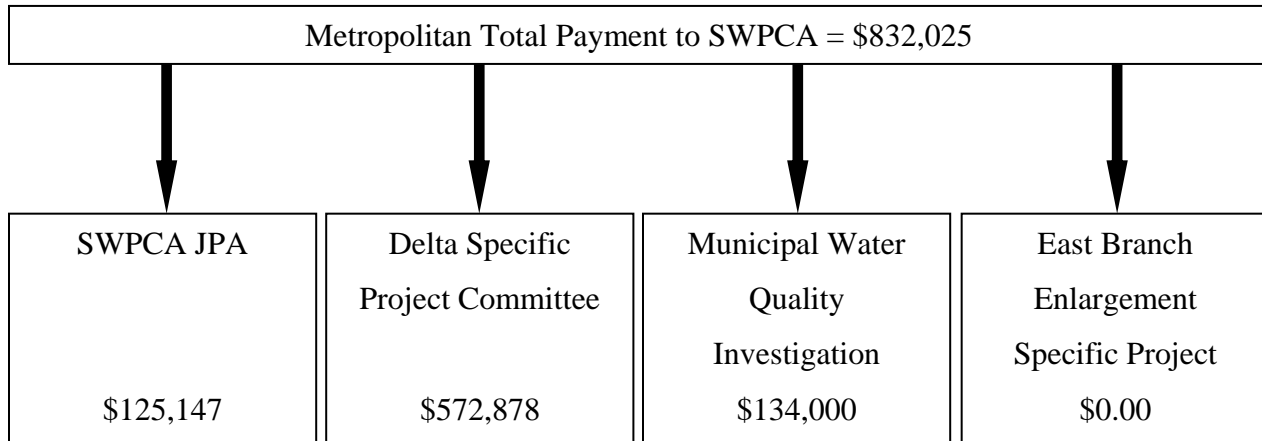
Organizational Schematic

Financial Pathways

State Water Contractors Total Budget = \$6,237,000 million



State Water Project Contractors Authority Total Budget = \$1,471,100



FY 2012/13 Accomplishments of the State Water Contractors

Strategic SWP Power and Transmission plan - Coordinate DWR's development of a near-term and long-term resource plan.

- The Lodi Energy Center commenced operation in October 2012.
 - The SWC hired Navigant Consulting to assess alternative transmission providers for the San Luis and Banks pumping facilities.
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Near-term Risk Management - Coordinate with DWR on power resource, transmission, staffing and State energy policy issues.

- The SWC hired consultants to work with DWR on developing a fuel procurement strategy for the Lodi Energy Center and to estimate the future cost of transmission services. The SWC staff continued to interface with DWR at a technical level through the monthly Power Planning Workshop.
 - The SWC participated in PG&E and SCE Existing Transmission Contract/Transmission Owner rate filing settlements at FERC Delta Conveyance and Water Supply Reliability.
 - The SWC has played a large role in an outreach effort to let the California Independent System Operator, the CPUC and the CEC understand the energy impacts from the State Water Board Proceedings to adopt new flow standards for rivers feeding into the San Joaquin Delta and for Delta outflows. The outreach effort includes encouraging their participation in the State Water Board Proceedings. In November, the SWC submitted written comments and gave testimony at State Water Board workshop explaining that the flow standards may be at cross purposes with state energy policy.
 - The SWC staff is on the Board of Directors for the California Municipal Utilities Association and the Western Electric Coordinating Council. The objective is to elevate the profile of the SWP and represent the perspective of the SWP Contractors included in the activities of the associations.
 - The SWC has worked with member agencies to establish a position on AB 1258 which could jeopardize water deliveries. We were party to a letter in opposition and gave testimony at a hearing of the Utilities and Commerce committee.
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Defend SWP against Energy Liabilities and Claims – Assure proper legal representation for potential litigation.

- The SWC consultants participated in negotiations to settle litigation that remains from the state energy crisis.
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FERC Relicense Settlement – Advocate solutions related to obtaining a new license for the Oroville complex consistent with the Settlement agreement and DWR's application. Initiate relicensing activities associated with SoCal facilities.

- The SWC intervened when South Feather River Water and Power filed a mitigated negative declaration that the relicensing of its Kelly Ridge Hydroelectric power house did not have a material adverse impact on the State Water Project. The settlement was coordinated with DWR and gives DWR the ability to curtail Kelly Ridge discharges under certain adverse conditions.
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Davis-Dolwig Act Funding - Identify and implement strategies to receive reimbursement for Davis-Dolwig Act costs.

- SWC staff coordinated with SWC policy-level representatives to work with the California Natural Resources Agency working group convened under direction of the Legislature. Water Code Section 11913.1 was added, providing DWR with a \$7.5-million continuous annual appropriation and \$2.5 million annually for repayment of the State's share of past Recreation and Fish & Wildlife Enhancement (RFWE) costs.
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Contract Amendment/Extension - Coordinate with DWR on developing ability to provide 30-year or longer bonding and cost repayment period for SWP capital charges, including funding and financing options for a new conveyance facility.

- Formal Contract Extension Negotiations were initiated in May 2013.
 - SWC staff provided Contract Extension workshops in Northern and Southern California to brief SWC membership.
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Cost Recovery/Statement of Charges Oversight (Estimated Costs) - Provide oversight over DWR's estimated costs and recovery of those costs through review of the future project cost projections, the Delta Water Charge calculation, Rate Management Credits review, and return of excess Replacement Accounting System funds.

- SWC staff worked with DWR to implement a Contractor review process to gain better understanding of cost projections and cost variances in the Statement of Charges (SOC).
 - SWC staff provided materials to improve the productivity of the Contractors' financial evaluation by creating educational materials, reporting tools to streamline and/or direct the Contractor's evaluation with minimal impact to the department.
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Financial Audit and Dispute Oversight - Work with Contractors and DWR to identify and resolve existing and potential protest items.

- SWC staff has participated in the Protest Resolution Workgroup with a goal to provide closure on protest items, which includes either resolution or determining the necessity of filing a claim against DWR. To date, 111 of the 224 identified items have been resolved and another 35 are being actively worked on.
 - To improve audit finding/protest items, SWC staff has developed an audit scope based on business functions within the State Water Project including function objectives and potential business risk.
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Streamline Future Water Transfers – Work with DWR and potential sellers in the Sacramento Valley to streamline future dry year transfer approval.















- SWC staff and member agencies worked with DWR to complete a proposed trail multi-year Table A pool program.
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Water Operations Review – Work with DWR to review and model changes in SWP project operations due to new regulatory and physical constraints.

- SWC staff and member agencies worked with DWR to identify changes in physical and regulatory constraints that may affect SWP operations and determine potential measures to minimize effects on water supply deliveries.

	Objective	Description	Priority	SWC Assignment
Energy Operations	Strategic SWP Power and Transmission plan	Coordinate DWR's development of a near-term and long-term resource plan.	●	Haines
	Near-term Risk Management	Coordinate with DWR on power resource, transmission, staffing, and State energy policy issues.	●	Haines
	FERC Relicense Settlement	Advocate solutions related to obtaining new license for the Oroville complex consistent with the Settlement agreement. Initiate relicensing activities associated with SoCal facilities.	○	Haines
	Greenhouse Gas/Renewable Policies	Work with DWR on appropriate greenhouse gas and renewable policies that reflect SWP utility characteristics and rate concerns.	○	Haines
Infrastructure	Communications System Upgrade	Track cost/progress/schedule on the communications upgrade work.	●	Chapman
	Motor/Generator Refurbishments	New stator core, rewinds, and pump casing reconditioning. Long-term task in several of SWP plants.	●	Chapman
	Oroville Dam River Valves	Testing and modification of river valves and appurtenant devices to enable regular use by DWR as required for normal SWP operations.	●	Chapman
	Sisk Dam Seismic Stability	Geotechnical Investigation and analysis to identify extent of stability issues and potential remediation options (including economic analysis for project alternative).	●	Chapman
	Protective Relay Replacements	Replace unit protective relays in the 15 major SWP pumping/power plants, fix deficient protection schemes, improve training, and documentation of relay settings and schematics.	○	Chapman
	Edmonston Pump Replacement/Refurb	Track performance/efficiency of four new units. Work with DWR in the value engineering process to select action (replacement vs. refurbishment).	○	Chapman
	Control System Upgrade	Implement the control system upgrade.	○	Chapman
	North Bay Aqueduct Alternate Intake	Initial Environmental work and preliminary design work for new intake facility for the NBA.	○	Chapman
	Aqueduct Subsidence Repairs	Determine the impacts of subsidence to SWP operations, work with DWR to prioritize the repairs and assure repairs expenses are appropriately distributed between the CVP and SWP Contractors.	○	Chapman
	Valve Rehab/Replacements	Replace or refurbishment major valves at Gianelli, Hyatt, Edmonston, and Warne Plants.	○	Chapman

	Objective	Description	Priority	SWC Assignment
	Perris Dam-Remediation of seismic deficiency	Track cost/progress/schedule on alteration construction to address seismic stability deficiencies.	●	Chapman
	East Branch Extension Phase 2	Construction of the second phase of the East Branch Extension.	○	Chapman
	Overall SWP Sustainability	Work with DWR's new program to evaluate long-term sustainability of SWP including emergency response measures and planning.	○	Chapman
Business Processes	Davis-Dolwig Act Funding	Identify and implement strategies to receive reimbursement for Davis-Dolwig Act costs.	●	Ramsay/Lightle
	Contract Amendment/Extension	Coordinate with DWR on developing ability to provide 30-year or longer bonding and cost repayment period for SWP capital charges, including funding and financing options for a new conveyance facility.	●	Ramsay/Lightle
	Cash and Financing Oversight	Work with DWR to finalize the Springing Amendment allocation and determine options for Habitat Restoration funding.	●	Ramsay/Lightle
	Future Capital Projects and Capital Financing Oversight	Develop a process to track, plan and prioritize all existing and foreseeable capital projects which are funded by the SWP Contractors.	●	Ramsay/Lightle
	Cost Recovery/Statement of Charges Oversight (Estimated Costs)	Provide oversight over DWR's estimated costs and recovery of those costs through review of the future project cost projections, the Delta Water Charge calculation, Rate Management Credits review, and return of excess Replacement Accounting System funds.	●	Ramsay/Lightle
	Job Costing Oversight (Actual Costs)	Provide oversight over DWR's actual expenditures compared to estimated costs.	●	Ramsay/Lightle
	Financial Audit and Dispute Oversight	Work with Contractors and DWR to identify and resolve existing and potential protest items.	●	Ramsay/Lightle
Water Supplies	Near Term ESA/CESA Coverage	Maintain litigation response to new OCAP biological opinions and environmental challenges. Participate in preparing material for and influencing the development of the new Federal Biological Opinions.	●	Erlewine
	Delta Conveyance Alternatives	Identify alternative configurations for Delta Conveyance, conduct technical evaluations of performance and provide support to BDCP, Delta Vision and related processes.	●	Febbo
	Bay Delta Conservation Plan	Complete public draft Bay Delta Conservation Plan to provide ESA assurances for continued operation of the SWP.	●	Moon
	Delta and Migratory Fish Analysis	Work with SFCWA Science Team to identify causes of Delta fisheries decline and develop management measures to prevent the decline.	●	Erlewine

	Objective	Description	Priority	SWC Assignment
	Sacramento Regional CSD Litigation	Manage litigation and regulatory efforts to reduce ammonia discharges and improve water quality, fishery, and water supply conditions.		Febbo
	Water Rights Processes	Present testimony and participate in hearings on updating the Bay-Delta Water Quality Control Plan and related activities such as San Joaquin River water rights and illegal diversions.		Febbo
	Methylmercury Regulations	Coordinate with DWR and other affected agencies on developing and implementing a work plan for Open Water Allocation. Participate in Regional Board Processes related to Statewide Methylmercury regulations.		Erlewine
	Monterey Amendment EIR	Work with DWR in defending Monterey Plus EIR against litigation. Continue participation in Plumas Watershed Forum.		Erlewine
	San Joaquin River Accord/VAMP II	Participate in discussions regarding a potential San Joaquin River Accord or next phase of the Vernalis Adaptive Management Program (VAMP). Evaluate benefits of SWC involvement.		Erlewine
	Delta Habitat Development	Work with SFCWA in planning and implementation of new Delta habitat measure to meet conditions of the OCAP BiOp and the BDCP		Moon
	SWP Reliability Report	Coordinate with DWR on Appropriate Assumptions and Level of Presentation Detail for SWP 2013 Reliability Report.		Febbo
	Streamline Future Water Transfers	Work with DWR and potential sellers in the Sacramento Valley to streamline future dry year transfer approvals.		Chapman
	Complete Phase 8 Transfers	Reevaluate Phase 8 approach in light of POD, recent SWRCB actions and Delta Conveyance concerns. Proceed with adjusted approach if identified.		Erlewine
	Delta Stewardship Council	Coordinate with SFCWA representatives in monitoring and influencing the new Delta Stewardship Council to provide constructive input towards solving Delta challenges.		Erlewine
	Banked Groundwater Return (Pump-in water Quality)	Review and refine policy for accepting banked groundwater into the aqueduct. Participate in development and implementation of pump-in projects.		Febbo
		Priority I (Highest Priority) Objectives		
		Priority II (High Priority) Objectives		
		Priority III (Medium Priority) Objectives		

State Water Project Contractors Authority (SWPCA) FY 2013–2014 Objectives

- Create/strengthen the message of how SWPCA can help accomplish some of the recommendations in the Little Hoover Commission Report, working with the State Water Contractors.
- Advocate for a SWP governance structure that results in efficient and reliable operations and management for the benefit of all SWP stakeholders
- Establish criteria/guidance for the types of actions/projects SWPCA takes on.
- Continue to develop and put in place policies and procedures for effective management of SWPCA organization.
- Provide venue for DSPC Class D members to receive information of the progress of DHCCP/BDCP efforts.

SWPCA's Municipal Water Quality Investigations (MWQI) Specific Project Committee (SPC) will continue to provide funds to perform supplemental water quality related services for the MWQI Program to ensure that work is completed in a timely and cost-effective manner. The program will focus on water quality data collection, analysis, and management in the Delta, scientific support on Delta and SWP drinking water issues, and provide early warning of water quality events and water quality forecasting. The SPC will initiate work on two projects recommended by Metropolitan staff. The first is to develop an artificial neural network model of the Delta that can be used to quickly evaluate changes in operations. The second is to initiate an effort to begin to understand the nutrient and algal dynamics in the SWP system. This project could provide valuable information on how to prevent or manage taste and odor episodes.