Thomas S. Babcock Director to the Metropolitan Water District Representing the City of Fullerton, California

August 1, 2013

To: Mayor Bruce Whitaker
Mayor Pro Tem Doug Chaffee
Council Member Greg Sebourn
Council Member Jennifer Fitzgerald
Council Member Jan Flory

Report on MWD Director activities

July 2013 Events:

- July 1, 2013 Planning meeting for August Inspection Trip
- July 3, 2013 MWDOC board workshop
- July 3, 2013 OC Caucus meeting
- July 8, 9, 2013 MWD Committee meetings and Board of Directors Meeting
- July 23, 2013 Other MWD Committee Meetings
- July 30, 2013 Tour of MWD Weymouth Plant maintenance shops

I have also included the July summary report of Board meetings.

Planned August 2013 Events:

- August 15, 2013 OC Caucus meeting
- August 17, 2013 MWD "Sustainability" Inspection Trip
- August 19, 20, 2013 MWD Committee meetings and Board of Directors Meeting
- August 27, 2013 Other MWD Committee Meetings



Metropolitan Water District Board and Committee Highlights July 2013

Finance and Insurance Committee

- Treasurer Roger Marumoto reported that MWD's investment portfolio underperformed last month as a result of a bond market sell-off following comments made by Federal Reserve Chairman Ben Bernanke. In June, the short-term portfolio underperformed the benchmark by -0.72%, primarily due to Treasuries and Federal Agencies. The long-term portfolio underperformed the benchmark by -0.06%, due primarily to Corporates, Treasuries, and Federal Agencies.
- CFO Gary Breaux reported that water sales through June were 1.857 MAF, or 157 TAF above the budgeted amount of 1.700 MAF. Water sale revenues through June total \$1,282.8 million, or \$99.1 million above budget.
- In response to questions received last month from Director Lewinger (SDCWA), Gary Breaux reported that MWD would have experienced a \$178 million decrease in current unfunded liabilities if they had been full funding the Annual Required Contribution (ARC) at a 7.25% discount rate, beginning in 2006.
 - Director Lewinger requested additional information on how the reduced expenditures in the Capital Investment Program (CIP) compared to the reductions in PAYGO contributions over the same period. He suggested that the reductions in PAYGO were not as impactful as staff had been suggesting. Director Morris (San Marino) countered that the PAYGO funding amounts are also related to repair and replacement costs and not just the total bond financing amounts.
- The Committee voted to table an item on a proposed contract with a third party Other Post Employment Benefits (OPEB) trust provider for administration and investment of funds contributed by MWD.
 - MWD staff analyzed three third party trust providers. Staff recommended California Employer's Retiree Benefit Trust (CERBT), a nonprofit, multi-employer trust similar to the PERS pension fund. 345 municipal agencies currently participate in CERBT.
 - The current biennial budget provides for pre-funding OPEB payments of \$5 million in FY 2012/13 and \$10 million in FY 2013/14, with further proposed increases of \$5 million per year until the annual payments are equal to the ARC.

Board Discussion

- Director Lewinger questioned why the fees were so much higher for the alternative trust providers, Public Agency Retirement Services (PARS) and PFM Asset Management (PFMAM). Staff responded they believe it is due in part for the fact that the two other entities are "for-profit" and have to pass on different layers of fees to pay vendors for administration and investment.
- Director Barbre (MWDOC) and Director Touhey (Upper District) stated their concern with PERS, given past abuses and mismanagement. There were also concerns that MWD could have less legal recourse compared to the alternatives in the event that a problem does arise.
- Following discussion, the Committee voted to table the item for further discussion next month. It was also suggested that staff arrange for all three trust providers attend next month's committee meeting to answer any questions from the Committee.

Water Planning and Stewardship Committee

- The Committee received a presentation by Congressman Jim Costa regarding the Bay Delta Conservation Plan (BDCP). The Congressman spoke about his continued support for the BDCP, the need to secure long term reliability with CVP and SWP deliveries, and his recently introduced bill, H.R. 1927, regarding Bay Delta reliability. This bill was later discussed in length at the Communications and Legislation Committee.
- Under the consent calendar, the SDCWA delegation stated that they would be voting no on the Local Resources Program (LRP) agreement with the City of Anaheim for the Anaheim Water Recycling Demonstration Project.
- Roger Patterson provided the following update on Bay Delta matters:
 - The Delta Stewardship Council has adopted the Delta Plan and EIR, and the regulations included have been sent to the Office of Administrative Law. They have until August to approve or reject the regulations.
 - The draft EIR has been released for the restoration project at Yolo Ranch. The project is scheduled for approval later in July, with construction beginning this fall.
- Bill Hasencamp providing the following Colorado River report:
 - The drought has worsened on the Colorado River Basin, as June was extremely hot and dry. Lake Mead and Lake Powell are at their lowest combined shortage levels in history. Lake Powell is on pace to trigger the lowest ever releases to Lake Mead, which could potentially drop 20 feet by next summer. The Bureau of Reclamation (BUREC) reports that if this drought continues on its current path, Lake Mead will be under shortages conditions by 2016 and below the Southern Nevada Water Authority's new intake structures by 2017/18.
 - O BUREC has required Imperial Irrigation District (IID) to payback 47 TAF in non-conserved water delivered into the Salton Sea in 2010. IID in response submitted a plan to fallow additional land to generate 70 TAF of water for the 2010 payback and to put additional conserved water in the Salton Sea for recent overruns. Their schedule is to complete the additional fallowing by 2016. They would modify this schedule if shortages on the river are declared.
 - MWD staff met with IID to look at how conservation savings were generated for the QSA transfers. MWD staff concluded that there was enough evidence to support that IID has conserved an extra 17 TAF of water last year for delivery to SDCWA.

Engineering and Operations Committee

- The Committee voted to appropriate \$4.53 million and authorize final design and pipe fabrication for prestressed concrete cylinder pipe (PCCP) repairs on the Second Lower Feeder. This action allows staff to move forward with urgent repairs. Next month, the Committee will receive a presentation on the PCCP rehabilitation program.
- The Committee voted to appropriate a total construction cost of \$2.7 million and award \$1.88 million to L. H. Woods & Sons, Inc. for rehabilitation of the San Jacinto East Adit on the Colorado River Aqueduct. This facility serves as the primary access point into the San Jacinto Tunnel, and has developed longitudinal and transverse cracks in its concrete lining.
 - Director Barbre (MWDOC) confirmed with staff that the tunnel will still be available for tours during this construction process.
- Staff provided a presentation on energy management activities associated with the State
 Water Project (SWP). This presentation is the second in a series of three presentations on
 energy management. Staff reviewed the process of managing the pumping needs and
 power generation strategy, along with a review of key facilities and energy resources, with
 the SWP

- The total energy usage of the SWP in 2012 was 7.4 million MWh. SWP hydroelectric generation operations typically provide half of the project's energy requirements. In 2012, this total was lower as a result of issues with Lake Oroville's Hyatt generation facilities.
- SWP energy costs fluctuate with varying loads, generation, and with volatility in the energy market. Operating restrictions also impacts energy management.
- In 2012, MWD accounted for 64% of the total energy consumption on the SWP. Even though MWD only accounts for half the water sales, the distance and elevation lift required over the Tehachapi Mountains result in a higher energy bill. The SWP, in turn, accounted for 67.7% of MWD's energy requirements at a total of \$242.6 million in 2012.
- Energy contracts with the Reid Gardner coal fired power plant are expiring in 2013, and contracts with Morgan Stanley are expiring in 2015. DWR is working with the SWP Contractors on options for replacing these contracts in a manner that balances reductions in costs and ensures sufficient energy resources.
- COO Debra Man reported that repairs at Hyatt and other DWR facilities are on schedule and do not anticipate any impacts on water supply deliveries.

Board Discussion

 The Board requested further information on the cost of the potential energy projects replacing the Reid Gardner plant.

Communication and Legislation Committee

- Staff provided a report on H.R. 1927 (Costa, D-CA) the More Water and Security for Californians Act.
 - The background of this legislation is that the District Court has invalidated the Reasonable and Prudent Alternatives (RPAs) in the salmon and smelt Biological Opinions, but did not vacate them. This means that the restrictions remain in place even though they were found to be arbitrary and capricious. As a result, there is uncertainty over how the water projects should operate until new Biological Opinions are issued.
 - This bill would mandate interim operational criteria to replace the invalidated RPAs until 2020. The bill would also establish a fish hatchery and habitat program for key ecosystem restoration and fishery passage projects. Finally, the bill contains a preemption provisions that prevents the State of California from imposing more onerous requirements.
 - o GM Jeff Kightlinger stated that several alternative approaches have been proposed by legislators to address this problem, including exempting the project from the Endangered Species Act, or setting aside outcome oriented minimums for water supply. Staff will watch the discussions before bringing back any bills for a formal position. He also noted that Congress has been hesitant in the past with writing their own RPAs, but that Congress is currently frustrated with the current process.
- Brad Hiltscher provided the monthly report on activities from Washington D.C.
 - o Following the Senate passage of the Water Resources Development Act (WRDA), the House is pursuing bipartisan legislation, and there have been promising statements about finding a workaround for the ban on earmarks. Concerns have been raised by AWWA that the Water Infrastructure Finance and Innovation Act (WIFIA) program in the WRDA bill could be use to replace tax exempt bonds.
 - H.R. 1823 by Rep. Heck (R-NV) would expand the zebra mussel restrictions to include guagga mussels. MWD is opposed to this bill unless it is amended due to

the concern that this bill as drafted could potentially restrict agencies from transferring water on the Colorado River.

- Kathy Cole provided a brief report on activities from Sacramento:
 - AB 145 by Rep. Perea (D-Fresno) would amend the Health and Safety Code to transfer the duties and responsibilities of the Drinking Water Program from the California Department of Public Health (CDPH) to the State Water Resources Control Board (SWRCB). This bill passed out of the Assembly last month and has recently cleared the Senate Health Committee.
 - SB 135 by Sen. Padilla (D-Los Angeles) would require specified agencies to collaboratively develop comprehensive statewide earthquake early warning system. The bill was recently amended to be contingent on the state being able to identify funding for the system.
 - Three CEQA related bills have been generating attention: SB 731 by Steinberg (D-Sacramento), AB 52 by Rep. Gatto (D-Los Angeles), and AB 543 by Rep. Campos (D-San Jose). Initially intended to streamline CEQA requirements, MWD is participating in a coalition of public agencies working to address concerns with these bills. There will be a more detailed analysis before the committee in August.

Board of Directors

- The Board recognized the service of Director Bill Wright, formerly representing the City of Torrance.
- Adopted a motion to move the August Board and Committee Meeting to August 19 and 20, 2013, in order to allow time to establish the tax rate.