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SAN DIEGO COUNTY WATER AUTHORITY

SUPERIOR COURT OF THE STATE OF CALIFORNIA
IN AND FOR THE COUNTY OF SAN FRANCISCO

SAN DIEGO COUNTY WATER
AUTHORITY,

Petitioner and Plaintiff,

v.

METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA; ALL
PERSONS INTERESTED IN THE
VALIDITY OF THE RATES ADOPTED
BY THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA
ON APRIL 13, 2010 TO BE EFFECTIVE
JANUARY 2011; and DOES 1-10,

Respondents and Defendants.

Case No. CPF-10-510830

**SAN DIEGO COUNTY WATER
AUTHORITY'S THIRD AMENDED
PETITION FOR WRIT OF MANDATE
AND COMPLAINT FOR DAMAGES AND
DECLARATORY RELIEF**

Judge: Hon. Curtis E.A. Kurnow
Date Filed: June 11, 2010
Trial Date: Not Set

1 water it buys from IID (“IID Water”) to its facilities, the Water Authority entered into an
2 agreement with Metropolitan under which Metropolitan transports that water. Metropolitan also
3 transports water the Water Authority has conserved from the lining of the All American and
4 Coachella Canals (“Canal Lining Water”). The only way for this IID and Canal Lining Water to
5 reach the Water Authority’s facilities is through the Colorado River Aqueduct (“CRA”) and other
6 distribution facilities owned by Metropolitan. The Water Authority has a contractual right under
7 a 2003 Amended and Restated Agreement for the Exchange of Water (“Transportation
8 Agreement”) to use Metropolitan’s CRA and other facilities to transport IID Water and Canal
9 Lining Water. Metropolitan and the self-interested Metropolitan member agencies who dominate
10 the Metropolitan Board have chosen to respond to the Water Authority’s need for additional
11 water by taking actions that punish and disadvantage the Water Authority, while enriching the
12 other member agencies in three fundamental ways, each described below.

13 3. *First*, on April 13, 2010, Metropolitan adopted rates that violate common law,
14 California statutory law, and the California constitution, as well as Metropolitan’s Transportation
15 Agreement with the Water Authority, by misclassifying certain water supply costs as water
16 transportation costs. Metropolitan breaks up its rates into a “supply rate” and a series of rates that
17 it claims together comprise the cost of “water transportation.” About half of the water supply
18 Metropolitan provides to its member agencies is purchased by Metropolitan from the State
19 Department of Water Resources (“DWR”), pursuant to a long-term “take-or-pay” contract that
20 requires Metropolitan to pay a fixed amount per year regardless of how much water it purchases.
21 Metropolitan does not transport this water itself. Instead, DWR transports the water to
22 Metropolitan’s facilities via DWR’s state-owned State Water Project facilities. Although the
23 money Metropolitan pays to DWR is for water supply—that is, to enable Metropolitan to meet
24 the water supply needs of its member agencies—Metropolitan reallocates most of the costs
25 associated with obtaining the DWR water supply into the cost components that comprise
26 Metropolitan’s so-called “transportation rate.” As a result, when Metropolitan charges the Water
27 Authority a “transportation rate” for Metropolitan’s conveyance of IID Water and Canal Lining
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1 Water, transportation that occurs entirely within Metropolitan-owned pipelines, the Water
2 Authority is forced to pay for costs associated with the supply of DWR water that have nothing to
3 do with the use of Metropolitan's pipelines or other facilities. In addition, Metropolitan loads
4 onto its "transportation rates" the costs Metropolitan incurs from subsidizing member agencies'
5 conservation programs and new local water-supply development. Conservation and local supply
6 development expenditures are payments for water supply available to member agencies from
7 sources other than Metropolitan, and hence properly should be classified as water supply charges.
8 Such expenditures certainly have nothing to do with transportation of water—yet Metropolitan
9 characterizes them as part of its "transportation rates"

10 4. *Second*, despite having taken the position, in the context of establishing its rates,
11 that "supply" costs should be characterized as "transportation," Metropolitan takes the exact
12 opposite position in the context of calculating the so-called "preferential rights" to which each
13 member agency is entitled. Metropolitan's position on preferential rights is consistent with its
14 rates in only one respect: both are designed to, and in fact do, disadvantage the Water Authority
15 while providing advantages to the other Metropolitan member agencies. Under section 135 of
16 Metropolitan's enabling act, the Metropolitan Water District Act, Cal. Water Code – Appendix §
17 109 ("MWD Act"), each Metropolitan member agency has a preferential right to purchase a
18 percentage of Metropolitan's water supply equal to that agency's share of payments for
19 Metropolitan's capital costs and operating expenses, "excepting purchase of water." In the
20 context of its rate-setting, and in the context of defending those rates in this litigation,
21 Metropolitan has argued that the Water Authority's payments for "transportation" of non-
22 Metropolitan water have "no connection" to "the actual supply of water"—that is, that those
23 payments are not for the "purchase of water." But if that were so, Metropolitan ought to include
24 the amounts the Water Authority has paid Metropolitan to transport IID Water and Canal Lining
25 Water in its calculation of the Water Authority's preferential rights. Metropolitan has refused to
26 do so. In the event preferential rights are ever asserted, the Water Authority and its ratepayers
27 would receive less water than they should be entitled to under section 135 of the MWD Act.

1 5. *Third*, in order to shield its mistreatment of the Water Authority from any review,
2 Metropolitan began including a so-called “Rate Structure Integrity” provision (“RSI Clause”) in
3 contracts with its member agencies. Metropolitan collects revenues from its member agencies—
4 through its Water Stewardship Rate—to subsidize water conservation and development of local
5 water supplies. That money is then awarded to the member agencies in the form of subsidy
6 contracts, on a project-by-project basis. The RSI Clause, included in every one of these contracts
7 since 2005 at Metropolitan’s insistence, purports to authorize Metropolitan unilaterally to
8 terminate these contracts—and stop providing subsidies for conservation and local water-supply
9 development—if any member agency files a lawsuit, or even offers political support for
10 legislation, that would challenge or change Metropolitan’s rates and charges. It therefore
11 penalizes any member agency that exercises its core constitutional right to petition the courts or
12 the Legislature for redress of grievances regarding Metropolitan’s rates, regardless of the merits
13 of the member agency’s position. In June 2011, Metropolitan actually terminated part or all of
14 four contracts between Metropolitan and the Water Authority, including a contract involving
15 Metropolitan, the Water Authority and one of the Water Authority’s member agencies.
16 Metropolitan has gone further and declared the Water Authority ineligible to receive any future
17 subsidy contracts, which means that, although the Water Authority must continue to fund
18 Metropolitan’s subsidy programs through its substantial “Water Stewardship Rate” payments to
19 Metropolitan, the Water Authority will get nothing in return for those payments. Instead, those
20 payments are entirely diverted to benefit other Metropolitan member agencies, in particular the
21 large, self-interested member agencies which comprise a majority voting bloc of the Metropolitan
22 Board with respect to the approval of subsidy contracts and other decisions. Metropolitan’s
23 enforcement of the RSI Clause has already cost the Water Authority millions of dollars and will
24 cost the Water Authority tens of millions of dollars annually in the future.

25 6. These various decisions, and the fact that they consistently work to the detriment
26 of the Water Authority, are no accident. They are a product of concerted action by Metropolitan,
27 working in concert with a majority group of member agencies that dominates and controls the
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1 Metropolitan Board of Directors. These member agencies, working hand-in-glove with
2 Metropolitan's executives, have formed a "shadow government" that meets in secret to decide in
3 advance issues pending before the Metropolitan Board and then coordinates the rubber-stamping
4 of those decisions by the Metropolitan Board. This shadow government takes advantage of the
5 fact that the Water Authority, despite having a minority voting share on the Board, is
6 Metropolitan's largest steady purchaser of water and only significant purchaser of transportation
7 services, and implements policies (including the 2011-12 water rates) that work to the detriment
8 of a single member agency, the Water Authority. Metropolitan's coordination with and effective
9 delegation to this shadow government demonstrate that Metropolitan's decisions vis-a-vis the
10 Water Authority and its constituents are unlawful and invalid.

11 7. Accordingly, the Water Authority brings this action, requesting relief as set forth
12 in the remainder of this Complaint.

13 II. PARTIES

14 8. Petitioner and Plaintiff the San Diego County Water Authority is, and at all times
15 mentioned herein was, a county water authority organized under the laws of the State of
16 California and located in the County of San Diego, California.

17 9. Respondent and Defendant Metropolitan is, and at all times mentioned herein was,
18 a public agency of the State of California organized pursuant to the Metropolitan Water District
19 Act [Stats. 1969, ch. 209 as amended; West's California Water Code Append. §§ 109-134
20 (2010)], and located in Los Angeles, California.

21 10. The true names and capacities of the Respondents and Defendants identified as
22 DOES 1-10 are unknown to Petitioner, and Petitioner will amend this Complaint to insert the true
23 names and capacities of those fictitiously named Respondents when they are ascertained.
24 Petitioner is informed and believes, and on that basis alleges, that at all times relevant to this
25 action each of the Respondents and Defendants, including those fictitiously named, was the agent
26 or employee of each of the other Respondents and Defendants, and while acting within the course
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1 and scope of such employment or agency, either took part in the acts or omissions alleged in this
2 Complaint.

3 III. SERVICE OF PROCESS

4 11. Petitioner will serve Metropolitan, and all other defendants/respondents who
5 answered the First Amended Complaint, with the Third Amended Complaint in the manner
6 provided by law for the service of summons in a civil action.

7 12. In conjunction with the filing of the First Amended Complaint, Petitioner
8 published notice of this action in newspapers of general circulation published in the counties
9 served by Metropolitan is the method most likely to give notice to persons interested in these
10 proceedings. Those counties are Ventura, Los Angeles, Riverside, San Bernardino, Orange and
11 San Diego. As this Third Amended Complaint does not add any new causes of action subject to
12 the validation statutes, Code of Civil Procedure Section 861 et seq., Petitioner will seek an order,
13 either by stipulation or ex parte, that further publication of the summons is unnecessary.

14 IV. JURISDICTION AND VENUE

15 13. This court has jurisdiction over this matter pursuant to Code of Civil Procedure
16 Section 1085, Code of Civil Procedure Section 410.10, and with respect to the Third Cause of
17 Action, Code of Civil Procedure Sections 860 et seq., Government Code § 66022, and
18 Government Code § 53511.

19 14. The original complaint was filed in Los Angeles County Superior Court on June
20 11, 2010. Venue was transferred to this Court pursuant to Code of Civil Procedure Section
21 394(a). Venue over this amended Complaint is therefore proper in this Court.

22 V. FACTUAL ALLEGATIONS

23 A. Metropolitan, its roles, and its duties.

24 15. Metropolitan imports, stores, and transports water throughout the Southern
25 California counties of San Diego, Orange, Los Angeles, Riverside, San Bernardino and Ventura.
26 Metropolitan has 26 member agencies, including the Water Authority. These agencies in turn sell
27 water they obtain from Metropolitan to sub-agencies and utilities or directly to consumers. In
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1 addition to obtaining and delivering water for sale to its member agencies, Metropolitan has more
2 recently undertaken to subsidize member agency conservation programs and projects aimed at
3 developing local water sources.

4 16. Metropolitan's operations are largely paid for by the rates and charges it imposes
5 on its 26 member agencies for the sale of water and in the case of the Water Authority, the
6 transportation of a member agency's own water through Metropolitan's facilities. The MWD
7 Act, which defines the powers and responsibilities of both Metropolitan and its Board, obligates
8 Metropolitan to set rates that "shall be uniform for like classes of service throughout the district."

9 17. Metropolitan obtains water for its member agencies from two principal sources:
10 first, from the California DWR, via the State Water Project; and, second, from Metropolitan's
11 allocation of water from the Colorado River. The State Water Project water is delivered by DWR
12 directly to Metropolitan's facilities. Metropolitan transports its water from the Colorado River
13 via the Metropolitan-owned and operated Colorado River Aqueduct ("CRA"). In this Complaint,
14 these two principal sources of imported water will be referred to collectively as "Metropolitan
15 Water."

16 18. Metropolitan is governed by a Board of Directors, which includes at least one
17 representative from each member agency. Additional seats on the Board are allocated according
18 to a percentage share of the assessed property values within those agencies. This results in
19 Metropolitan member agencies having voting representation on the Board that can diverge
20 substantially from each agency's water usage and payment of Metropolitan's operating costs.

21 19. Although Section 50 of the MWD Act requires that Metropolitan act exclusively
22 through its Board of Directors, as detailed below, a group of self-interested member agencies has
23 come to dominate and control Metropolitan. In recent years, a group of more than fifteen
24 Metropolitan member agencies—led by the Municipal Water District of Orange County
25 ("MWDOC"), the City of Los Angeles Department of Water and Power ("LADWP"), the
26 Western Municipal Water District and the West Basin Municipal Water District—has created a
27 self-described "Anti-San Diego Coalition" of member agencies for the purpose of securing votes
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1 on the Metropolitan Board to ratify water rates and policies that further its members' own narrow
2 self-interests while systematically disadvantaging the interests of the Water Authority and its
3 ratepayers. This well-organized "working group" of member agency managers meets outside the
4 public view, retains high-priced consultants to further its goals, and engages in wide-ranging *sub*
5 *rosa* activities to coordinate Metropolitan Board votes and outcomes. Their shadow government
6 has captured Metropolitan's governance, with the full knowledge and complicity of
7 Metropolitan's top management and several members of its Board of Directors.

8 20. The MWD Act also requires that Metropolitan establish an Office of Ethics and
9 adopt rules relating to internal disclosure, conflicts of interest, and other ethics rules for its Board
10 members, officers and employees. Metropolitan and its member agencies are expressly
11 prohibited from creating any association that is likely to mislead the public as to the association's
12 true identity, its source of funding, or its purpose.

13 **B. The Water Authority is Metropolitan's largest customer.**

14 21. The Water Authority's service area has a relatively small local water supply from
15 groundwater and other natural sources. As a result, in order to meet local demand for water, the
16 Water Authority historically relied on Metropolitan to a greater degree, and purchased a much
17 higher percentage of Metropolitan Water, than other Metropolitan member agencies. Until the
18 early 1990s, with the exception of capturing a small amount of local rainwater and limited
19 groundwater, the Water Authority service area was entirely dependent on Metropolitan Water.
20 Because the Water Authority was (and remains) Metropolitan's largest steady purchaser of water
21 from year to year, it also paid (and pays) the largest portion of Metropolitan's bills, including the
22 fixed payments Metropolitan must make to obtain water supply from the State Water Project.

23 22. Between 2006 and 2010, the Water Authority purchased more than 2.5 million
24 acre feet of Metropolitan water, a total accounting for about 25 % of the total Metropolitan water
25 purchased by the member agencies. During that same period, the Water Authority paid
26 Metropolitan to transport 548,464 acre-feet of water purchased from IID and conserved from the
27 All American and Coachella canal-lining projects. Overall payments from the Water Authority—
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1 including payments for transportation of IID and Canal Lining Water—accounted for about 25%
2 of Metropolitan’s total revenue during that period. These numbers make the Water Authority by
3 far the biggest source of revenue to Metropolitan among the various Metropolitan member
4 agencies.

5 23. Historically, because Metropolitan Water was relatively plentiful and inexpensive,
6 and local water supply development opportunities were less cost-effective, the Water Authority
7 did not need to look to third-party sources like IID for water. But as a consequence of a
8 prolonged and near-catastrophic drought in the late 1980s and early 1990s, during which time
9 Metropolitan was unable to meet the Water Authority’s supply needs, the Water Authority’s
10 Board of Directors realized it needed to secure dependable alternative sources of water supply,
11 thereby reducing its reliance on Metropolitan in the event of future water shortages or other
12 emergencies. In order to obtain alternate sources of water supply, the Water Authority turned to
13 IID, which was seeking additional ways to comply with orders of the State Water Resources
14 Control Board to increase conservation and water-use efficiency. The Water Authority began
15 negotiations with IID in the mid-1990s to obtain conserved Colorado River water. This water
16 would be delivered to the Water Authority via Metropolitan’s Colorado River Aqueduct and
17 pipelines. These negotiations were ultimately successful, culminating in an agreement in 1998
18 for the transfer of conserved water between the Water Authority and IID.

19 **C. Metropolitan adopts its current, unbundled rate structure.**

20 24. Metropolitan sets annual water rates, which it then charges to its member agencies
21 on a per-acre-foot volumetric basis. Since 2003, Metropolitan’s rates have been “unbundled,” or
22 separated, into (1) a “supply rate” (nominally for water itself); and (2) various component rates
23 that Metropolitan sums up and treats as a “transportation rate” (nominally, though not actually,
24 related to costs of delivering water).

25 25. Metropolitan’s current rate structure, first implemented in January 2003, includes
26 three Metropolitan-created components—a “System Access Rate,” a “System Power Rate,” and a
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1 “Water Stewardship Rate”—in Metropolitan’s so-called “transportation rate.” Metropolitan
2 defines the three components as follows:

3 a) Metropolitan’s “System Access Rate” purports to “recover[] the cost of providing
4 conveyance and distribution capacity to meet average annual demands.” This rate
5 therefore recovers a large share of Metropolitan’s costs to maintain and operate its
6 distribution system within the Southern California region and the Colorado River
7 Aqueduct. In addition, the System Access Rate includes a large share of the costs
8 Metropolitan pays DWR to purchase water it obtains from the State Water Project, even
9 though that project is neither owned nor operated by Metropolitan.

10 b) Metropolitan’s “System Power Rate” purports to “recover[] the cost of pumping
11 water to Southern California.” It therefore includes “the melded costs of power for both
12 the SWP and CRA” (id.) – i.e., both the costs Metropolitan incurs to power its own
13 Colorado River Aqueduct and distribution facilities within the Southern California region,
14 as well as another portion of the amount Metropolitan pays DWR for water obtained from
15 the State Water Project.

16 c) Metropolitan’s “Water Stewardship Rate” purports to “recover[] the costs of
17 providing financial incentives for existing and future investments in local resources
18 including conservation and recycled water.” Money collected through this rate is used to
19 subsidize water conservation and local water supply development by Metropolitan’s
20 member agencies. Metropolitan claims that payment of these subsidies reduces the
21 amount of water supply it must obtain from other sources or makes transportation capacity
22 available for use by other member agencies. Unlike the other components of
23 Metropolitan’s unbundled rate—i.e., supply, system access, and system power, which
24 (even if calculated improperly) relate to services Metropolitan actually provides to its
25 member agencies—“water stewardship” is a concocted concept that does not describe any
26 service provided by Metropolitan, other than the redistribution of money from some
27 Metropolitan member agencies to others. In any case, Metropolitan itself has previously
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1 acknowledged that “water stewardship” costs are properly categorized as “supply,” not
2 “transportation.”

3 Metropolitan also provides treatment services, for which it charges a treatment surcharge that is
4 properly paid solely by purchasers of treated water.

5 26. For purchases of Metropolitan water, the breakdown of Metropolitan costs into
6 “supply” versus “transportation” makes no difference, because the purchaser pays all of them.
7 But for member agencies—namely the Water Authority—that use Metropolitan’s system to
8 transport Non-Metropolitan Water purchased from other sources, the rate breakdown is critically
9 important.

10 27. Metropolitan’s current “wheeling rate”—what it charges for the transportation of
11 third-party water (“Non-Metropolitan Water”) on the Metropolitan system—is an aggregate of the
12 System Access Rate, the Water Stewardship Rate, and the Water Treatment Rate (if that water is
13 treated), plus a power component. As detailed below, the rate Metropolitan charges the Water
14 Authority under the Transportation Agreement to transport IID and Canal Lining Water to the
15 Water Authority’s facilities incorporates components of Metropolitan’s wheeling rate. Neither
16 the “wheeling rate” nor the rate charged to the Water Authority under the Transportation
17 Agreement should lawfully include costs associated with supply. But because the Water
18 Authority is the only Metropolitan member agency that must use Metropolitan facilities to
19 transport significant quantities of Non-Metropolitan Water, the remaining Metropolitan member
20 agencies have an incentive to re-characterize these supply costs as “transportation” charges.

21 28. Accordingly, the rates Metropolitan imposes for “transportation” force the Water
22 Authority to bear a disproportionate share of Metropolitan’s supply costs and to subsidize water
23 supply for, and conservation and local water supply development by, the other Metropolitan
24 member agencies. The misallocation of Metropolitan’s “supply” costs onto its “transportation”
25 rate was designed to advantage the other member agencies at the Water Authority’s expense.

26 29. On October 10, 2003, Metropolitan and the Water Authority executed the
27 Transportation Agreement, under which Metropolitan agreed to deliver to the Water Authority a

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1 volume of water equal to the volume the Water Authority purchased from third parties, including
2 IID, and delivered to Metropolitan. Pursuant to section 5.2 of the Transportation Agreement,
3 Metropolitan promised that the price for transporting this Non-Metropolitan Water to the Water
4 Authority “shall be equal to the charge or charges set by Metropolitan’s Board of Directors
5 pursuant to applicable law and regulation and generally applicable to the conveyance of water by
6 Metropolitan on behalf of its member agencies.” (A copy of the Transportation Agreement is
7 attached hereto as Exhibit A.) But because Metropolitan miscategorizes as “transportation” costs
8 certain items that have nothing to do with transportation, Metropolitan’s charges to the Water
9 Authority far exceed the actual costs Metropolitan incurs in conveying water. As a result,
10 Metropolitan’s overcharges unlawfully and unfairly extract money from the Water Authority and
11 its ratepayers and funnel the proceeds to other Metropolitan member agencies, in the form of
12 artificially reduced water-supply rates and, in the case of certain member agencies, multi-million
13 dollar subsidies to pay for water supply projects that provide no demonstrated benefit to the
14 Water Authority or the Metropolitan service area as a whole.

15 **D. Metropolitan tries to shield its misconduct from review through the RSI Clause.**

16 30. Despite being a public agency that is statutorily obligated to serve the interests of
17 all ratepayers in its service area, Metropolitan has taken steps intended to permanently shield its
18 rates from judicial or legislative scrutiny. In a June 18, 2004 memorandum from Metropolitan’s
19 then-CEO (and former Metropolitan Board member representing the City of Los Angeles) Ronald
20 Gastelum to Metropolitan member agency managers (“Gastelum memorandum”), Metropolitan
21 laid out the RSI Clause, which Metropolitan declared it would seek to impose in its subsidy
22 contracts with member agencies. (A copy of this memorandum is attached as Exhibit B.) The
23 RSI Clause provides in relevant part that if any member, such as the Water Authority, “file[s] or
24 participate[s] in litigation or support[s] legislation to challenge or modify” Metropolitan’s
25 existing rates, “including changes in overall rates and charges that are consistent with the current
26 cost-of-service methodology, Metropolitan may initiate termination of this agreement” In
27 other words, the RSI Clause purports to give Metropolitan unilateral authority to terminate any

1 water conservation or local water supply development project contract with any member agency
2 who initiates litigation or supports legislation related to Metropolitan's rates.

3 31. The Gastelum memorandum candidly described the provision as being designed to
4 coerce member agencies to "refrain from attacking Metropolitan's rate structure in court or in the
5 legislature as a grant condition." Indeed, the Gastelum memorandum directly admits that
6 Metropolitan drafted the RSI Clause specifically in response to the Water Authority's reservation
7 of its rights in the Transportation Agreement to challenge Metropolitan's rates.

8 32. On or about July 22, 2004, the Water Authority adopted a policy of opposing any
9 Metropolitan proposals that would condition receipt of Metropolitan services or money on a
10 waiver of constitutional rights or otherwise impair the ability of member agencies to seek
11 resolution of issues in all appropriate forums. Over the Water Authority's objections, on
12 December 14, 2004, Metropolitan's Board of Directors approved the RSI Clause, and directed
13 that it be incorporated in subsidy agreements as of April 15, 2005. (A copy of the RSI language
14 approved by the Board is attached hereto as Exhibit C.)

15 33. Initially, the Water Authority refused to enter into subsidy agreements containing
16 an RSI Clause. As a result, for more than two years, the Water Authority and its 24 member
17 agencies did not obtain any subsidies for conservation or local water supply projects, even though
18 they had no choice but to pay, and did pay, tens of millions of dollars to Metropolitan through the
19 Water Stewardship Rate that was used to fund such subsidies for other Metropolitan member
20 agencies. Indeed, because the Water Authority is Metropolitan's largest single customer, it paid a
21 greater percentage of the cost of Metropolitan's subsidies than any other member agency.

22 34. In 2007 the Water Authority's Board of Directors authorized its General Manager
23 to execute agreements containing an RSI Clause while reserving its position that "the RSI
24 provision is poor public policy and legally unenforceable." Subject to this reservation of rights,
25 the Water Authority then entered into four executory two-party subsidy agreements with
26 Metropolitan ("Project Contracts"). In addition, Metropolitan, the Water Authority and the
27 Ramona Municipal Water District ("Ramona"), one of the Water Authority's member agencies,
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1 entered into a three-party agreement under which Metropolitan would subsidize the San Vicente
2 Water Recycling Project (“Ramona Agreement”). Each of these agreements contained an RSI
3 Clause.

4 **E. A majority group of Metropolitan member agencies forms a shadow government to**
5 **enforce a rate allocation that unlawfully discriminates against the Water Authority**
6 **and its ratepayers.**

6 35. Unbeknownst to the Water Authority, in or about October 2009, a group of
7 Metropolitan member agencies, whose Board members control a majority of the voting power on
8 the Metropolitan Board, organized a secret group comprised of the general managers or
9 representatives of those member agencies. Membership in this secret group was on an “invitation
10 only” basis: the Water Authority was not invited to participate and was not informed of the
11 group’s existence. From at least October 2009 to the present, this “Working Group”—which has
12 been referred to by its own participants as the “Secret Society” and the “Anti-San Diego
13 Coalition”—has functioned as a shadow government, working to direct and control Metropolitan
14 Board votes on water rates, and other key decisions, for the financial benefit of the majority
15 member agencies and to the detriment of the Water Authority.

16 36. This shadow government meets in secret, without any notice to non-members or
17 the public, sometimes at Metropolitan’s headquarters. Without disclosing the existence or extent
18 of its association, this Secret Society has issued a series of written “recommendations” to
19 Metropolitan and others in letters signed by as many as 23 of Metropolitan’s 26 member
20 agencies. The Board dutifully follows the recommendations of this shadow government, often
21 with only perfunctory Board consideration of the issues.

22 37. From its inception, this shadow government has been focused on ensuring that
23 Metropolitan’s rate structure punished the Water Authority for purchasing water from IID rather
24 than continuing to rely solely on purchasing water from Metropolitan to meet its ratepayers’
25 needs. The agendas, notes and meeting summaries for the early sessions of this Secret Society
26 reflect its participants’ intent to make sure that the calendar year 2011-12 water rates imposed an
27 unfair burden on the Water Authority.

1 38. The Secret Society's actions to rig Metropolitan's rate structure—for their own
2 benefit and to the Water Authority's detriment—are not informal efforts. They are the product of
3 a well-organized, well-funded effort. The member agency "working group" has retained multiple
4 sets of consultants, including former Metropolitan General Manager Ronald Gastelum and former
5 Metropolitan Assistant General Manager Edward Means, at a cost of more than \$15,000 per
6 month. At the close of their monthly secret meetings, the member agency representatives assign
7 each other detailed action items to ensure that their desired results are implemented, such as
8 reporting back on how their agencies' appointed Board members intend to vote or drafting anti-
9 San Diego policy proposals that Metropolitan staff members will pass off and introduce as their
10 own. Most importantly, with the help of their paid consultants and lobbyists, the Secret Society
11 has conveyed to Metropolitan Board members (formally and informally, in writing and orally)
12 that Metropolitan's current, misallocated water rates should be upheld not because they are
13 consistent with cost-of-service principles (which they are not) but because the illegitimate rates
14 provide the majority member agencies with a \$25 million annual windfall.

15 39. In addition to operating in secret and hiding its existence, this shadow government
16 has engaged in highly suspect public agency activities. For example, it has secretly polled and
17 met with Metropolitan Board members in a manner designed to circumvent the Brown Act, in
18 order to ensure Metropolitan board votes following its direction. And, again hidden from public
19 view, this shadow government commissioned a \$50,000 study from the Los Angeles County
20 Economic Development Corporation with the express aim of discrediting the Water Authority's
21 purchase of water from IID and the Water Authority's requests for a rate structure that fairly and
22 reasonably reflects Metropolitan's costs of service.

23 40. At every step, this shadow government has both aided and been aided by
24 Metropolitan. Metropolitan provided space for Secret Society meetings at Metropolitan's
25 headquarters. Metropolitan staff have regularly attended Secret Society meetings and provided
26 the participants with exclusive briefings on matters then pending before the Metropolitan Board.
27 Metropolitan has coordinated with the secret group to conduct anti-San Diego lobbying and
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1 outreach campaigns for Metropolitan Board members and state legislators. And Metropolitan's
2 General Manager Jeffrey Kightlinger has personally met with both the entire shadow government,
3 and a select group of its ringleaders, to coordinate strategy and offer Metropolitan's continuing
4 assistance to the efforts and objectives of the Secret Society. Given that the Water Authority was
5 the principal target of the shadow government, it is little wonder that Metropolitan's 2011-12
6 rates, and numerous other decisions by the Metropolitan Board, have consistently disfavored a
7 single agency, the Water Authority.

8 **F. Metropolitan sets unlawful rates for 2011 and 2012.**

9 41. On January 6, 2010, Metropolitan's Board set a March 8, 2010 public hearing of
10 its Business & Finance Committee on Metropolitan's proposed rates and charges to become
11 effective January 1, 2011, continuing through 2012. On March 8, 2010, Metropolitan's Business
12 and Finance Committee held that public hearing, at which the Water Authority provided written
13 and oral testimony. On or about April 12, 2010, counsel for the Water Authority submitted a
14 letter to Metropolitan's Board reiterating that the rates and charges challenged here violate the
15 State Constitution, state statutes, the common law, and Metropolitan's own Administrative Code
16 and Board policy directives. (A copy of this letter is attached as Exhibit D.) Nevertheless, on
17 April 13, 2010, without any discussion of the points raised by the Water Authority and its
18 consultants, Metropolitan's Board adopted the proposed water rates and charges, without
19 remedying the problems identified by the Water Authority and its experts. (A copy of the April
20 13, 2010 Board Action approving these rates is attached as Exhibit E.)

21 42. Metropolitan's 2011 and 2012 rates, formalized on or around April 13, 2010,
22 classify costs as "transportation" that, under various state statutes and the Transportation
23 Agreement, should be categorized as supply. Similarly, Metropolitan includes in its
24 "transportation" charges its Water Stewardship Rate, which in reality is another supply-related
25 cost. The Water Stewardship Rate recovers costs to subsidize local projects to develop water
26 supplies, such as desalination projects, groundwater recovery and reclaimed water facilities, as
27 well as costs to encourage conservation. All of these projects pertain to increasing the member
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1 agencies' "supply" of water or decreasing their usage of water; none pertains to transportation. In
2 addition to violating California law and common sense, by misclassifying most of its payments to
3 DWR for additional water supply as costs to operate its own transportation infrastructure,
4 Metropolitan overstates the cost of transporting water, understates the cost of imported water, and
5 illegally and unfairly imposes charges on the Water Authority significantly exceeding the cost of
6 services Metropolitan actually provides.

7 43. These arbitrary, capricious and illegal cost allocations materially affect only one of
8 Metropolitan's member agencies—the Water Authority, because it is the only agency that
9 transports a large volume of Non-Metropolitan Water through the Metropolitan facilities. These
10 misclassified rates apply to all third-party water that the Water Authority purchases from outside
11 San Diego County, because all such water must be transported to the Water Authority through
12 Metropolitan's system. In other words, these rates apply to (1) the transfer of IID and Canal
13 Lining Water by Metropolitan under the Transportation Agreement; and (2) any wheeling of
14 water from other third-party sources in which the Water Authority may wish to engage. As a
15 direct result of Metropolitan's unlawful and discriminatory water rates, the Water Authority
16 estimates it will be overcharged by at least \$30 million per year if the 2011 and 2012 rates and
17 charges challenged in this action remain in effect. This annual overcharge will grow larger each
18 year so long as Metropolitan's rates continue to be based on such unlawful cost allocations.

19 44. Pursuant to the dispute resolution provisions of Section 11.1 of the Transportation
20 Agreement, the Water Authority invited Metropolitan to negotiate toward resolution of this rate
21 dispute. Metropolitan agreed to such negotiations. However, the Water Authority had no choice
22 but to initiate this litigation before such discussions could commence to comply with the
23 potentially applicable statute of limitations contained in Code of Civil Procedure Sections 860
24 and 863. In any event, the Water Authority's negotiations with Metropolitan were unsuccessful.
25 Metropolitan refused to bring its rates into compliance with applicable law.

1 **G. At the behest of the Secret Society, Metropolitan invokes the RSI Clause to punish**
2 **the Water Authority and its ratepayers for challenging Metropolitan's illegal**
3 **conduct.**

4 45. Shortly after the Water Authority filed this lawsuit, exercising its constitutional
5 right to petition for redress of grievances against Metropolitan, and at the behest of the self-
6 interested member agencies that comprise the shadow government, Metropolitan invoked the RSI
7 Clause to penalize the Water Authority and its ratepayers. On August 25, 2010, Metropolitan
8 General Manager Jeffrey Kightlinger sent a letter to Water Authority General Manager Maureen
9 Stapleton, invoking the RSI Clause and giving notice of Metropolitan's intent to terminate the
10 four Project Contracts that contain the RSI Clause. In addition, the letter notified the Water
11 Authority that Metropolitan's Board had directed Metropolitan staff to defer the execution of
12 three additional subsidy agreements for which the Water Authority previously had qualified. (A
13 copy of this letter is attached as Exhibit F.)

14 46. On the same day, Metropolitan General Manager Kightlinger sent a letter to
15 Ramona's General Manager, invoking the RSI Clause and giving Ramona notice of
16 Metropolitan's intent to terminate funding for the San Vicente Water Recycling Project because
17 of the Water Authority's filing of the Rate Case. The letter also stated that Metropolitan would
18 not terminate this funding if Ramona "transmits written documentation to Metropolitan within 30
19 days of the date of this letter demonstrating that [it] has not participated directly or indirectly in
20 the filing or prosecution of any litigation ... to challenge or modify Metropolitan's existing rate
21 structure, and indicates support for Metropolitan's existing rate structure." (A copy of this letter is
22 attached as Exhibit G.)

23 47. In response to these letters, the Water Authority elected to mediate the disputes
24 under the Project Contracts. The parties held two mediation sessions, on March 9 and June 6,
25 2011, but did not resolve their disputes.

26 48. On June 14, 2011, Metropolitan's Board of Directors voted to terminate the
27 Project Contracts with the Water Authority and the Ramona Agreement, exempting only those
28 portions of two agreements that directly provide conservation rebates to consumers or businesses.

1 Metropolitan's Board also rejected the Water Authority's request that Metropolitan place the
2 funds withheld as a result of termination of these Project Contracts into an interest-bearing
3 account that would be maintained until final disposition of the Rate Case.

4 49. By letter dated June 23, 2011, Metropolitan's General Manager notified the Water
5 Authority of Metropolitan's final action regarding the termination of the Project Contracts, and
6 the Ramona Agreement. (A copy of that letter is attached as Exhibit H.) Ramona has assigned to
7 the Water Authority its right to sue for relief arising out of Metropolitan's termination of the
8 Ramona Agreement.

9 50. Metropolitan's unlawful termination of the Project Contracts and the Ramona
10 Agreement has stripped money away from ongoing water conservation programs and local water
11 supply development projects designed to provide important benefits to San Diego County.
12 Moreover, by blackballing the Water Authority from continued participation in subsidy programs,
13 Metropolitan is further redistributing the region's water ratepayer dollars away from San Diego
14 County to other parts of Southern California—all as conceived and implemented by the
15 ringleaders of a self-interested shadow government. Although San Diego's ratepayer dollars
16 continue to fund the substantial conservation and local water supply projects approved by
17 Metropolitan, San Diego is excluded from receiving any benefit from its payments. Further, as
18 Metropolitan pays its other member agencies to conserve more water and develop alternative
19 local water, those member agencies will purchase less Metropolitan water. In turn, that result will
20 force Metropolitan to increase its rates for purchases of its water in order to recover its costs.
21 Because the Water Authority is the largest purchaser of Metropolitan water, it will suffer
22 disproportionate harm from any rate increase.

23 **H. Metropolitan's 2011-12 rates unlawfully discriminate against the Water Authority.**

24 51. Metropolitan's calendar year 2011 and 2012 water rates not only violate the
25 California constitution and numerous California statutes; they also violate the common law
26 principle that a public agency may not set rates that unlawfully discriminate against a single
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1 customer or group of customers. That Metropolitan sets rates that unduly burden and unlawfully
2 discriminate against the residents of San Diego is evidenced by the following:

3 52. First and foremost, Metropolitan and its Board—under the domination and control
4 of a shadow government led by large, self-interested Metropolitan member agencies—have
5 enacted rates that load Metropolitan’s costs of obtaining the DWR water supply, as well as
6 Metropolitan’s water stewardship costs, onto the rate Metropolitan charges for transportation,
7 rather than incorporating those costs into the water supply rate. As described throughout this
8 Complaint, the Water Authority is uniquely situated among Metropolitan’s member agencies, and
9 uniquely vulnerable to abusive conduct by Metropolitan and its Board, due to the fact that the
10 Water Authority is the only Metropolitan member agency that is a high-volume, steady purchaser
11 of Metropolitan water, but also must utilize Metropolitan’s system to transport significant
12 quantities of Non-Metropolitan Water. Metropolitan, and the self-interested member agencies
13 that control the Metropolitan Board, have knowingly taken improper advantage of the Water
14 Authority’s position to load costs onto the Water Authority that ought to be borne proportionally
15 by their agencies and ratepayers. The misclassification results in overcharges to the Water
16 Authority of more than \$25 million, which the Secret Society’s documents suggest will grow over
17 time and amount to nearly \$3 billion over the remaining term of the Water Authority-IID
18 Agreement.

19 53. Second, after implementing the above-described rates, which violate California
20 law and were designed to discriminate against the Water Authority, Metropolitan and its Board,
21 under the domination and control of this shadow government, then sought to insulate their
22 conduct from legal or political challenge by imposing and enforcing the RSI Clauses against the
23 Water Authority. Because only the Water Authority is disadvantaged by these current unlawful
24 rates, only the Water Authority, among the Metropolitan member agencies, is affected by the RSI
25 Clauses as a practical matter. Metropolitan’s invocation of these RSI clauses works to the
26 detriment of the Water Authority and its ratepayers, by preventing them from receiving any
27 benefit from their own duly-contributed share of the Metropolitan funds used to pay for the local
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1 water-supply subsidies (while enriching the large member agencies that organized the Secret
2 Society).

3 54. Third, Metropolitan has improperly allowed the shadow government to exert
4 undue influence and control over the decisionmaking of Metropolitan's Board. Upon information
5 and belief, and based on information from public records recently obtained by the Water
6 Authority, a majority voting bloc of more than fifteen Metropolitan member agencies—with
7 LADWP, MWDOC, Western and West Basin as its ringleaders—have created a shadow
8 government, working in secret to direct and control Metropolitan board votes on water rates and
9 other key decisions. This shadow government acts for the benefit of the majority member
10 agencies and to the detriment of the Water Authority. The *sub rosa* existence and actions of this
11 shadow government have resulted in Metropolitan governance that is procedurally unfair, and has
12 resulted in biased, unfair and unreasonable water rates that unlawfully discriminate against the
13 Water Authority and the residents of San Diego.

14 55. Metropolitan's pattern and practice of working hand-in-glove with this shadow
15 government and allowing it improperly to influence and control Metropolitan votes, is evident not
16 only from the 2011-12 water rates, but also from other policy decisions by Metropolitan and its
17 Board that likewise harm or disadvantage the Water Authority. Specifically, Metropolitan and its
18 Board, at the urging of the shadow government, have (1) approved rate structures that fail to
19 account for the costs of dry-year peaking on the Metropolitan system; and (2) entered into multi-
20 million dollar conservation and local water supply development subsidy contracts that principally
21 benefit the ringleaders of the shadow government.

22 56. With respect to dry-year peaking, Metropolitan and its Board, under the influence
23 and control of this shadow government, have refused to account in Metropolitan's rates for the
24 costs of keeping supplies in reserve for a single agency that significantly increases its water
25 purchases during dry years. The chief beneficiary of this practice is the City of Los Angeles,
26 because LADWP's water supply purchases from Metropolitan vary widely from year to year
27 depending on the water supply conditions in the Owens Valley, which serves LADWP's own Los
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1 Angeles Aqueduct. When its own water supplies are short during dry years, LADWP can pick up
2 the telephone and buy more water from Metropolitan—a supply of water Metropolitan holds on
3 call for LADWP at no cost to LADWP. From 1996 to 2010, this practice has delivered an
4 estimated annual financial benefit to LADWP, and corresponding annual detriment to the other
5 Metropolitan member agencies, of as much as \$35 million to \$40 million. As Metropolitan’s
6 largest steady purchaser of water, the Water Authority bears the largest share of Metropolitan’s
7 subsidization of LADWP’s dry-year water supply.

8 57. With respect to subsidy contracts, Metropolitan and its Board, under the influence
9 and control of the shadow government, have disbursed subsidy contracts in an unequal manner
10 that provides multi-millions of dollars in local benefits, primarily to the ringleaders of the Secret
11 Society, but fails to provide any regional benefit throughout Metropolitan’s service area. The
12 agencies that do not receive these subsidy contracts, or do not receive their roughly proportional
13 share of such contracts, are thus forced to pay for projects that benefit only other Metropolitan
14 member agencies. To take one example, Western Municipal Water District has reported to its
15 board that, between the time of Metropolitan’s adoption of its unbundled rates in 2003 through
16 2010, it paid Metropolitan approximately \$14.8 million in Water Stewardship Rate fees, while
17 receiving \$38.1 million for “water stewardship” projects in return—a net benefit of more than \$23
18 million. Other large Metropolitan member agencies, including MWDOC and the West Basin
19 Municipal Water District, have reaped similarly large benefits from Metropolitan’s “water
20 stewardship” projects. By contrast, the Water Authority has been blackballed from this subsidy
21 program because of the Water Authority’s exercise of its constitutional right to challenge
22 Metropolitan’s unlawful rates. In short, Metropolitan is systematically draining money from the
23 San Diego region and redistributing it to other Southern California counties.

24 58. Accordingly, while the Water Authority pays millions of dollars to fund these
25 programs and gets nothing in return, a subset of member agencies pays in far less and gets a
26 windfall. This conduct harms not only the Water Authority specifically, but also the overall
27 Metropolitan constituency, which must pay higher rates because the subsidized conservation and
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1 local water-supply projects administered by Metropolitan do not provide any regional benefit to
2 Metropolitan's service area. Indeed, Metropolitan's current practices actually reduce purchases
3 of Metropolitan Water by member agencies, thereby forcing Metropolitan to raise its rates for
4 Metropolitan Water.

5 59. Because the Water Authority has been excluded from the secret meetings of this
6 shadow government, its efforts to reverse these policies through advocacy in the Metropolitan
7 board room have been unsuccessful. The Water Authority has regularly objected—in Board
8 meetings, in staff meetings and in other contexts—to Metropolitan's water rates, to the imposition
9 of the RSI clause incorporated into Metropolitan project contracts, to Metropolitan's failure to
10 account for the costs of dry-year peaking, and to Metropolitan's granting of conservation and
11 local water-supply development subsidies to member agencies despite the lack of any
12 demonstrated regional benefit, all to no avail.

13 Taken together, Metropolitan's actions represent a pattern and practice of discrimination
14 against the Water Authority and its constituents, and a naked redistribution of money to the
15 ringleaders of the self-described Anti-San Diego Coalition, both of which the Water Authority is
16 powerless to halt except through litigation.

17 **I. Metropolitan under-calculates the Water Authority's preferential rights to water.**

18 60. The arbitrary, capricious, and self-serving nature of Metropolitan's definitions of
19 "supply," on the one hand, and "transportation," on the other, is further proven by Metropolitan's
20 miscalculation of the Water Authority's preferential rights. As discussed above, under section
21 135 of the MWD Act, the Legislature determined that the preferential rights of Metropolitan
22 member agencies shall be calculated according to their shares of payments for Metropolitan's
23 capital costs and operating expenses, "excepting purchase of water." Metropolitan is responsible
24 for accurately calculating preferential rights.

25 61. Metropolitan has failed to calculate its member agencies' preferential rights in
26 accordance with section 135 of the MWD Act, instead arbitrarily and irrationally misapplying the
27 statutory formula to disadvantage the Water Authority. Metropolitan excludes the considerable
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1 sums the Water Authority pays Metropolitan under the Transportation Agreement for transporting
2 IID and Canal Lining water when calculating the Water Authority's preferential rights, taking the
3 position that these payments are for "purchases of water"—i.e., supply.

4 62. This directly contradicts Metropolitan's rate-setting practices. In the context of
5 rate setting, when Metropolitan delivers IID and Canal Lining Water to the Water Authority, it
6 charges the Water Authority not for supply but for transportation (although it inflates its
7 purported "transportation" charges by including amounts in those charges that are actually related
8 to supply). But when it comes to calculating preferential rights based on the exact same charges,
9 Metropolitan says that those same payments are for supply.

10 63. Metropolitan's preferential-rights calculation practice also contradicts the terms of
11 its Transportation Agreement with the Water Authority. That Agreement provides that, when
12 Metropolitan transports Non-Metropolitan Water, such as IID water, to the Water Authority
13 through the Metropolitan system, it is engaging in water transportation, not water supply. Section
14 4.1 of the Transportation Agreement provides that non-Metropolitan Water "shall be
15 characterized for the purposes of all of Metropolitan's ordinances, plans, programs, rules and
16 regulations ... in the same manner as the Local Water of other Metropolitan member agencies"—
17 in other words, as Non-Metropolitan Water.

18 64. Metropolitan's systematic under-calculation of the Water Authority's preferential
19 rights erodes the reliability of water supply for the Water Authority and its ratepayers, denying
20 them the benefit of payments they have actually made to Metropolitan that should entitle them to
21 increased preferential rights under the statutory formula of section 135 of the MWD Act. In the
22 event any member agency, including the Water Authority, asserts its preferential rights to water,
23 the Water Authority would be unable to obtain the share of water it is lawfully entitled to receive.
24 By contrast, every other Metropolitan member agency has seen its share of preferential rights
25 increase as a result of Metropolitan's misclassification, and stands to benefit at the expense of the
26 Water Authority and San Diego ratepayers in the event preferential rights are asserted.

1 65. During 2010, Metropolitan calculated the Water Authority's preferential rights at
2 about 17.47% of the water available from Metropolitan. The Water Authority estimates that it
3 has paid \$155,999,600 to Metropolitan under the Transportation Agreement through December
4 31, 2010. Given these payments, Metropolitan ought to have calculated the Water Authority's
5 2010 preferential rights to be approximately 19.37% of the water available from Metropolitan.
6 This 1.9% increase in the Water Authority's preferential rights over what Metropolitan has
7 calculated would mean the Water Authority would be eligible to receive a volume of water 11%
8 greater than what it would currently receive in the event preferential rights are asserted.

9 66. In early 2011, the Water Authority became aware that Metropolitan was excluding
10 its payments for the transportation of IID Water and Canal Lining Water from the calculation of
11 the Water Authority's preferential rights. On or about April 6, 2011, counsel for the Water
12 Authority wrote to Metropolitan, noting the miscalculation and requesting that Metropolitan
13 calculate the preferential rights amounts in a manner consistent with the statutory command of
14 section 135. (A copy of that letter is attached as Exhibit I.) On April 26, 2011, Metropolitan's
15 Interim General Counsel refused to include the amounts paid under the Transportation Agreement
16 in Metropolitan's preferential rights calculations, attempting to mask the transportation rates as "a
17 discounted volumetric rate" for the sale of water by Metropolitan, despite the Transportation
18 Agreement providing the contrary and despite Metropolitan's position in this litigation that those
19 charges are for transportation, not for water supply. (A copy of that letter is attached as Exhibit
20 J.) On May 4, 2011, the Water Authority's General Counsel responded to the April 26 letter. (A
21 copy of that letter, without its attachment, is attached as Exhibit K.)

22 67. Despite the Water Authority's demands and its obligations under its own enabling
23 act and the Transportation Agreement, Metropolitan refuses to properly classify the Water
24 Authority's payments for transportation of Non-Metropolitan Water in determining the Water
25 Authority's preferential rights. Absent a clear judicial declaration of Metropolitan's obligations,
26 the Water Authority is informed and believes that Metropolitan will continue to refuse to do so.

1 **FIRST CAUSE OF ACTION**

2 **FOR WRIT OF MANDATE RE: ALLOCATION OF SUPPLY AND**
3 **TRANSPORTATION COSTS**

4 **(Against Respondent Metropolitan)**

5 68. Petitioner re-alleges paragraphs 1 through 67 as though set forth fully herein.

6 69. Metropolitan is under a clear and present duty, pursuant to Articles XIII A, Section
7 4 (adopted by Proposition 13 in 1978) and XIII C, Section 1 (adopted by Proposition 26 in 2010)
8 of the California Constitution, and Government Code Section 50076, to set rates and charges no
9 greater than the “reasonable cost of providing the service ... for which the fee is charged.” (Gov.
10 Code § 50076.) Under that duty, Metropolitan’s rates and charges must reasonably and fairly
11 allocate its costs among the services Metropolitan provides. Unless “the charge [is] imposed for a
12 specific government service or product provided directly to the payor that is not provided to those
13 not charged, and which does not exceed the reasonable costs to the local government of providing
14 the service or product,” Cal. Const., art. XIII C, § 1, subdivision (e)(2), the rates and charges
15 imposed for these services constitute special taxes, for which Propositions 13 and 26 require two-
16 thirds voter approval. Metropolitan did not obtain voter approval of the rates and charges
17 challenged here. Metropolitan “bears the burden of proving by a preponderance of the evidence”
18 that its rates “are no more than necessary to cover the reasonable costs of the government activity,
19 and that the manner in which those costs are allocated to a payor bears a fair or reasonable
20 relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Cal.
21 Const., art. XIII C, § 1(e).

22 70. Additionally, Metropolitan is under a clear and present duty under the MWD Act
23 to set rates and charges that “shall be uniform for like classes of service throughout the district.”
24 ([Stats. 1969, ch. 209 as amended; West’s California Water Code—Append. §§ 109-134 (2010)].)
25 Under this duty, Metropolitan’s rates and charges must also apportion costs equitably among its
26 customers.

1 71. Metropolitan is further under a clear and present duty, pursuant to Government
2 Code Section 54999.7(a), to set rates and charges that do “not exceed the reasonable costs of
3 providing the public utility service.”

4 72. Metropolitan also is under a clear and present duty, imposed by the Wheeling
5 Statutes (Water Code § 1810 et seq.) to charge only “fair compensation” for the conveyance, or
6 “wheeling,” of water through Metropolitan’s facilities. In addition to the Transportation
7 Agreement, which requires that Metropolitan transport IID Water and Canal Lining Water at rates
8 equal to Metropolitan’s rates set “pursuant to applicable law and regulation and generally
9 applicable to the conveyance of water by Metropolitan,” the Water Authority has contracted in
10 the past, and intends to contract with Metropolitan in the future, for “wheeling” of water from
11 third-party sources not covered by the Transportation Agreement.

12 73. Finally, Metropolitan also has a clear and present duty under California common
13 law to set rates and charges that are fair, reasonable, and proportionate to the cost of service.
14 Metropolitan also has a common law duty to make decisions and set rates that do not discriminate
15 against a particular group of its constituents.

16 74. Metropolitan has failed to perform these duties. Certain rates adopted by
17 Metropolitan on or about April 13, 2010, including the System Access Rate, System Power Rate,
18 and Water Stewardship Rate, comprise the “wheeling rate” applicable to the conveyance of Non-
19 Metropolitan Water through Metropolitan’s system and the rate that the Water Authority is
20 charged under the Transportation Agreement. As described above, those rates include costs that
21 bear no relationship to the costs of conveyance through Metropolitan’s system.

22 75. First, the adopted rates and charges allocate most of Metropolitan’s cost of
23 obtaining a water supply from the State Water Project to the System Access Rate and System
24 Power Rate, which the Water Authority is required to pay as part of its “transportation” cost for
25 the delivery of Non-Metropolitan Water.

26 76. Second, Metropolitan charges the Water Stewardship Rate as part of its
27 “transportation” cost for the delivery of non-Metropolitan Water, even though the Water
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1 Stewardship Rate has no relationship to the costs of conveying water. The proceeds from the
2 Water Stewardship Rate are used to fund local water supply development and water conservation
3 efforts by Metropolitan's member agencies. Even assuming that Metropolitan has a legitimate
4 basis to impose "water stewardship" charges, because the money from this rate is used to increase
5 the supply of water available to the Metropolitan member agencies who receive the subsidies, it
6 can be characterized only as a cost of supply, not transportation.

7 77. Treating these supply costs as part of Metropolitan's "transportation" rate charged
8 for the conveyance of Non-Metropolitan Water unlawfully *overcharges* the Water Authority for
9 water transportation, while artificially *undercharging* all member agencies for the cost of water.
10 Metropolitan's misallocation of these costs violates the duties described above to set rates and
11 charges that are fair, reasonable, and proportionate to the cost of service to each customer.

12 78. The Water Authority estimates that if Metropolitan's misallocation of its State
13 Water Project costs, and the Water Stewardship rate costs, remains unchanged, the Water
14 Authority will be overcharged by at least \$30 million annually. This annual overcharge will
15 increase each year until a court orders Metropolitan to comply with its duties outlined above.

16 79. The Water Authority has no plain, speedy, and adequate remedy at law, other than
17 the relief sought in this Complaint. The Water Authority is beneficially interested in the issuance
18 of a Writ of Mandate to obtain judicial review of Metropolitan's illegal overcharges.

19 80. Accordingly, the Water Authority is entitled to issuance of a Peremptory Writ of
20 Mandate as specified more fully below.

21 **SECOND CAUSE OF ACTION**

22 **DECLARATORY RELIEF RE: ALLOCATION OF SUPPLY**
23 **AND TRANSPORTATION COSTS**

24 **(Against Respondent Metropolitan)**

25 81. Petitioner re-alleges paragraphs 1 through 80 as though set forth fully herein.

26 82. An actual and present controversy now exists between the Water Authority, on the
27 one hand, and Metropolitan, on the other. Petitioner contends that the rates and charges
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1 Metropolitan adopted over its objections on April 13, 2010 violate state constitutional, statutory,
2 and common law, as well as Metropolitan's own Administrative Code, as set forth in the First
3 Cause of Action. That is because the rates allocate most of Metropolitan's costs for a water
4 supply from the State Water Project to the System Access Rate and the System Power Rate, and
5 Metropolitan's costs associated with local conservation and water supply development to the
6 Water Stewardship Rate, both of which are then charged to the Water Authority and its
7 constituents as part of the rate for "transportation" of Non-Metropolitan Water. As a result, the
8 challenged rates and charges overcharge San Diego residents for water transportation,
9 undercharge Metropolitan's other member agencies for water supply, and do not comply with
10 Metropolitan's duty to impose rates and charges that are fair, reasonable, and proportionate to the
11 cost of service to each customer.

12 83. Moreover, Metropolitan's actions violate the common law principle that an agency
13 may not set unduly discriminatory rates by classifying its constituents on an unreasonable basis.
14 Metropolitan engages in a pattern and practice of discriminatory and unreasonable rate-setting
15 that violates the well-established common law prohibition against such discrimination.
16 Metropolitan has deliberately singled out and targeted the residents of San Diego by imposing
17 upon them unreasonably high water costs.

18 84. Respondent Metropolitan disagrees with these allegations and asserts that the rates
19 and charges challenged here are lawful in all respects. Metropolitan further contends that the
20 existence and activities of the Anti-San Diego Coalition—and its own actions in working with
21 this shadow government—constitute reasonable and acceptable public agency practices.

22 85. In the absence of declaratory relief, Metropolitan will continue to impose
23 discriminatory rates and charges that are not fair, reasonable, and proportionate to the cost of
24 serving its customers, including the Water Authority. The Water Authority estimates that if
25 Metropolitan's 2011-2012 rates remain unchanged, the misallocation of Metropolitan's State
26 Water Project costs and conservation and local supply development costs to the "transportation"
27 rate will result in the Water Authority being overcharged by at least \$30 million annually. This
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1 overcharge will continue to increase as the amount of Non-Metropolitan Water transported
2 through Metropolitan facilities increases and as Metropolitan continues to execute subsidy
3 contracts.

4 86. In the absence of declaratory relief, Metropolitan also will continue to participate
5 in and encourage the *sub rosa* activities of the shadow government running Metropolitan, which
6 meets in secret to dictate Metropolitan decisions and coordinates with Metropolitan to ensure the
7 enactment of discriminatory rates and other board policies that discriminate against the Water
8 Authority.

9 87. The Water Authority desires and is entitled to a judicial declaration that, because
10 of Metropolitan's misallocation of its State Water Project costs and their discriminatory effect on
11 the Water Authority, Metropolitan's rates and charges are contrary to law and violate
12 constitutional, statutory and common law as well as Metropolitan's own Administrative Code and
13 Board policy directives. The Water Authority further desires a judicial declaration that
14 Metropolitan must end its practice of delegating its policymaking authority to and coordinating in
15 secret with a shadow government, including for the purpose of discriminating against the Water
16 Authority and San Diego County ratepayers, and must conduct the business of Metropolitan in
17 public view.

18 88. Such declaratory relief is necessary and appropriate now, because the Water
19 Authority anticipates that Metropolitan will continue to impose rates and charges which violate
20 constitutional, statutory and common law, as well as Metropolitan's own Administrative Code;
21 and that Metropolitan will continue its pattern and practice of coordinating with, and relying
22 improperly upon, a secret government dedicated to working outside of the public view and to
23 discriminating against the Water Authority. A declaration is therefore necessary to protect the
24 Water Authority from these unlawful rates, charges, and practices.

25 89. Therefore, the Water Authority prays for declaratory relief as specified more fully
26 below.

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1 **THIRD CAUSE OF ACTION**

2 **DETERMINATION OF INVALIDITY OF RATES ADOPTED BY METROPOLITAN ON**
3 **OR ABOUT APRIL 13, 2010**

4 **(CCP § 860 et seq.; Gov't Code § 53511; Gov't Code § 66022)**

5 **(Against Respondent Metropolitan)**

6 90. Petitioner re-alleges paragraphs 1 through 89 as though set forth fully herein.

7 91. Petitioner is informed and believes, and on that basis alleges, that the rates and
8 charges Metropolitan adopted on or about April 13, 2010 may include capacity charges as defined
9 in Government Code Section 66013. Government Code Section 66022 authorizes an action
10 pursuant to Code of Civil Procedure Sections 860 et seq. to challenge a public agency's adoption
11 of rates that include capacity charges as defined in Government Code Section 66013.

12 92. Petitioner also is informed and believes, and on that basis alleges, that
13 Metropolitan has pledged the rates adopted on or about April 13, 2010 to the payment or security
14 of its general obligation bonds, as it is permitted to under Government Code Section 53502.
15 Government Code Section 53511, in turn, authorizes the filing of a validation action or reverse-
16 validation action "to determine the validity of its bonds, warrants, contracts, obligations or
17 evidences of indebtedness."

18 93. Assuming that Metropolitan's rates are validable pursuant to one or the other, if
19 not both, of these provisions, the Water Authority seeks a determination pursuant to Code of Civil
20 Procedure sections 860 and 863 that the rates and charges described below are invalid.

21 94. Code of Civil Procedure Section 863 provides that "any interested person may
22 bring an action ... to determine the validity of the matter" in situations where a public agency
23 could bring a validation action. The Water Authority qualifies as an "interested person" within
24 the meaning of Section 863 because the Water Authority pays Metropolitan's inflated and
25 improperly allocated rates for the services at issue.

26 95. The rates and charges Metropolitan adopted on or about April 13, 2010 are invalid
27 under Articles XIII A, Section 4 (adopted by Proposition 13) and XIII C, Section 1 (adopted by
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1 Proposition 26) of the California Constitution, and Government Code Section 50076, because
2 these rates and charges are not limited to the “reasonable cost of providing the service ... for
3 which the fee is charged.” (Gov. Code § 50076). Likewise, these rates and charges are unlawful
4 because they are not “imposed for a specific government service or product provided directly to
5 the payor that is not provided to those not charged” and they “exceed the reasonable costs to the
6 local government of providing the service or product,” Cal. Const., art. XIII C, § 1, subdivision
7 (e)(2). Metropolitan “bears the burden of proving by a preponderance of the evidence” that its
8 rates “are no more than necessary to cover the reasonable costs of the government activity, and
9 that the manner in which those costs are allocated to a payor bears a fair or reasonable
10 relationship to the payor’s burdens on, or benefits received from, the governmental activity.” Cal.
11 Const., art. XIII C, § 1(e). The water rates and charges challenged here violate these provisions
12 for two independent reasons, either one of which alone is sufficient to render the rates invalid:

13 a. The challenged rates and charges, including any capacity charges, recover
14 the bulk of Metropolitan’s costs of water from the State Water Project through the System
15 Access Rate and the System Power Rate, rather than Metropolitan’s Supply Rate. As a
16 result, the challenged rates and charges overcharge for water transportation and
17 undercharge for water supply. Thus, these rates and charges do not allocate to each
18 customer the actual, reasonable and proportionate cost of serving that customer and
19 instead are unreasonable, arbitrary, capricious, and discriminatory.

20 b. The challenged rates and charges, including any capacity charges, include
21 the Water Stewardship Rate in the rates and charges Metropolitan imposes for water
22 transportation. As a result, the challenged rates and charges overcharge for water
23 transportation and undercharge for water supply. For this reason, too, these rates and
24 charges fail to allocate to each customer the actual, reasonable and proportionate cost of
25 serving that customer and instead are unreasonable, arbitrary, capricious, and
26 discriminatory.

1 96. For the reasons set forth in the preceding paragraph, the rates and charges adopted
2 by Metropolitan’s Board on or about April 13, 2010 are also invalid under: (a) Metropolitan’s
3 principal act, Stats. 1969; ch. 209 as amended; West’s California Water Code—Append. §§ 109-
4 134 (2010), which requires Metropolitan to set rates and charges that are “uniform for like classes
5 of services throughout the district”; (b) California’s Wheeling Statutes (Water Code Section 1810
6 et seq.), because the rates Metropolitan charges for conveyance to the Water Authority of Non-
7 Metropolitan Water exceed “fair compensation” for use of Metropolitan’s system; (c)
8 Government Code Section 54999.7(a), which requires that its rates and charges “not exceed the
9 reasonable cost of providing the public utility service”; and (d) California common law, which
10 requires that Metropolitan impose rates and charges that are fair, reasonable, and proportionate to
11 the actual cost of service.

12 97. The Water Authority is entitled to a declaration under the Validation Statutes that
13 the rates and charges Metropolitan adopted on April 13, 2010 are invalid and must be set aside.

14 **FOURTH CAUSE OF ACTION**

15 **BREACH OF CONTRACT**

16 **(Against Respondent Metropolitan)**

17 98. Petitioner re-alleges paragraphs 1 through 97 as though set forth fully herein.

18 99. Petitioner Water Authority and Respondent Metropolitan are parties to the
19 Transportation Agreement, a valid contract for the transportation of Non-Metropolitan Water
20 purchased by the Water Authority from IID and Canal Lining projects.

21 100. The Water Authority has always fully performed its obligations under the
22 Transportation Agreement since entering into that contract.

23 101. Section 5.2 of the Transportation Agreement requires Metropolitan to set a rate for
24 the transportation of the Water Authority’s Non-Metropolitan Water that “shall be equal to the
25 charge or charges set by Metropolitan’s Board of Directors pursuant to applicable law and
26 regulation and generally applicable to the conveyance of water by Metropolitan on behalf of its
27 member agencies.” As detailed above, Metropolitan has breached section 5.2 by setting rates for
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1 the conveyance of the Water Authority's purchased water that violate applicable laws and
2 regulations, by incorporating Metropolitan's costs of obtaining its supply of DWR/State Water
3 Project water and its costs to subsidize local conservation and water development projects, into
4 the "transportation rate" charged to the Water Authority. By doing those things, Metropolitan has
5 improperly loaded on to the Water Authority, in the form of transportation charges, water supply
6 costs incurred by Metropolitan that are unrelated to transportation, in violation of applicable laws
7 and regulations, including (a) Art. XIII A, Section 4 of the California Constitution; (b) Cal. Gov.
8 Code § 50076; (c) Metropolitan's principal act, Stats. 1969; ch. 209 as amended; Cal. Water
9 Code—Append. §§ 109-134 (2010); (d) California's Wheeling Statutes (Cal. Water Code § 1810
10 et seq.); (e) Cal. Gov. Code § 54999.7(a); and (f) California common law, as described elsewhere
11 in this complaint.

12 102. Metropolitan's unlawful misallocation of costs has caused Water Authority to pay
13 excess charges for its transportation of Non-Metropolitan Water, in an amount to be determined
14 according to proof. Accordingly, the Water Authority prays for relief as set forth below.

15 **FIFTH CAUSE OF ACTION**

16 **DECLARATORY RELIEF RE: RSI CLAUSE**

17 **(Against Respondent Metropolitan)**

18 103. Petitioner re-alleges paragraphs 1 through 102 as though set forth fully herein.

19 104. An actual and present controversy has arisen and now exists between the Water
20 Authority, on the one hand, and Metropolitan, on the other, regarding the enforceability of the
21 RSI Clauses and the termination of the Project Contracts and the Ramona Agreement. The Water
22 Authority contends that the RSI Clauses that Metropolitan insisted, over the Water Authority's
23 objection, be inserted into the Project Contracts and the Ramona Agreement violate the California
24 constitution, statutory law and common law. Furthermore, Metropolitan has invoked the RSI
25 Clauses in purporting to terminate the Project Contracts and the Ramona Agreement. Also based
26 on the RSI Clauses, Metropolitan refuses to allow the Water Authority to receive any benefit
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1 from the Water Stewardship Rates it is forced to pay to Metropolitan to fund conservation and
2 local water-supply subsidy contracts.

3 105. First, the RSI Clauses, and Metropolitan's actions pursuant to those clauses,
4 violate Article I, section 3 of the California Constitution because they purport to allow
5 Metropolitan, a government entity, to deprive the Water Authority of its constitutional right to
6 petition the courts of this State for redress of legitimate legal grievances against Metropolitan, by
7 allowing Metropolitan the right to unilaterally terminate the Project Contracts in the event that the
8 Water Authority challenges Metropolitan's rates in court. Put another way, the RSI Clauses
9 constitute unconstitutional conditions on the Water Authority's ability to receive any benefit from
10 Metropolitan subsidy programs.

11 106. Second, the RSI Clauses are unlawful contract provisions under California Civil
12 Code section 1668, because they were intended to, and purport to, exempt Metropolitan from
13 liability for setting rates in violation of California law. By establishing draconian penalties
14 against any Metropolitan member agency who raises a legitimate challenge to Metropolitan's
15 rates, the RSI Clauses create a substantial disincentive for any challenge, and effectively permit
16 Metropolitan to violate California law in setting its rates without fear of reprisal.

17 107. Respondent Metropolitan has expressly told the Water Authority that it disagrees
18 with the Water Authority's position on the RSI Clauses, and contends that the RSI Clauses are
19 valid and enforceable.

20 108. In the absence of declaratory relief, Metropolitan will continue in its refusal to
21 honor the Project Contracts between itself and the Water Authority, will continue to withhold
22 money due under the Ramona Agreement, and will continue in its refusal to allow the Water
23 Authority to obtain any benefits from Metropolitan subsidy programs. If the RSI Clauses are not
24 declared invalid, the Water Authority will continue to lose the benefit of the subsidies it has
25 contracted for under the Project Contracts and will continue to be ineligible for future benefits
26 under those programs, despite the fact that its ongoing contributions to Metropolitan continue to
27 fund subsidies to all other Metropolitan member agencies. Accordingly, the Water Authority
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1 seeks a declaration that the RSI Clauses are invalid and unenforceable, reinstating the Project
2 Contracts and the Ramona Agreement, and directing Metropolitan not to enter into any future
3 contracts containing an RSI Clause and to restore the Water Authority's eligibility for any lawful
4 Metropolitan subsidy programs. These declarations are necessary in order to protect the Water
5 Authority and its ratepayers, as well as Metropolitan ratepayers generally.

6 109. The Water Authority desires and is entitled to a judicial declaration that the RSI
7 Clauses violate California constitutional, statutory and common law. Such declaratory relief is
8 necessary and appropriate now, because Metropolitan has both terminated existing contracts,
9 depriving the Water Authority and the Water Authority's member agencies of millions of dollars
10 of funding to which the Water Authority is contractually entitled, and declared the Water
11 Authority ineligible to receive any such benefits in the future.

12 110. Therefore, the Water Authority prays for a judicial declaration (a) holding that the
13 RSI Clauses are invalid and unenforceable; (b) reinstating all Project Contracts between the
14 Water Authority and Metropolitan, which Metropolitan has terminated due to purported violation
15 of the RSI Clauses; (c) reinstating the Ramona Agreement between Ramona, the Water Authority
16 and Metropolitan, which Metropolitan has terminated due to a purported violation of the RSI
17 Clause; (d) directing Metropolitan not to enforce any RSI Clauses in any of its contracts in the
18 future; and (e) directing Metropolitan to restore the Water Authority's eligibility for any lawful
19 Metropolitan subsidy programs on the same terms applicable to other Metropolitan member
20 agencies.

21 **SIXTH CAUSE OF ACTION**

22 **DECLARATORY RELIEF RE: PREFERENTIAL RIGHTS CALCULATION**

23 **(Against Respondent Metropolitan)**

24 111. Petitioner re-alleges paragraphs 1 through 110 as though set forth fully herein.

25 112. An actual and present controversy has arisen and now exists between the Water
26 Authority, on the one hand, and Metropolitan, on the other, regarding the proper calculation of the
27 Water Authority's preferential rights under Section 135 of the MWD Act.

1 113. Section 135 states that preferential rights shall be calculated based on the member
2 agency's payments to Metropolitan, except for the "purchase of water." The Water Authority
3 formally requested a determination that its preferential rights should include the amount paid as
4 "transportation" costs for Metropolitan's conveyance of Non-Metropolitan Water through its
5 pipelines and facilities. Metropolitan has formally denied that request, taking the position that
6 money paid by the Water Authority for the transportation of its IID and Canal Lining water are
7 for the "purchase of water" (i.e., supply). Metropolitan's position is contrary to both common
8 sense and to its position, in the context of setting rates, that the Water Authority's charges for the
9 conveyance of water are "transportation" costs and not "supply." As such, Metropolitan's
10 decision about the Water Authority's preferential rights is arbitrary, capricious and contrary to
11 law.

12 114. In the absence of declaratory relief, Metropolitan will continue in its wrongful
13 calculation of the Water Authority's preferential rights, which negatively impacts the Water
14 Authority's ability to rely on a stable water supply in the event preferential rights are asserted by
15 any member agency, including the Water Authority. A declaration is therefore necessary to
16 ensure that the Water Authority receives its full entitlement of preferential rights.

17 115. Therefore, the Water Authority prays for a judicial declaration (a) that the current
18 methodology used by Metropolitan to calculate the Water Authority's preferential rights violates
19 section 135 of the MWD Act; and (b) directing Metropolitan to follow the requirements of the
20 MWD Act by including the Water Authority's payments to Metropolitan for transportation of IID
21 Water and Canal Lining Water (which payments are not for "purchases of water") in the
22 calculation of the Water Authority's preferential rights to water.¹

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¹ "The Water Authority expressly reserves its right to appeal from the Court's January 4, 2012 order sustaining Metropolitan's demurrer, without leave to amend, to the Fifth and Sixth Causes of Action from the Water Authority's First Amended Complaint."

1 **PRAYER FOR RELIEF**

2 WHEREFORE, the Water Authority prays that judgment be entered against defendants
3 and Respondents as follows:

4 1. As to the First Cause of Action, a peremptory writ of mandate directing
5 Metropolitan to:

- 6 • Vacate the rates set on or about April 13, 2010;
- 7 • Refrain from allocating any costs associated with State Water Project water
8 supplies to charges for water transportation;
- 9 • Refrain from allocating any costs associated with Metropolitan's Water
10 Stewardship Rate to charges for water transportation;
- 11 • Allocate all costs associated with State Water Project water supplies that are not
12 paid for through the Readiness to Serve charge or property taxes to charges for
13 supplying water; and
- 14 • Allocate all costs associated with Metropolitan's Water Stewardship Rate to its
15 charges for supplying water.

16 2. As to the Second Cause of Action, a declaration that (a) the rates and charges
17 adopted by Metropolitan on April 13, 2010 are discriminatory, invalid, and must be set aside; that
18 Metropolitan cannot allocate any costs associated with obtaining water supplies from the State
19 Water Project, or any costs associated with its Water Stewardship Rate, to charges for water
20 transportation; that Metropolitan must allocate all costs associated with State Water Project water
21 supplies that are not paid for through the Readiness to Serve charge or property taxes to charges
22 for supplying water; and that Metropolitan must allocate all costs associated with its Water
23 Stewardship Rate to charges for water supply; (b) that Metropolitan has engaged in a pattern and
24 practice of unlawful discriminatory rate-setting, as evidence by the activities of the Anti-San
25 Diego Coalition and Metropolitan's resulting decisions which target and disadvantage the Water
26 Authority and its constituents; and (c) that Metropolitan must end its practice of delegating its
27 policymaking authority to and coordinating in secret with a shadow government, including for the

1 purpose of discriminating against the Water Authority and San Diego County ratepayers, and
2 must conduct the business of Metropolitan in public view.

3 3. As to the Third Cause of Action, an order that the rates and charges adopted by
4 Metropolitan on April 13, 2010 are invalid and must be set aside and that Metropolitan cannot
5 allocate any costs associated with State Water Project water supplies or with its Water
6 Stewardship Rate to charges for water transportation.

7 4. As to the Fourth Cause of Action, an award of compensatory and general damages
8 against Metropolitan, in an amount to be determined according to proof, and an order of specific
9 performance of the Transportation Agreement requiring Metropolitan to set the rates charged to
10 the Water Authority under the Transportation Agreement in conformance with applicable laws
11 and regulations. SDCWA also prays for interest on any amounts paid to MWD pursuant to
12 MWD's invalid and unlawful rates for 2011 and 2012, from the date of SDCWA's payment of any
13 amounts under those rates to the date of judgment. SDCWA has a right to such interest both as a
14 matter of general damages principles and as a result of the express term in section 12.4(c) of the
15 Transportation Agreement, which requires MWD, in the event of a rate challenge, to place all
16 disputed amounts in an interest-bearing escrow account. To SDCWA's knowledge, as of the date
17 of this Petition, MWD has failed to comply in full with the escrow obligations in the
18 Transportation Agreement.

19 5. As to the Fifth Cause of Action, a judicial declaration (a) holding that the RSI
20 Clauses are invalid and unenforceable; (b) reinstating, as of the date of the wrongful termination,
21 all Project Contracts between the Water Authority and Metropolitan, which Metropolitan has
22 terminated due to purported violation of the RSI Clauses; (c) reinstating, as of the date of the
23 wrongful termination, the Ramona Agreement between Ramona, the Water Authority and
24 Metropolitan, which Metropolitan has terminated due to a purported violation of the RSI Clause;
25 (d) directing Metropolitan not to enforce any RSI Clauses in any of its contracts in the future; and
26 (e) directing Metropolitan to restore the Water Authority's eligibility for any lawful Metropolitan
27 subsidy programs on the same terms applicable to other Metropolitan member agencies.

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6. As to the Sixth Cause of Action, a judicial declaration (a) that Metropolitan's current methodology for calculating the Water Authority's preferential rights violates section 135 of the MWD Act; and (b) directing Metropolitan to follow the requirements of the MWD Act by including the Water Authority's payments to Metropolitan for transportation of IID Water and Canal Lining Water (which payments are not for "purchases of water") in the calculation of the Water Authority's preferential rights to water.

7. For reasonable attorneys' fees and costs of suit incurred herein.

8. For such other and further relief as the Court deems proper.

Dated: January 23, 2013

KEKER & VAN NEST LLP

By: John W. Keke / wb
JOHN W. KEKER
DANIEL PURCELL
DAN JACKSON
WARREN A. BRAUNIG

Attorneys for Petitioner and Plaintiff
SAN DIEGO COUNTY WATER
AUTHORITY

1 **PROOF OF SERVICE BY ELECTRONIC TRANSMISSION, FEDERAL EXPRESS AND**
2 **EMAIL VIA PDF FILE**

3 I am employed in the City and County of San Francisco, State of California in the office of a
4 member of the bar of this court at whose direction the following service was made. I am over the
5 age of eighteen years and not a party to the within action. My business address is Kecker & Van
6 Nest LLP, 633 Battery Street, San Francisco, CA 94111-1809.

7 On January 23, 2013, I served the following document described as:

8 **SAN DIEGO COUNTY WATER AUTHORITY'S THIRD AMENDED PETITION FOR**
9 **WRIT OF MANDATE AND COMPLAINT FOR DAMAGES AND DECLARATORY**
10 **RELIEF**

11 by serving a true copy of the above-described document in the following manner:

12 **BY LEXIS NEXIS® FILE & SERVE**

13 On the date executed below, I electronically served the document via Lexis Nexis® File &
14 Serve described as on the recipients designated on the Transaction Receipt located on the
15 via Lexis Nexis® File & Serve website.

16 by **FEDEX**, by placing a true and correct copy in a sealed envelope addressed as shown below. I
17 am readily familiar with the practice of Kecker & Van Nest LLP for correspondence for delivery
18 by FedEx Corporation. According to that practice, items are retrieved daily by a FedEx
19 Corporation employee for overnight delivery.

20 **SEE ATTACHED SERVICE LIST**

21 **and**

22 David A. Peffer
23 Utility Consumers' Action Network
24 3405 Kenyon Street, Suite 401
25 San Diego, CA 92110-5007
26 Email: dpeffer@ucan.org

27 Attorneys for Defendant and Respondent
28 Utility Consumers' Action Network

29 Executed on January 23, 2013, at San Francisco, California.

30 I declare under penalty of perjury under the laws of the State of California that the above is true
31 and correct.

32 
33 DIANE BLAIS MILLER

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PROOF OF SERVICE LIST
SAN DIEGO COUNTY WATER AUTHORITY
V.
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
& CASE NOS.: CPF-10-510830

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Exhibit A

AMENDED AND RESTATED AGREEMENT BETWEEN THE
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
AND THE SAN DIEGO COUNTY WATER AUTHORITY
FOR THE EXCHANGE OF WATER

THIS AMENDED AND RESTATED AGREEMENT FOR THE EXCHANGE OF WATER ("Agreement") is made and entered into as of October 10, 2003, between The Metropolitan Water District of Southern California (hereinafter "Metropolitan") and the San Diego County Water Authority (hereinafter "SDCWA"). Metropolitan and SDCWA are sometimes referred to as the "Parties".

RECITALS

A. SDCWA is a county water authority incorporated under the California County Water Authority Act, Stats. 1943, c.545 as amended, codified at Section 45-1 *et seq.* of the Appendix to the California Water Code, for the purpose of providing its member agencies in San Diego County with a safe, reliable, and sufficient supply of imported water.

B. Metropolitan is a public agency of the State of California incorporated under the Metropolitan Water District Act, Stats. 1969, ch. 209, as amended, codified at Section 109.1 *et seq.* of the Appendix to the California Water Code, engaged in transporting, storing and distributing water in the counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura, within the State of California.

C. SDCWA is a member agency of Metropolitan.

D. On April 29, 1998, SDCWA and the Imperial Irrigation District ("IID") entered into an Agreement for Transfer of Conserved Water, as amended by the Revised Fourth Amendment dated as of October 10, 2003, between SDCWA and IID (as thereby amended, the "Transfer Agreement").

E. On November 10, 1998, SDCWA and Metropolitan executed a Contract for the Exchange of Water to be acquired by SDCWA under the Transfer Agreement; this Agreement amends and restates that Contract in its entirety.

F. This Agreement is one of several agreements executed and delivered as of the date hereof by the Parties and by other agencies, including IID, MWD and Coachella Valley Water District ("CVWD"), pursuant to the Quantification Settlement Agreement among IID, MWD and CVWD dated as of October 10, 2003 (the "QSA"), which settles a variety of long-standing disputes regarding the priority, use, and transfer of Colorado River water and establishes the terms for the further distribution of Colorado River water among these entities for up to seventy-five (75) years based upon the water budgets set forth therein.

G. Also, on October 10, 2003, as contemplated by the QSA, SDCWA entered into the Allocation Agreement with the United States of America, IID, CVWD, MWD and other parties named therein (the "Allocation Agreement") pertaining to the allocation and distribution of water to be conserved from the All-American Canal Lining Project and the Coachella Canal Lining Project (as such terms are defined therein).

AGREEMENT

NOW THEREFORE, the Parties in consideration of the foregoing recitals and the representations, warranties, covenants and agreements contained in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which the Parties hereby acknowledge, Metropolitan and SDCWA agree to the following terms and conditions of this Agreement:

I.

DEFINITIONS AND RULES OF CONSTRUCTION

1.1 Definitions. As used in this Agreement these terms, including any grammatical variations thereof, have the following meanings:

- (a) "Administrative Code" means the Metropolitan Water District Administrative Code adopted on January 13, 1987, as amended from time to time thereafter, and as in existence on the date of this Agreement, subject to modification to the extent provided in Paragraph 13.12 of this Agreement.
- (b) "Allocation Agreement" is as defined in Recital G, subject to modification for purposes of this Agreement after the date hereof to the extent provided in Paragraph 13.13 of this Agreement.
- (c) "Alternative Facilities" means facilities other than facilities owned and operated by Metropolitan.
- (d) "Bureau" means the Bureau of Reclamation of the United States Department of the Interior.

(e) "California Plan" means the draft plan dated May 11, 2000, to ensure that California can live within the state's apportionment of Colorado River water, provided, however, if any final California Plan is approved by the Colorado River Board of California and all the public agencies represented on the Colorado River Board of California, "California Plan" means such final California Plan.

(f) "Canal Lining Water" means the quantity of Colorado River water allocated each Year to SDCWA in accordance with the Allocation Agreement.

(g) "Colorado River Aqueduct" means the aqueduct system owned and operated by Metropolitan and transporting water from Lake Havasu on the Colorado River to Lake Mathews in Riverside County, California.

(h) "Conserved Water" means Conserved Water as such term is defined in Section 1.1 of the QSA.

(i) "Drought Management Plan" means any plan for the allocation and management of water resources of Metropolitan during a water shortage, as adopted by Metropolitan and in effect at pertinent times during the term of this Agreement.

(j) "Early Exchange Water" means the Exchange Water to be delivered by Metropolitan to SDCWA in exchange for Early Transfer Water to be Made Available by SDCWA to Metropolitan under this Agreement.

(k) "Early Transfer Water" means the aggregate ten thousand (10,000) acre-foot of Conserved Water to be transferred to SDCWA by IID in accordance with Section 3.5 of the Transfer Agreement.

(l) "Effective Date" means the Effective Date as such term is defined in Section 1.1 of the QSA.

(m) "Exchange Water" means, for each Year, water that is delivered to SDCWA by Metropolitan at the Metropolitan Point(s) of Delivery in a like quantity as the quantity of water that SDCWA has Made Available to Metropolitan under the Transfer Agreement and/or the Allocation Agreement and this Agreement for the same Year. The Exchange Water may be from whatever source or sources and shall be delivered using such facilities as may be determined by Metropolitan, provided that the Exchange Water delivered in each Year is of like quality to the Conserved Water and/or the Canal Lining Water which is Made Available to Metropolitan at the SDCWA Point of Transfer in such Year.

(n) "IID" is as defined in Recital D.

(o) "Implementation Agreement" is as defined in Section 1.1 of the QSA.

(p) "Interim Agricultural Water Program" means the program by that name for delivery of water for agricultural uses regulated in Sections 4900 to 4906 of the Administrative Code, including any successor program established by Metropolitan.

(q) "Local Water" means water supplies not served by Metropolitan. Such Local Water includes, for example, ground water, surface water production, recycled water, desalinated water and other water acquired, owned or produced by any of Metropolitan's member agencies, water retailers or other local agencies within

Metropolitan's service area (including supplies from projects participating in Metropolitan's Local Projects Program).

(r) "Made Available," "Make Available" or "Making Available." As used herein, Conserved Water and Canal Lining Water will be deemed to have been Made Available to Metropolitan when (1) such water has been transferred to SDCWA pursuant to the Transfer Agreement and/or allocated to SDCWA pursuant to the Allocation Agreement, (2) valid and continuing authorization has been given by the Bureau legally entitling Metropolitan to divert, for the Year in question, Conserved Water and/or Canal Lining Water at the SDCWA Point of Transfer, in addition to the water that Metropolitan is otherwise authorized to divert from the Colorado River, and (3) all other necessary legal rights, entitlements, approvals and permissions, under the laws of the United States and the State of California for diversions from the Colorado River by Metropolitan, if any, have been obtained and are in full force and effect. "Make Available" and "Making Available" are grammatical variations of "Made Available."

(s) Metropolitan Point(s) of Delivery is as defined in Paragraph 3.5(b).

(t) "Price" means the applicable amount to be paid per acre-foot of Exchange Water delivered by Metropolitan to SDCWA at the Metropolitan Point(s) of Delivery under this Agreement.

(u) "Price Dispute" is as defined in Paragraph 11.1.

(v) "SDCWA Point of Transfer" is as defined in Paragraph 3.5(a).

(w) "Secretary" means the United States Secretary of the Interior.

(x) "Termination Date" means the termination date determined under Paragraph 7.1, subject to the provisions of Paragraph 7.2.

(y) "Transfer Agreement" is as defined in Recital D, subject to modification to the extent provided in Paragraph 13.13 hereof.

(z) "Treated Exchange Water" means Exchange Water that has been treated by filtration and disinfection at a Metropolitan water filtration facility for direct delivery to SDCWA.

(aa) "Treatment Surcharge" means the rate(s), charge(s) and/or other fee(s) as determined pursuant to the Administrative Code for the provision of treated water service.

(bb) "Year" means the period commencing on the Effective Date and ending on the immediately following December 31 (the first (1st) Year), and each consecutive calendar year thereafter during the term of this Agreement.

1.2 Rules of Construction.

(a) Unless the context clearly requires otherwise:

- (i) The plural and singular forms include the other;
- (ii) "Shall," "will," "must," and "agrees" are each mandatory;
- (iii) "May" is permissive;
- (iv) "Or" is not exclusive;
- (v) "Includes" and "including" are not limiting; and
- (vi) "Between" includes the ends of the identified range.

(b) Headings at the beginning of Paragraphs and subparagraphs of this Agreement are solely for the convenience of the Parties, are not a part of this Agreement and shall not be used in construing it.

(c) The masculine gender shall include the feminine and neuter genders and vice versa.

(d) The word "person" shall include individual, partnership, corporation, limited liability company, business trust, joint stock company, trust, unincorporated association, joint venture, governmental authority, water district and other entity of whatever nature, except either Metropolitan or SDCWA or an officer or employee thereof.

(e) Reference to any agreement (including this Agreement), document, or instrument means such agreement, document, instrument as amended or modified and in effect from time to time in accordance with the terms thereof and, if applicable, the terms hereof.

(f) Except as specifically provided herein, reference to any law, statute, ordinance, regulation or the like means such law as amended, modified, codified or reenacted, in whole or in part, and in effect from time to time, including any rules and regulations promulgated thereunder.

II

REPRESENTATIONS AND WARRANTIES

2.1 Representations and Warranties of Metropolitan. As a material inducement to SDCWA to enter into this Agreement, Metropolitan represents and warrants as follows:

(a) Metropolitan is a metropolitan water district, duly organized, validly existing and in good standing under the laws of the State of California, and subject to satisfaction of Metropolitan's conditions precedent, as set forth in Paragraph 8.1 hereof, Metropolitan has all necessary power and authority to perform its obligations hereunder on the terms set forth in this Agreement, and the execution and delivery hereof by Metropolitan and the performance by Metropolitan of its obligations hereunder will not violate or constitute an event of default under the terms or provisions of any agreement, document or instrument to which Metropolitan is a party or by which Metropolitan is bound.

(b) Subject to the satisfaction of Metropolitan's conditions precedent, as set forth in Paragraph 8.1 hereof, this Agreement is a valid and binding obligation of Metropolitan, enforceable in accordance with its terms, subject to the requirements of applicable law.

2.2 Representations and Warranties of SDCWA. As a material inducement to Metropolitan to enter into this Agreement, SDCWA represents and warrants as follows:

(a) SDCWA is a county water authority, duly organized, validly existing and in good standing under the laws of the State of California, and subject to satisfaction of

SDCWA's conditions precedent as set forth in Paragraph 8.2 hereof, SDCWA has all necessary power and authority to perform its obligations hereunder on the terms set forth in this Agreement, and the execution and delivery hereof by SDCWA and the performance by SDCWA of its obligations hereunder will not violate or constitute an event of default under the terms or provisions of any agreement, document or instrument to which SDCWA is a party or by which SDCWA is bound.

(b) Subject to the satisfaction of SDCWA's conditions precedent, as set forth in Paragraph 8.2, this Agreement is a valid and binding obligation of SDCWA enforceable in accordance with its terms, subject to the requirements of applicable law.

(c) SDCWA will have obtained such approvals and permissions as may be necessary, under applicable laws of the United States and the State of California, to Make Available to Metropolitan Conserved Water and Canal Lining Water pursuant to this Agreement.

III

QUANTITY, DELIVERY AND SCHEDULING

3.1 Conserved Water and Canal Lining Water.

(a) SDCWA will Make Available the Conserved Water and/or the Canal Lining Water to Metropolitan at the SDCWA Point of Transfer each Year, in the manner set forth below. The quantity of Conserved Water and/or Canal Lining Water Made Available to Metropolitan by SDCWA at the SDCWA Point of Transfer each Year shall be the lesser of: (1) the sum of the quantity of water which IID transfers to SDCWA

under the Transfer Agreement in such Year and the quantity of Canal Lining Water allocated to SDCWA under the Allocation Agreement in such Year; or (2) 277,700 acre feet. The Conserved Water and/or the Canal Lining Water Made Available in each Year shall be deemed to have been Made Available to Metropolitan in monthly installments, with one-twelfth (1/12) of such water deemed to have been Made Available in each calendar month of such Year (provided that, in the first Year, the quantity of such water deemed to have been Made Available in each month shall be determined by dividing the total quantity for that Year by the number of calendar months or portions thereof in that Year).

(b) SDCWA will also Make Available to Metropolitan, in the manner set forth in subparagraph (a) above, the Early Transfer Water, in three annual installments as follows:

In calendar year 2020	2,500 acre-feet
In calendar year 2021	5,000 acre-feet
In calendar year 2022	2,500 acre-feet

(c) SDCWA will provide to Metropolitan annual written notice by November 1st each Year (or, in the case of the first Year, reasonable advance written notice) of the quantity of Conserved Water (including Early Transfer Water, if applicable) to be transferred to SDCWA in accordance with the Transfer Agreement, and of the quantity of Canal Lining Water to be allocated to SDCWA in accordance with the Allocation Agreement, and in each case to be Made Available to Metropolitan at the

SDCWA Point of Transfer during the immediately following Year. The Conserved Water and/or the Canal Lining Water will be Made Available to Metropolitan by SDCWA in a manner consistent with the Bureau's operations schedule and will be measured as provided in Paragraph 3.4.

3.2 Exchange Water.

(a) Provided that the Conserved Water (including Early Transfer Water, if applicable) and/or the Canal Lining Water has been Made Available to Metropolitan at the SDCWA Point of Transfer pursuant to Paragraph 3.1, Metropolitan shall deliver Exchange Water (including Early Exchange Water, if applicable) to SDCWA at the Metropolitan Point(s) of Delivery, in compliance with this Agreement, and in the manner and to the extent set forth below. In any Year, Metropolitan will not be required to deliver an amount of Exchange Water that is greater than the aggregate amount of Conserved Water (including Early Transfer Water, if applicable) and Canal Lining Water Made Available to Metropolitan in that Year pursuant to Paragraph 3.1, subject to the provisions of subparagraphs (b) and (c) of Paragraph 7.2.

(b) Metropolitan's delivery of Exchange Water at the Metropolitan Point(s) of Delivery shall be governed by its rules and regulations for delivery of water set forth in Chapter 5 of Division IV of the Administrative Code in the same manner as other water delivered by Metropolitan, except as may otherwise be provided in this Agreement.

(c) The Exchange Water to be delivered in any Year shall be delivered in approximately equal monthly installments over the Year so that at the end of the twelfth

month the aggregate quantity of Exchange Water delivered by Metropolitan will be equal to the aggregate quantity of Conserved Water (including Early Transfer Water, if applicable) and Canal Lining Water Made Available to Metropolitan at the SDCWA Point of Transfer for that Year, or at the times and in the amounts as the Parties may otherwise agree.

(d) In the event that the delivery of Exchange Water to the Metropolitan Point(s) of Delivery is temporarily suspended or interrupted during any Year pursuant to Paragraph 3.3 below, the remaining quantity of Exchange Water to be delivered for such Year will be delivered by Metropolitan ratably over the remainder of such Year or as otherwise agreed by the Parties.

(e) Metropolitan shall have the right to deliver Exchange Water utilizing such facilities and by such delivery path as shall be determined by Metropolitan at its sole discretion. Utilization of a particular delivery path for any such delivery shall not operate as or be deemed to be a commitment to utilize the same delivery path for any future delivery. Metropolitan has not dedicated and shall not be deemed or construed to have dedicated any particular facilities for delivery of the Exchange Water.

3.3 Temporary Shutdown of Metropolitan Facilities. Metropolitan's Chief Executive Officer shall have the right to control, curtail, interrupt or suspend the delivery of Exchange Water to SDGWA in accordance with the Administrative Code. SDCWA understands that any number of factors, including emergencies, inspection, maintenance or repair of Metropolitan facilities or the State Water Project facilities, may result in a temporary and incidental

modification of the delivery schedule contemplated in Paragraph 3.2. Metropolitan shall notify SDCWA of any control, curtailment, interruption or suspension of delivery of Exchange Water in accordance with and to the extent set forth in the Administrative Code, as if the Exchange Water were water served by Metropolitan. Metropolitan agrees that delivery of Exchange Water shall be resumed as soon as possible following any such curtailment, interruption or suspension of delivery. Unless Metropolitan is otherwise relieved of its obligations under the provisions of this Agreement, a curtailment, interruption or suspension of the delivery of Exchange Water pursuant to this Paragraph 3.3 shall not change the amount of Exchange Water Metropolitan is obligated to deliver during any Year.

3.4 Measurement of Deliveries. The quantity of Exchange Water delivered in each Year by Metropolitan at the applicable Metropolitan Point(s) of Delivery, which amount will be metered at such Point(s) of Delivery as provided in the Administrative Code, shall be equal to the aggregate quantity of Conserved Water (including Early Transfer Water, if applicable) and Canal Lining Water Made Available to Metropolitan in such Year at the SDCWA Point of Transfer. The Parties agree that they will be bound by such meter readings.

3.5. Points of Transfer or Delivery.

(a) The SDCWA Point of Transfer. As used herein, the "SDCWA Point of Transfer" shall be Metropolitan's intake at Lake Havasu.

(b) The Metropolitan Point(s) of Delivery. As used herein, the "Metropolitan Point(s) of Delivery" shall be any or all San Diego Pipelines One through Five (inclusive)

or at similar facilities that may be constructed in the future at a point near the San Luis Rey River in Northern San Diego County.

3.6 Quality of Exchange Water. Metropolitan in its sole discretion shall have the right to deliver Exchange Water of a quality which exceeds the quality of the Conserved Water and/or Canal Lining Water which Metropolitan receives, and such Exchange Water shall fully satisfy Metropolitan's obligation to deliver Exchange Water of like quality to such Conserved Water and Canal Lining Water. In such event, Metropolitan's election shall not operate as or be construed to be a commitment to deliver Exchange Water of better quality in the future, and in no event shall SDCWA be deemed to have any right to receive Exchange Water of better quality than the Conserved Water and/or Canal Lining Water.

3.7 Alternative Facilities. SDCWA may determine, in its sole discretion, permanently to reduce the aggregate quantity of Conserved Water and Canal Lining Water to be Made Available to Metropolitan under this Agreement to the extent SDCWA decides continually and regularly to transport Conserved Water and/or Canal Lining Water in an amount equal to such reduction in quantity to San Diego County through Alternative Facilities; provided, however, that SDCWA shall furnish to Metropolitan a minimum of five (5) years' advance written notice of such determination. The written notice shall confirm the quantity of Conserved Water and/or Canal Lining Water (if any) which SDCWA will continue to Make Available to Metropolitan. If SDCWA exercises its right under this Paragraph 3.7, Metropolitan's obligation to deliver Exchange Water shall be limited to that specified quantity of Conserved Water and/or

Canal Lining Water that SDCWA continues to Make Available to Metropolitan pursuant to this Agreement.

IV.

CHARACTERIZATION OF EXCHANGE WATER

4.1 Exchange Water as an Independent Local Supply. The Exchange Water shall be characterized for the purposes of all of Metropolitan's ordinances, plans, programs, rules and regulations, including any then-effective Drought Management Plan, and for calculation of any Readiness-to-Serve Charge share, in the same manner as the Local Water of other Metropolitan member agencies, except as provided in Paragraphs 4.2 and 5.2.

4.2 Exception for Interim Agricultural Water Program and Determination of Price. Notwithstanding the provisions of Paragraph 4.1, the Exchange Water delivered to SDCWA shall be characterized as Metropolitan water and not as Local Water only for the limited purposes of Paragraph 5.2 and the Interim Agricultural Water Program.

V.

PRICING AND PAYMENTS

5.1 Payments. SDCWA shall pay the Price for each acre-foot of Exchange Water (including Early Exchange Water, if applicable) delivered by Metropolitan at the Metropolitan Point(s) of Delivery.

5.2 The Price. The Price on the date of Execution of this Agreement shall be Two Hundred Fifty Three Dollars (\$253.00). Thereafter, the Price shall be equal to the charge or charges set by Metropolitan's Board of Directors pursuant to applicable law and regulation and

generally applicable to the conveyance of water by Metropolitan on behalf of its member agencies. For the term of this Agreement, neither SDCWA nor Metropolitan shall seek or support in any legislative, administrative or judicial forum, any change in the form, substance or interpretation of any applicable law or regulation (including the Administrative Code) in effect on the date of this Agreement and pertaining to the charge or charges set by Metropolitan's Board of Directors and generally applicable to the conveyance of water by Metropolitan on behalf of its member agencies; provided, however, that Metropolitan may at any time amend the Administrative Code in accordance with Paragraph 13.12, and the Administrative Code as thereby amended shall be included within the foregoing restriction; and, provided, further, that (a) after the conclusion of the first five (5) Years, nothing herein shall preclude SDCWA from contesting in an administrative or judicial forum whether such charge or charges have been set in accordance with applicable law and regulation; and (b) SDCWA and Metropolitan may agree in writing at any time to exempt any specified matter from the foregoing limitation. In the event that SDCWA contests a matter pursuant to the foregoing sentence, the prevailing Party shall be entitled to recovery of reasonable costs and attorneys fees incurred in prosecuting or defending against such contest.

5.3 Billing and Payments. Metropolitan shall mail monthly invoices to SDCWA in accordance with the Administrative Code, and SDCWA shall make monthly payments of amounts due pursuant to Paragraph 5.1 in accordance with the Administrative Code. The amount of each monthly billing and payment pursuant to this Agreement shall be the quantity in acre-feet of Exchange Water to be delivered by Metropolitan at the Metropolitan Point(s) of

Delivery during the applicable Year, multiplied by the Price as of the commencement of that Year, divided by twelve (12);

5.4 Treatment Surcharge. SDCWA shall pay to Metropolitan an amount equal to the Treatment Surcharge, in addition to the Price, for each acre-foot of Treated Exchange Water.

VI.

ADDITIONAL NOTIFICATIONS

6.1 Confirmation of Water Conservation. SDCWA will provide a written report to Metropolitan, prior to March 31 of each Year, describing the method by which any Conserved Water (including Early Transfer Water, if applicable) that was Made Available to Metropolitan in the prior Year was conserved by IID, including a description of conservation projects resulting in the Conserved Water and the quantity of Conserved Water conserved by each project.

6.2 Notice of Developments.

(a) After the Effective Date, SDCWA agrees to give prompt notice to Metropolitan if it discovers that any of its own representations and warranties herein were untrue when made or determines that any of its own representations and warranties will be untrue as of any date during the term of this Agreement.

(b) After the Effective Date, Metropolitan agrees to give prompt notice to SDCWA if it discovers that any of its own representations and warranties herein were untrue when made or determines that any of its own representations and warranties will be untrue as of any date during the term of this Agreement.

VII

TERM

7.1 Commencement and Expiration. This Agreement shall become effective on the Effective Date and shall expire on the Termination Date, which shall be the later of the dates determined pursuant to subparagraph (a) and (b) below.

(a) Metropolitan's and SDCWA's rights and obligations under this Agreement pertaining to Conserved Water Made Available to Metropolitan pursuant to the Transfer Agreement and this Agreement shall expire and shall thereupon terminate on December 31 of the thirty-fifth (35th) Year, unless SDCWA elects by written Notice to Metropolitan no later than the end of the fifteenth (15th) Year to extend this Agreement to December 31 of the forty-fifth (45th) Year, or shall terminate as otherwise provided in Paragraph 7.2.

(b) Metropolitan's and SDCWA's rights and obligations under this Agreement pertaining to the Canal Lining Water shall expire and shall thereupon terminate on December 31 of the same Year in which the Allocation Agreement terminates, or shall terminate as otherwise provided in Paragraph 7.2.

7.2 Force Majeure.

(a) If the performance, in whole or in part, of the obligations of the respective Parties, or either of them, to Make Available Conserved Water or Canal Lining Water or to deliver Exchange Water (as the case may be) under this Agreement is prevented by acts or failure to act of any agency, court or other government authority, or any other

person; by natural disaster (such as earthquake, fire, drought or flood), contamination or outbreak of a water borne disease, war, strikes, lockouts, act of God, or acts of civil or military authority; by the operation of applicable law; or by any other cause beyond the control of the affected Party or Parties, whether similar to the causes specified herein or not, then, in any such circumstance, the obligation of the affected Party or Parties to cause the delivery of the Conserved Water or Canal Lining Water or to deliver the Exchange Water (as the case may be) under this Agreement shall be suspended from the time and to the extent that the performance thereof is prevented, but reasonable diligence shall be observed by the affected Party or Parties, so far as it lies in their power, in performing such respective obligations in whole or in part under this Agreement. In the event such performance of either of the Parties under this Agreement is prevented as described above, then during the period of such prevention, performance by the non-affected Party under this Agreement shall be excused until such prevention ceases, at which time both the Parties shall become obligated to resume and continue performance of their respective obligations hereunder during the term of this Agreement.

Notwithstanding the foregoing, no such prevention shall suspend or otherwise affect any payment obligations for Exchange Water actually delivered or any obligation of either Party to indemnify the other pursuant to Paragraph 13.10, or shall extend the term of this Agreement beyond the Termination Date, except as provided in Paragraph 7.2(o) below.

(b) In the event the performance by Metropolitan or SDCWA is prevented as described above, the Parties agree actively to cooperate and use their reasonable best

efforts, without diminution of any storage or other rights Metropolitan or SDCWA may have, to support a request to the Bureau for emergency storage in Lake Mead or Lake Havasu for the Conserved Water and/or the Canal Lining Water, if it would avoid the waste or loss of the Conserved Water and/or the Canal Lining Water.

(c) In the event the delivery of Exchange Water by Metropolitan is prevented as described in Paragraph 7.2(a) above, and in the event Conserved Water and/or the Canal Lining Water has been stored as contemplated by Paragraph 7.2(b) above, and such stored Conserved Water and/or the Canal Lining Water is Made Available to Metropolitan, the term of this Agreement shall be extended, for a period not to exceed five Years, without the necessity for further action by either Party, if and to the extent necessary to permit Metropolitan to complete the delivery of Exchange Water in a quantity equal to such stored Conserved Water and/or the Canal Lining Water.

7.3 Survival. Notwithstanding the foregoing or anything to the contrary in this Agreement, any remaining payment obligation of SDCWA under Article V, and the provisions in Paragraphs 12.5, 13.2, 13.3, 13.8, 13.10 and 13.15 and Articles X and XI, shall survive the termination of this Agreement.

VIII.

CONDITIONS PRECEDENT

8.1 Metropolitan's Condition Precedent. Metropolitan's obligations under this Agreement are subject to the execution and delivery of the QSA and the Related Agreements (as defined in Section 1.1 of the QSA), and to the occurrence of the Effective Date.

8.2 SDCWA's Conditions Precedent. SDCWA's obligations under this Agreement are subject to the execution and delivery of the Revised Fourth Amendment to the Transfer Agreement, the Allocation Agreement and the Implementation Agreement, and to the occurrence of the Effective Date.

8.3 Failure of Conditions. If Metropolitan's conditions precedent under Paragraph 8.1 are not satisfied or waived in writing by Metropolitan, or if SDCWA's conditions precedent under Paragraph 8.2 are not satisfied or waived in writing by SDCWA, in each case on or before December 31, 2003, then this Agreement will be void, and all rights and obligations provided hereunder will be terminated.

IX.

COMPLIANCE WITH APPLICABLE LAWS

9.1 Applicable Laws. This Agreement and the activities described herein are contingent upon and subject to compliance with all applicable laws.

X.

ADDITIONAL COVENANTS

10.1 Impact on Transfer Agreement. Nothing in this Agreement shall be construed to amend the Transfer Agreement.

10.2 Implementation of Transfer Agreement. Insofar as the Transfer Agreement is consistent with and implemented in accordance with state and federal law and the California Plan, Metropolitan shall not oppose approval or implementation of that Agreement before the

California State Water Resources Control Board, the Bureau, the United States Department of the Interior or in any other judicial or administrative proceedings

10.3 Support for Surplus Criteria. SDCWA will use reasonable best efforts to support all reasonable efforts by Metropolitan to promote and secure surplus criteria on the Colorado River with the objective of maintaining a full Colorado River Aqueduct.

10.4 Report to Legislature. The Parties shall report as requested to the Legislature of the State of California on the implementation of this Agreement.

10.5 Covenants of Good Faith. This Agreement is subject to reciprocal obligations of good faith and fair dealing.

10.6 SDCWA Consent and Waiver. Notwithstanding any limitations set forth in the Transfer Agreement otherwise restricting IID's right to transfer water to Metropolitan, SDCWA hereby consents to IID's transfer of water to Metropolitan as provided in Articles 5 and 6 of the IID/MWD Acquisition Agreement (as defined in Section 1.1 of the QSA) and waives any right to object thereto. SDCWA shall provide to IID, and shall be bound by, a written acknowledgement of its consent and waiver set forth in the preceding sentence above in such form and to such effect as Metropolitan may reasonably request.

10.7 Allocation Agreement Responsibilities. SDCWA shall indemnify Metropolitan and defend and hold it harmless at SDCWA's sole cost and expense from and against any obligation, liability or responsibility of any kind assigned to SDCWA under and pursuant to the Allocation Agreement and any claim by any person that MWD has any continuing obligation,

liability or responsibility of any kind with respect to the matters assigned to SDCWA under the Allocation Agreement.

XI.

DISPUTE RESOLUTION

11.1 Reasonable Best Efforts to Resolve by Negotiation. The Parties shall exercise reasonable best efforts to resolve all disputes, including Price Disputes, arising under this Agreement through negotiation; provided, however, that SDCWA shall not dispute whether the Price determined pursuant to Paragraph 5.2 for the first five (5) Years of this Agreement was determined in accordance with applicable law or regulation (a "Price Dispute"). In the event negotiation is unsuccessful, then the Parties reserve their respective rights to all legal and equitable remedies.

XII.

EVENTS OF DEFAULT; REMEDIES

12.1 Events of Default by SDCWA. Each of the following constitutes an "Event of Default" by SDCWA under this Agreement if not cured within 30 days of receiving written notice from Metropolitan of such matter:

(a) Subject to Paragraphs 7.2 and 9.1, SDCWA fails to Make Available to Metropolitan Conserved Water or Canal Lining Water, as required under this Agreement.

(b) SDCWA fails to perform or observe any other term, covenant or undertaking that it is to perform or observe under this Agreement.

(c) Any representation, warranty or statement made by or on behalf of the SDCWA and contained in this Agreement or in any exhibit, certificate or other document furnished pursuant to this Agreement is on the date made or later proves to be false, misleading or untrue in any material respect.

12.2 Events of Default by Metropolitan. Each of the following constitutes an "Event of Default" by Metropolitan under this Agreement if not cured within 30 days of receiving written notice from SDCWA of such matter:

(a) Subject to Paragraphs 7.2 and 9.1, Metropolitan fails to deliver the Exchange Water as required under this Agreement.

(b) Metropolitan fails to perform or observe any other term, covenant or undertaking that it is to perform or observe under this Agreement.

(c) Any representation, warranty or statement made by or on behalf of Metropolitan and contained in this Agreement or in any exhibit, certificate or other document furnished pursuant to this Agreement is on the date made or later proves to be false, misleading or untrue in any material respect.

12.3 Remedies Generally. If an Event of Default occurs, the non-breaching Party will have all rights and remedies provided at law or in equity against the breaching Party.

12.4 Enforcement of Transfer and Exchange Obligations.

(a) Any Event of Default as defined in Paragraph 12.1(a) or 12.2(a) may be remedied by an order of specific performance.

(b) So long as no Event of Default as defined in Paragraph 12.1(a) has occurred and is continuing, and so long as SDCWA tenders to Metropolitan full payment of the Agreement Price when due, Metropolitan shall not suspend or delay, in whole or in part, delivery of Exchange Water as required under this Agreement on account of any breach, or alleged breach, by SDCWA, unless first authorized to do so by a final judgment. So long as no Event of Default as defined in Paragraph 12.2(a) has occurred and is continuing, SDCWA shall not suspend or delay, in whole or in part, Making Available Conserved Water and/or Canal Lining Water as required under this Agreement on account of any breach, or alleged breach, by Metropolitan unless first authorized to do so by a final judgment. A violation of the provisions of this subparagraph (b) may be remedied by an order of specific performance.

(c) In the event of a dispute over the Price, SDCWA shall pay when due the full amount claimed by Metropolitan; provided, however, that, during the pendency of the dispute, Metropolitan shall deposit the difference between the Price asserted by SDCWA and the Price claimed by Metropolitan in a separate interest bearing account. If SDCWA prevails in the dispute, Metropolitan shall forthwith pay the disputed amount, plus all interest earned thereon, to SDCWA. If Metropolitan prevails in the dispute, Metropolitan may then transfer the disputed amount, plus all interest earned thereon, into any other fund or account of Metropolitan.

12.5 Cumulative Rights and Remedies. The Parties do not intend that any right or remedy given to a Party on the breach of any provision under this Agreement be exclusive; each

such right or remedy is cumulative and in addition to any other remedy provided in this Agreement or otherwise available at law or in equity. If the non-breaching Party fails to exercise or delays in exercising any such right or remedy, the non-breaching Party does not thereby waive that right or remedy. In addition, no single or partial exercise of any right, power, or privilege precludes any other or further exercise of a right, power, or privilege granted by this Agreement or otherwise.

12.6. Action or Proceeding Between the Parties. Each Party acknowledges that it is a "local agency" within the meaning of § 394(o) of the California Code of Civil Procedure ("CCP"). Each Party further acknowledges that any action or proceeding commenced by one Party against the other would, under § 394(a) of the CCP, as a matter of law be subject to

- (a) being transferred to a "Neutral County," or instead
- (b) having a disinterested judge from a Neutral County assigned by the Chairman of the Judicial Council to hear the action or proceeding.

(c) A "Neutral County" is any county other than Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego or Ventura. In the event an action is filed by either party against the other to enforce this Agreement and to obtain damages for its alleged breach, each Party hereby:

- (i) Stipulates to the action or proceeding being transferred to a Neutral County or to having a disinterested judge from a Neutral County assigned to hear the action;

- (ii) Waives the usual notice required under the law-and-motion provisions of Rule 317 of the California Rules of Court;
 - (iii) Consents to having any motion under § 394(c) heard with notice as an ex parte matter under Rule 379 of the California Rules of Court; and
 - (iv) Acknowledges that this Agreement, and in particular this section, may be submitted to the court as part of the moving papers.
- (d) Nothing in this Paragraph 12.6, however, impairs or limits the ability of a Party to contest the suitability of any particular county to serve as a Neutral County, or operates to waive any other rights.

XIII.

GENERAL PROVISIONS

13.1 No Third-Party Rights. This Agreement is made solely for the benefit of the Parties and their respective permitted successors and assigns (if any). Except for such a permitted successor or assign, no other person or entity may have or acquire any right by virtue of this Agreement.

13.2 Ambiguities. Each Party and its counsel have participated fully in the drafting, review and revision of this Agreement. A rule of construction to the effect that ambiguities are to be resolved against the drafting Party will not apply in interpreting this Agreement, including any amendments or modifications.

13.3 Governing Law. This Agreement shall be governed by and construed in accordance with the laws of the State of California, without giving effect to conflict of laws provisions; provided, however, that federal law shall be applied as appropriate to the extent it bears on the resolution of any claim or issue relating to the permissibility of the transfers or the Making Available of Colorado River water, as contemplated herein.

13.4 Binding Effect; No Assignment. This Agreement is and will be binding upon and will inure to the benefit of the Parties and, upon dissolution, the legal successors and assigns of their assets and liabilities. Neither Party may assign any of its rights or delegate any of its duties under this Agreement. Any assignment or delegation made in violation of this Agreement is void and of no force or effect.

13.5 Notices. All notices, requests, demands, or other communications under this Agreement must be in writing, and sent to both addresses of each Party. Notice will be sufficiently given for all purposes as follows:

- *Personal Delivery.* When personally delivered to the recipient. Notice is effective on delivery.
- *First-Class Mail.* When mailed first-class, postage prepaid, to the last address of the recipient known to the Party giving notice. Notice is effective five mail delivery days after it is deposited in a United States Postal Service office or mailbox.
- *Certified Mail.* When mailed certified mail, return receipt requested. Notice is effective on receipt, if a return receipt confirms delivery.

Overnight Delivery. When delivered by an overnight delivery service such as Federal Express, charges prepaid or charged to the sender's account. Notice is effective on delivery, if delivery is confirmed by the delivery service.

• *Facsimile Transmission.* Notice is effective on receipt, provided that a copy is mailed by first-class mail on the facsimile transmission date.

Addresses for purpose of giving notice are as follows:

To Metropolitan: **Metropolitan Water District of Southern California**
Attn.: Chief Executive Officer

Address for U.S. mail: P.O. Box 54153
Los Angeles, CA 90054-0153

Address for personal or overnight delivery:

700 North Alameda Street
Los Angeles, CA 90012-2944
Telephone: 213-217-6000
Fax: 213-217-6950

With a copy delivered by the same means and at the same address to:

Metropolitan Water District of Southern California

Attn.: General Counsel

To SDCWA:

San Diego County Water Authority

Attn.: General Manager

4677 Overland Avenue
San Diego, California 92123-1233
Telephone: 858-522-6780

Fax: 858-522-6262

With a copy to:

San Diego County Water Authority

Attn.: General Counsel

4677 Overland Avenue

San Diego, California 92123-1233

Telephone: 858-522-6790

Fax: 858-522-6566

(a) A correctly addressed notice that is refused, unclaimed, or undeliverable because of an act or omission by the Party to be notified will be deemed effective as of the first date that notice was refused, unclaimed, or deemed undeliverable by the postal authorities, messenger, or overnight delivery service.

(b) A Party may change its address by giving the other Party notice of the change in any manner permitted by this Agreement.

13.6 Entire Agreement. This Agreement constitutes the final, complete, and exclusive statement of the terms of the Agreement between the Parties pertaining to its subject matter and supersedes all prior and contemporaneous understandings or agreements of the Parties. Neither Party has been induced to enter into this Agreement by, nor is either Party relying on, any representation or warranty outside those expressly set forth in this Agreement.

13.7 Time of the Essence. If the day on which performance of any act or the occurrence of any event hereunder (except the delivery of Exchange Water) is due is not a business day, the time when such performance or occurrence shall be due shall be the first business day (as defined in Section 4507 of the Administrative Code) occurring after the day on which performance or occurrence would otherwise be due hereunder. All times provided in this Agreement for the performance of any act will be strictly construed, time being of the essence of this Agreement.

13.8 Modification. This Agreement may be supplemented, amended, or modified only by the written agreement of the Parties. No supplement, amendment, or modification will be binding unless it is in writing and signed by both Parties.

13.9 Waiver. No waiver of a breach, failure of condition, or any right or remedy contained in or granted by the provisions of this Agreement is effective unless it is in writing and signed by the Party waiving the breach, failure, right, or remedy. No waiver of a breach, failure of condition, or right or remedy is or may be deemed a waiver of any other breach, failure, right or remedy, whether similar or not. In addition, no waiver will constitute a continuing waiver unless the writing so specifies.

13.10 Indemnification.

(a) SDCWA shall indemnify Metropolitan pursuant to Section 4502 of the Administrative Code against liability in connection with acts of SDCWA after Metropolitan's delivery of the Exchange Water, to the same extent as is required with respect to water supplied by Metropolitan to a member public agency. Such

indemnification shall be in addition to any indemnification rights available under applicable law and to any other remedy provided under this Agreement.

(b) Metropolitan shall indemnify SDCWA pursuant to Section 4502 of the Administrative Code against liability in connection with Metropolitan's delivery of the Exchange Water to the same extent as is required with respect to water supplied by Metropolitan to a member public agency. Such indemnification shall be in addition to any indemnification rights available under applicable law and to any other remedy provided under this Agreement.

(c) Notwithstanding anything in this Agreement to the contrary, each Party agrees to proceed with reasonable diligence and use reasonable good faith efforts to jointly defend any lawsuit or administrative proceeding by any person other than the Parties challenging the legality, validity, or enforceability of this Agreement.

13.11 Authority of the Legislature. Nothing in this Agreement will limit any authority of the Legislature of the State of California to allocate or reallocate water.

13.12 Right to Amend the Administrative Code. Notwithstanding anything to the contrary in this Agreement, express or implied, Metropolitan shall have the right to amend the Administrative Code at its sole discretion, except that, for the purposes of this Agreement, no such amendment shall have the effect of changing or modifying Paragraphs 8.1 and 8.2, or the obligation of Metropolitan to deliver Exchange Water hereunder, unless such effect is first approved by the Board of Directors of SDCWA.

13.13 Right to Amend Transfer Agreement and Allocation Agreement.

Notwithstanding anything to the contrary in this Agreement, express or implied, SDCWA shall have the right to amend the Transfer Agreement and/or the Allocation Agreement at its sole discretion, except that, for purposes of this Agreement, no such amendment shall have the effect of changing or modifying Paragraphs 8.1 and 8.2, the obligation of SDCWA to Make Available Conserved Water and/or Canal Lining Water hereunder, or the Price payable by SDCWA with respect to any Exchange Water, or be binding on Metropolitan, unless such effect is first approved by the Board of Directors of Metropolitan.

13.14 Counterparts. This Agreement may be executed in two or more counterparts, each of which, when executed and delivered, shall be an original and all of which together shall constitute one instrument, with the same force and effect as though all signatures appeared on a single document.

13.15 Audit. Each Party shall be responsible for assuring the accuracy of its books, records and accounts of billings, payments, metering of water, and other records (whether on hard copy or in electronic or other format) evidencing the performance of its obligations pursuant to this Agreement and shall maintain all such records for not less than three years. Each Party will have the right to audit the other Party's books and records relating to this Agreement for purposes of determining compliance with this Agreement during the term hereof and for a period of three years following termination of this Agreement. Upon reasonable notice, each Party shall

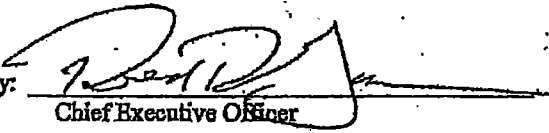
cooperate fully with any such audit and shall permit access to its books, records and accounts as may be necessary to conduct such audit.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first written above.

Approved as to Form:

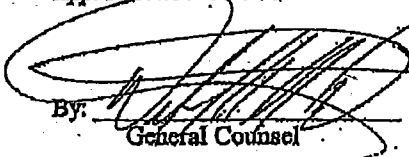
The Metropolitan Water District of Southern California

By: 
General Counsel

By: 
Chief Executive Officer

Approved as to Form:

The San Diego County Water Authority

By: 
General Counsel

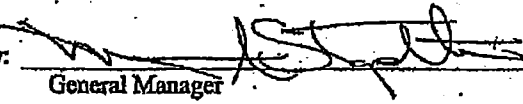
By: 
General Manager

Exhibit B

Water Policy Committee
July 14, 2004
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MWD

METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Date: June 18, 2004
To: Member Agency Managers
From: Ronald R. Gastelum, Chief Executive Officer

Subject: Rate Structure Integrity

For several years we have discussed the continuing financial risk to Metropolitan and the member agencies from the threat of legal or legislative actions undermining our rate structure. As in the past, some entities for their own gain may challenge the rate structure in order to convey water at a lesser cost than as required to properly maintain the system's integrity and reliability. This challenge is not presented by deficiencies in the rate structure, but by the continuing economic attraction of lower cost based agricultural transfer water if it can be conveyed into our service area at marginal cost. Historically, this has specifically meant challenges to the system access rate and, in the future, perhaps the water stewardship charge.

One indication that such concerns are still valid was the San Diego County Water Authority's position in the QSA agreement reserving their right to challenge Metropolitan's uniform wheeling rates after five years from the date of execution of the QSA.

The problem is not member agencies questioning or trying to change the rate structure in an open policy deliberation where all agencies may participate. As long as it is done within our regular board proceedings there is a high likelihood that both the discussion and outcome would be constructive and produce an equitable and financially sound result. No single member agency has a majority of the votes and the committee system encourages consideration of all member agency positions. The recent modernization of Metropolitan's rate structure, accomplished with the technical assistance of the member agency managers, is the best evidence of the healthy and responsible democratic decision-making process here at Metropolitan.

Our infrastructure costs are going up. Infrastructure costs for agricultural water supplies are relatively low. We have also made a collective decision to commit hundreds of millions of dollars to conservation, local resources, and seawater desalination projects. This resource decision was based on sound reasoning that balanced risk, reliability, and cost. But, these resources may not always be the least cost water supply options for Metropolitan and individual member agencies in the near-term. Demand management projects supported through stewardship rates present long-term advantages in the form of greater reliability and the mitigation of risk that comes with short-term options such as water transfers. In the end, we believe the IRP strategy will result in better local and regional reliability, even though these investments may increase our short-term costs relative to other alternatives such as agricultural water transfers.

I will acknowledge that my assessment of the threat has been shaped by my previous experience in the waste management industry, and the past several years where Metropolitan has had to deal with direct legal and legislative assaults on Metropolitan's wheeling rates. In the waste management field, I saw well-intentioned companies and public agencies make large investments in recycling and more environmentally friendly

waste treatment technologies only to find themselves burdened with uncompetitive high costs while competitors continued to be permitted by law to offer less costly low technology land disposal options.

Those that seek an economic advantage can characterize the issues in many ways. For example, it wasn't long ago that Metropolitan's rate structure was being described as monopolistic and archaic. Metropolitan was vilified for blocking a "free water market." These arguments, while unfounded, were used during the time that energy was being deregulated in the late 1990's to try and convince the State Legislature to mandate a different rate structure. However, these arguments ignored the clear evidence that such a mandate would result in inequitable cost shifts among the member agencies. It took a debilitating California energy crisis and an unexpected financial collapse of Enron to alarm the Legislature and quell the "reform" proposals that were being aggressively advocated by SDCWA and private water marketers.

Differing views may be honestly held, but the economic risks remain. The member agencies and their customers ultimately bear the burden of unfair cost shifts evolving at the regional level. Further, member agencies themselves face a risk of financial instability. When costs are rapidly rising to pay for needed infrastructure investments the cost of new supplies may become unpredictable, making it more difficult to plan and finance local projects. Thus, the current proposed member agency seawater desalination projects recognize the need to manage this risk through state, federal and Metropolitan subsidies.

As we continue to implement Metropolitan's IRP and comparable member agency plans we have a choice. We can assume that wheeling rate threats are behind us as a result of recent past successful efforts against the legal and legislative challenges or we can consider actions that can be taken to mitigate the risk of challenges to a predictable revenue base that supports our planned regional and local investments.

I believe we share a responsibility to identify the risk, promote careful analysis, and mitigate the risk if it is significant. Metropolitan's board and the member agencies after due consideration may determine that the risk is not significant, or that even if significant, they are prepared to assume the risk. These judgments can be made. However, at this point we have yet to fully evaluate the risks and possible mitigation strategies.

I have attached proposed language for inclusion in all new Metropolitan LRP and seawater desalination grant agreements with member agencies. I propose this as an initial attempt to mitigate the risk I have described.

The proposal recognizes that the IRP strategy will require hundreds of millions of dollars for Metropolitan grants for local projects. It asserts that as a condition of receiving a competitive grant, recipients not deliberately engage in actions outside of the Metropolitan board proceedings that would jeopardize Metropolitan's rate structure. The

intention is to prevent cost shifts among member agencies and promote regional cooperation in making needed long-term infrastructure and water supply investments.

I do not believe such a provision is unreasonable or out of the norm. In commerce or charity one would be hard pressed to find any benefactor willing to allow its recipients the wholesale right to compromise its financial stability to seek further advantage. Simply put, it is usually bad business and not healthy for long term relationships to "bite the hand that feeds you." In this case, the recipients are individual member agency grantees, and the benefactors are the other member agencies and with their collective consent, Metropolitan.

The rate structure integrity language I am proposing permits grant recipients to bring challenges. However, to encourage them to make their reasonable arguments within the Board's rate making process where all agencies can participate, the penalty for outside challenge is loss of future unpaid grant proceeds.

Finally, Metropolitan is not obligated to provide grants. There are many more grant requests than funds allocated. It is reasonable to request that voluntary grant recipients (member agencies with full participation rights in Metropolitan's governance) agree that they will refrain from attacking Metropolitan's rate structure in court or in the legislature as a grant condition. Beyond forced cost shifts, the cost and risk to Metropolitan and the member agencies of high profile fights in the courts and the legislature is incalculable harm to broader regional objectives.

Due process protections have been built into the proposed language at the suggestion of member agency managers. The Metropolitan CEO does not have unilateral authority. An opportunity for mediation and appeal to Metropolitan's board is also provided.

I am open to other ideas and am attempting to begin a meaningful discussion. I am looking forward to your comments and the discussion at our July Member Agency Manager's meeting. I recommend that we focus our discussion on three topics: evaluation of the risk I have described, the proposed rate structure integrity grant contract provision, and other ideas. Thank you for your attention and input on this important issue.

Proposed language for inclusion in all new MWD LRP and seawater desalination grant agreements with member agencies

(Attachment to June 18 memo from CEO Gastelum to MWD member agencies)

Rate Structure Integrity

1. [Grantee] and [Member Agency if different than Grantee] agree and understand that Metropolitan's rate structure supports funding for the LRP, as well as other programs designed to meet Metropolitan's Integrated Resources Plan water supply reliability goals. _____ and _____ further acknowledge and agree that Metropolitan's existing rate structure and methodology, as well as its current rates and charges and any rates and charges that have been adopted by Metropolitan's Board of Directors but are not yet in effect, are valid and have been properly adopted in accordance with both Metropolitan's rules and regulations and all applicable laws.

2. _____ and _____ agree that they will address any and all future issues, concerns and disputes relating to (a) the System Access Rate and Water Stewardship Rate and/or (b) those portions of any future Metropolitan rate structure and methodology intended to recover comparable costs associated with Metropolitan's conveyance and distribution system or demand management programs (hereafter "Rates and/or Rate Structure") through Metropolitan's Board process, and not by filing or participating in any litigation or supporting legislation to challenge or modify Metropolitan's Rates and/or Rate Structure. The Parties further agree that if either _____ or _____, or both of them, file or participate in litigation or support legislation to challenge or modify Metropolitan's Rates and/or Rate Structure, and any Legislature or court of competent jurisdiction finds or declares any portion of them to be invalid or otherwise unenforceable, Metropolitan's Chief Executive Officer may file a 90-day notice of intent to terminate this Agreement with Metropolitan's Executive Secretary with copies to all members of Metropolitan's Board, and contemporaneously provide _____ and _____ with a copy of the notice. Within 30 days of receipt of such notice _____ and _____ shall have the right to request in writing mediation of the dispute by a third party neutral with expertise in finance and rate setting. The mediator shall be selected by agreement of the parties, or failing agreement within 30 days of such request for mediation, a mediator shall be selected by the Metropolitan Board of Directors from a list of at least 4 candidates, two of which will be supplied by _____ and _____ and two of which will be supplied by Metropolitan's Chief Executive Officer. The costs of the mediation shall be borne equally by the parties. The request for mediation shall also serve to stay the 90-day notice of intent to terminate, but for no more than 90 days beyond the filing of the notice of request for mediation, unless otherwise agreed in writing by the parties. If mediation does not result in an agreement acceptable to each party to this Agreement, within the time provided herein, the notice of intent to terminate shall

Water Policy Committee

July 14, 2004

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be reinstated. Unless Metropolitan's Board of Directors acts to disapprove termination of this Agreement, this Agreement and all of Metropolitan's obligations hereunder shall terminate on the ninetieth day following filing of the notice to terminate, or if mediation has been requested as described above, the ninetieth day following the request for mediation (or other date agreed in writing by the parties).

Exhibit C

MINUTES
REGULAR MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
DECEMBER 14, 2004

46011 The Board of Directors of The Metropolitan Water District of Southern California met in Regular Meeting in the Board Room located in the building at 700 North Alameda Street in the City of Los Angeles, State of California, on Tuesday, December 14, 2004.

Chairman Pace called the Meeting to order at 12:07 p.m.

46012 The Meeting was opened with an invocation by Director Isadore Hall III.

46013 The Pledge of Allegiance to the Flag was given, led by Councilman Robert Bagwell of the City of Montebello.

46014 Board Secretary Hansen called the roll. Those answering present were: Directors Abdo, Bakall, Bannister, Blake, Brick, Brown, Coughran, De Jesus, Dentler, Dick, Edwards, Farrar, Fellow, Foley, Grandsen, Hall, Hansen, Harris, Koopman, Kwan, Lewis, Loveland, Luddy, Morris, Murray, Mylne, Pace, Parker, Peterson, Pocklington, Record, Rez, Simonds, Tait, and Wright.

Those not answering were: Directors Apodaca and Veres (entered 12:20 p.m.).

Chairman Pace declared a quorum present.

46015 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction. No members of the public responded.

46016 There being no objection, Chairman Pace ordered the reading of the Minutes of the Meetings of November 9 and 23, 2004, dispensed with, copies having been mailed to each Director.

Director Coughran moved, seconded by Director Blake and carried, approving the foregoing Minutes as mailed.

46017 Staff from the education section of the External Affairs Group introduced students from kindergarten to high school, whose artwork was featured on Metropolitan's 2005 "Water is Life" calendar.

46018 Chairman Pace presented to Director Emeritus Bonny L. Herman a Commendatory Resolution for her service on Metropolitan's Board from April 1995 to April 2004, representing the City of Los Angeles.

Director Veres took his seat at 12:20 p.m.

46019 Chairman Pace reported that on November 20, 2004, Metropolitan hosted the dedication of the Allan Preston Museum at Gene Village, and thanked Mr. Preston for all his efforts and work at Metropolitan. The Chair also acknowledged Metropolitan's Met Vets who assisted in the museum event. Certificates of Appreciation were given to retirees Darrell McBride, Gary Hazel, Don Sullivan, Ron Johnson, Robert Garcia, Mike Young, Edward Garcia, Jake Stanish, Sheila Landsman, and Don Grant. Mr. Young accepted the Certificates on behalf of the group.

The Chair presented Commendatory Resolutions to:

Director Emeritus Fred Lantz who is retiring after 17 years of service at Burbank Water and Power, and who served on Metropolitan's Board from January through March 1999, representing the City of Burbank.

Gerald Gewe, Assistant General Manager-Water at the Los Angeles Department of Water and Power, following a 38-year career with the City of Los Angeles.

David Furukawa, who is retiring after 30 years of service, with the last 19 years as Metropolitan's Controller.

Ronald R. Gastelum, Metropolitan's Chief Executive Officer, and who previously served on Metropolitan's Board from January through November 1998, and previously served as a member of the General Counsel's office and as Metropolitan's legislative advocate in Washington, D.C.

Director Lewis withdrew from the Meeting at 12:28 p.m.

46020 On behalf of the Nominating Committee, Director Record reported the committee met on September 7, 2004, to consider filling a position on the Inquiry and Review Committee; and after consideration for the position, the committee nominated Director David Farrar for the position on the Inquiry and Review Committee for the three-year term commencing January 1, 2005 and ending December 31, 2007.

Director Record then moved, seconded by Board Secretary Hansen and carried, that Director Farrar be elected for the position on the Inquiry and Review Committee for the three-year term commencing January 1, 2005 and ending December 31, 2007.

46021 Chairman Pace reported the Executive Committee had authorized the Chairman to put together a program for transition to a new Chief Executive Officer after Ronald R. Gastelum steps down on December 31, 2004. Executive Vice President Gilbert F. Ivey will be the Interim Chief Executive Officer, effective January 1, 2005. Mr. Gastelum will assist during the transition period as advisor to the Chief Executive Officer and the Board for a period of time, not to exceed six months, with the terms subject to approval of the General Counsel.

Vice Chairman Foley moved, seconded by Board Secretary Hansen and carried, approving the appointment of Gilbert F. Ivey to be the Interim Chief Executive Officer and Ronald R. Gastelum to be advisor to the Chief Executive Officer and the Board for up to six months.

46022 Communications, Outreach and Legislation Committee Chair Fellow reported the committee considered the Inspection Trip Program and, after hearing from members of the public, approved the continuation of the inspection trips. Chief Executive Officer Gastelum stated that this program has been a positive experience for Metropolitan, and one that has been reviewed continuously from the beginning. He continued that in moving forward, this experience has given Metropolitan the opportunity to hear from the public on how we can improve and continue to provide this program.

Director Blake moved, seconded by Director Edwards and carried, and the Board reaffirmed support for continuation of the Director-Sponsored Inspection Trip Program as set forth in the letter signed by the Chair of the Communications, Outreach and Legislation Committee on December 7, 2004.

46023 On behalf of the City of Los Angeles, Councilman Dennis Zine presented Commendatory Resolutions to Chief Executive Officer Ronald R. Gastelum and Chairman of the Board Phillip J. Pace for their efforts in water management for the Southern California region.

46024 Chairman Pace presented plaques of appreciation to Board Secretary Hansen and Director Luddy for their chairmanships on the Desalination Subcommittee and the Water Planning, Quality and Resources Committee, respectively.

46025 Chairman Pace thanked all the Directors at Metropolitan for giving him the privilege of serving the Board as Chairman for the past six years. He reviewed some of the major events that took place during his tenure: the completion of Diamond Valley Lake, innovative dry-year storage programs, added conservation, environmental protections for the source of water, the Quantification Settlement Agreement on the Colorado River, a CALFED bill passed by the U.S. Congress, the Inland Feeder Program, a strategic plan on rate structure, the Integrated Resources Plan, and developments at Diamond Valley Lake to include The Center for Water Education.

Executive Vice President Ivey thanked the co-sponsors of last night's holiday event: David Argo, Black & Veatch; Russ Behrens, McCormick, Kidman & Behrens; Ed Casey, Weston Benshoof; Steve Friessen, Boyle Engineering; Kevin Hunt, Municipal Water

District of Orange County; Paula Jones, Irvine Ranch Water District; Jerry King, EMA, Inc.; Mike Rudinica, Robert Bein, William Frost & Associates; Bob Siemak, Parsons; John Thornton, Psomas; and Bob Apodaca, Central Basin Municipal Water District.

46026 Regarding Colorado River, Bay-Delta, and CALFED matters, Chief Executive Officer Gastelum referred to his activity report for November dated December 7, 2004, which was distributed earlier.

Chief Executive Officer Gastelum reported that more supplies have been made available to Metropolitan from the Colorado River than was projected earlier in the year, and that eight pumps were being pumped right now with full pumping to continue through the end of the year.

46027 Regarding Legal Department activities, General Counsel Kightlinger referred to his activity report for November dated December 7, 2004, which was distributed earlier.

General Counsel Kightlinger reported that of significant importance to Metropolitan are two cases that the Legal Department will be taking note of during the coming year: *Central Delta Water Agency, et al. v. State Water Resources Control Board* and the PG&E Potter Valley Project - 60-day Notice of Intent to Sue.

46028 General Auditor Riss presented a summary report of the Audit Department's activities for the month of November. He began by noting that two audit reports were issued during the month. Specifically, he noted the Official Statement for the Water Revenue Bonds, 2003 Series B-3 and B-4, and the Official Statement for the Water Revenue Refunding Bonds, 2004 Series C.

Mr. Riss then conducted a brief discussion of these reports. He noted that these reviews of the Official Statements for the above-named Bonds were undertaken to provide the underwriters of the Bonds "comfort" that the Official Statements for the Bonds are complete, consistent with supporting financial records and accurate in all material respects.

In addition, Mr. Riss stated that the Audit Department has been assisting in putting together the 180-day response to the state audit, which will be filed toward the end of the year.

46029 Ethics Officer Elliott referred to her activity report for November dated November 29, 2004, which was distributed earlier. She reported that the Inquiry and Review Committee was conducting a formal review of allegations of impropriety in the award and administration of a contract to Securitas, the company that provides security to Metropolitan's facilities. The committee determined that the scope of the review was twofold: the use of Metropolitan's property by the contractor, which will be investigated by an internal audit to be completed within 30 days; and the next being questions of irregularities in the award of the contract to Securitas, which will be investigated by an external investigator. The committee will meet on January 25, 2005 to review the process of the investigation.

Dr. Elliott reminded the Directors of the upcoming presentation on disclosure and Form 700 on January 25 by Attorney Steven Churchwell, external counsel to Metropolitan, and formerly General Counsel to the Fair Political Practices Commission. She urged the Board and designated employees to attend the meeting.

46030 Chief Executive Officer Gastelum commented on the report dated December 14, 2004, distributed to the Board regarding the Award for Excellence for fiscal year 2003/04. This program awards employees for exemplary performance.

Mr. Gastelum also reported on the Prism awards received by the External Affairs Group for its internal and external programs during fiscal year 2003/04. He stated that the External Affairs Group competed against the largest national and international public relations agencies and against major corporations such as Toyota, Boeing, and McDonalds. Chief Executive Officer Gastelum recognized those employees from the External Affairs Group who participated in this award program.

46031 The reports of the Standing Committees are as follows:

Chairman Pace reported the Executive Committee, at its meeting of November 23, discussed and approved the proposed items for December's Board and committee agenda items. The committee was informed there will be a name change regarding the use of the word "filtration" at the various filtration plants to keep in line with the use of the correct name and regulations with today's technology. The new name will reference

"treatment" plant. The committee heard reports on activities of the Audit Subcommittee and the Colorado River Board. An update was given on the status of the search for the Chief Executive Officer. The committee approved the nomination of Executive Vice President Gilbert F. Ivey for the position of Interim Chief Executive Officer while the search and hiring of a Chief Executive Officer takes place.

Asset, Real Estate and Infrastructure Policy Committee Chairman Record reported the committee received updates on the status of real estate activities and on actions taken at the Diamond Valley Lake and Lake Skinner Oversight Subcommittee meeting of November 23, 2004.

Budget, Finance and Investment Committee Chairman Mylne reported the committee unanimously approved Agenda Item 8-3 with the stipulation that capitalization criteria for investment banking team members be reviewed at the January committee meeting. The committee also unanimously approved Agenda Item 9-3 and Committee Chair Mylne requested it be moved to the Consent Calendar.

Communications, Outreach and Legislation Committee Chairman Fellow reported the committee heard reports on the annual exhibit for the "Water is Life" art contest; the upcoming event on December 17 saluting Senator Diane Feinstein for her work on CALFED; the restructuring of the Community Partnering Program for fiscal year 2005/06; the special "Straight from the Tap" episode on "A California Friendly Garden Makeover"; and the current activities from both Washington, D.C. and Sacramento.

Engineering and Operations Committee Chairman Wright reported the committee approved Agenda Items 8-1, 8-2, 9-1, and 9-2, and requested Items 9-1 and 9-2 be added to the Consent Calendar. The committee deferred Agenda Item 9-10 to the full Board for consideration. The committee heard oral reports on the Inland Feeder Program and the system operations and accomplishments for the year 2004. A year-end video on the accomplishments made by Engineering in the year 2004 was shown.

Legal, Claims and Personnel Committee Chairman De Jesus reported that the committee approved Agenda Items 8-4, 8-5, 9-6, and 9-7 and requested that Items 9-6 and 9-7 be placed on the Consent Calendar. In closed session, the committee heard

a report on potential claims and the status of the Arrowhead Tunnels construction of the Inland Feeder Program. The committee tabled the report on *Arizona v. California* to the next month's meeting. The committee also heard a report on Proposition 59, approved by the voters in November, regarding constitutional changes to the Public Records Act.

Water Planning, Quality and Resources Committee Chairman Luddy reported the committee held a public hearing on key accomplishments and information contained in Metropolitan's annual water management progress report to the Legislature. The committee discussed CALFED ten-year funding targets. The committee approved a modified Option #1 in Agenda Item 9-4, deferring the effective date until April 15, 2005, to permit additional recommendations and study of a dedicated Water Stewardship Fund. In closed session, the committee heard Agenda Item 9-5, the settlement agreement related to the Department of Water Resources' application for a new FERC license for the Oroville Facilities. In open session the committee approved it, and Committee Chairman Luddy requested Item 9-5 be placed on the Consent Calendar.

Director Blake moved, seconded by Director Coughran and carried, and the Board approved the Consent Calendar Items, M.I. 46032 through M.I. 46042, as follows:

46032 Adopted the California Environmental Quality Act (CEQA) determination and (a) appropriated \$720,000 in budgeted funds (Appropriation No. 15371, No. 7, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) awarded a construction contract for \$546,275 to Best roofing & Waterproofing, Inc. to perform leak repairs at Jensen Basin No. 3, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46033 Adopted the CEQA determination and (a) appropriated \$1.42 million in budgeted funds (Appropriation No. 15415, No. 2, from Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) authorized final design of roofs for tank farms at the Jensen, Weymouth, and Mills treatment plants, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

Director Morris requested to be recorded as abstaining due to a potential perception of a conflict of interest as his son works with Montgomery Watson Harza Americas.

46034 Adopted the CEQA determination and amended the recommendation set forth in the letter signed by the Chief Executive Officer on October 19, 2004, and approved selection of Metropolitan's investment banking team to provide services associated with the future issuance of Metropolitan debt, with the stipulation that capitalization criteria for investment banking team members be reviewed at the January committee meeting.

46035 Adopted the CEQA determination and approved the amendment to Administrative Code Section 7304 set forth in Attachment 1 to the letter jointly signed by the Ethics Officer and the General Counsel on November 19, 2004, regarding Conflicts of Interest.

46036 Adopted the CEQA determination and approved the proposed amendments to Administrative Code Sections 1106 and 6225 as set forth in Attachment 1 to the letter signed by the General Counsel on November 22, 2004, regarding Holidays, effective January 1, 2005.

46037 Adopted the CEQA determination and authorized entering into an agreement with MARRS Services, Inc. in an amount not to exceed \$3.6 million for construction inspection and support services for Colorado River Aqueduct-related projects, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46038 Adopted the CEQA determination and authorized an amendment for an increase from \$3 million to \$5 million to the agreement with the United States Forest Service for reimbursable staff time on the Arrowhead Tunnels portion of the Inland Feeder Program to an amount not to exceed \$5 million, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46039 Adopted the CEQA determination and approved payments up to a total of \$504 million for calendar year 2005 charges for State Water Project and Devil Canyon/Castaic contracts, as set forth in the letter signed by the Chief Executive Officer on November 19, 2004.

46040 Adopted the CEQA determination and authorized execution of a settlement agreement and supplemental benefits fund agreement related to license conditions to be included in the Department of Water Resources' application to the Federal Energy Regulatory Commission for a new license under the Federal Power Act for the State Water Project's Oroville Facilities, as set forth in the confidential letter signed by the Chief Executive Officer on December 2, 2004.

46041 Adopted the CEQA determination and authorized increase by \$100,000 of maximum payable amount under contract with Bingham McCutchen LLP to defend Metropolitan in the appeal of *Louis H. Cardenas, et al. v. Metropolitan*, as set forth in the confidential letter signed by the General Counsel on November 22, 2004.

46042 Adopted the CEQA determination and authorized increase of \$750,000 in maximum amount payable under contract with Bergman & Dacey to defend Metropolitan in related lawsuits challenging the employment status of temporary workers in *Dewayne Cargill, et al. v. Metropolitan*, LASC Case No. BC 191881 (consolidated with LASC Case Nos. BC 194444 and BS 052316), as set forth in the confidential letter signed by the General Counsel on December 7, 2004.

Director Dentler requested to be recorded as abstaining due to a conflict of interest, as her husband represents one of the parties to this action.

46043 Regarding the potential claims and status of Arrowhead Tunnels construction of the Inland Feeder Program, no action was taken.

46044 Regarding *Arizona v. California*, United States Supreme Court, this item was tabled to the next month's meeting.

46045 Regarding inclusion of rate structure integrity language in future water management program incentive agreements, Director Loveland stated that there was the opportunity to develop a consensus-based solution to this item, and that the General Managers of the member agencies that submitted a proposal to Metropolitan's Chief Executive Officer, at his request, have indicated they could complete that effort by March 2005. Director Loveland requested that the Board give the member agency managers the extra time to bring their recommendation back to the Board. Director Loveland then moved Option No. 3 in Board Letter 9-4 signed by the Chief Executive Officer on December 2, 2004, to defer action until the member agency proposal on rate structure integrity language is completed in March 2005.

Water Planning, Quality and Resources Committee Chairman Luddy reported the committee had approved Option No. 1 in the board letter with amendments to include the extension to April 15 for the member agency managers to develop their recommendation, which would be taken up at the committee meeting on March 15, 2005. Director Luddy therefore stated that the action of the committee should move forward, and then moved Option No. 1 in the aforementioned letter, as amended, as follows:

Adopt the CEQA determination and authorize inclusion of rate structure integrity language, as specified in Attachment 1 to the board letter, in all future Local Resources, Seawater Desalination and Conservation programs, and in all existing Local Resources Program agreements that were approved subject to negotiating the rate structure integrity language; and

- That the effective date of Option 1 be April 15, 2005 to provide an opportunity to the Board for consideration;
- That member agency managers be invited to make further recommendations to the Board on the approved rate structure integrity language at the March 15, 2005 Water Planning, Quality and Resources Committee meeting; and
- That staff be directed to report to the Board on the feasibility of establishing a dedicated Water Stewardship Fund as part of the 2005/06 budget.

Following a discussion on rate stability, the differences in the options, and definitive dates, Director Loveland again moved, seconded by Director Koopman, to defer action until the member agency proposal on rate structure integrity language is completed on April 15, 2005.

Following further discussion on conservation, recovery of groundwater basins, recycling of wastewater, and not delaying the program, Director Luddy moved a substitute motion for Option No. 1 in Board Letter 9-4, as amended by the committee, and set forth above. Director Murray seconded the substitute motion.

The Chair called for a vote on the substitute motion.

The following is a record of the vote on the substitute motion:

Ayes: Burbank (Dir. Brown, 1,287 votes), Calleguas Municipal Water District (Dir. Grandsen, 5,928 votes), Central Basin Municipal Water District (Aye: Dir. Pace. Absent: Dir. Apodaca. 8,128 votes), Compton (Dir. Hall, 230 votes), Fullerton (Dir. Blake, 1,090 votes), Las Virgenes Municipal Water District (Dir. Petersen, 1,378 votes), Long Beach (Dir. Hansen, 2,669 votes), Los Angeles (Dirs. Dentler, Farrar, Luddy, and Simonds, 28,088 votes), Municipal Water District of Orange County (Dirs. Bakall, Dick, and Foley, 18,844.50 votes), Pasadena (Dir. Brick, 1,381 votes), San Fernando (Dir. Veres, 109 votes), Santa Ana (Dir. Coughran, 1,574 votes), Santa Monica (Dir. Abdo, 1,648 votes), Three Valleys Municipal Water District (Dir. De Jesus, 3,706 votes), Torrance (Dir. Wright, 1,652 votes), West Basin Municipal Water District (Dir. Murray, 4,887.50 votes). Total 82,600 votes.

Noes: Anaheim (Dir. Tait, 2,622 votes), Eastern Municipal Water District (Dir. Record, 3,570 votes), Foothill Municipal Water District (Dir. Edwards, 921 votes), Glendale (Dir. Rez, 1,626 votes), Inland Empire Utilities Agency (Dir. Koopman, 5,379 votes), San Diego County Water Authority (Noes: Dirs. Loveland, Parker, and Pocklington. Absent: Dir. Lewis. 20,222 votes), San Marino (Dir. Morris, 304 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 5,256 votes), West Basin Municipal Water District (Dir. Kwan, 4,887.50 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 5,043 votes). Total 63,519 votes.

Abstain: None.

Absent: None.

The Chair declared the substitute carried by a vote of 82,600 ayes and 63,519 noes.

46046 At 1:49 p.m., the Chairman called the Meeting into closed session pursuant to Government Code Section 54956.9(b) to consider potential claims on Contract No. 1542 for the Arrowhead Tunnels of the Inland Feeder Program.

At 2:07 p.m., the Chair called the Meeting into open session. Chairman Pace reported that the Board directed staff to continue with negotiations.

Directors Hall and Record withdrew from the Meeting at 2:14 p.m.

Director Simonds withdrew from the Meeting at 2:21 p.m.

46047 Chief Executive Officer Gastelum reported that Item 9-10 was an important part of the San Diego Pipeline No. 6 project and two bids were received. Since there were some questions regarding the bids, staff waited for some time to bring this item to the Board. The questions have now been resolved and staff was now requesting that the Board go forward with awarding the contract to the winning bidder.

There was discussion regarding the winning bidder and other work that the contractor has done for the District, and whether this item has to go forward at this time. Director Bakall moved, seconded by Director Peterson, that this item be tabled. The motion to table did not carry.

Director Bannister then moved, seconded by Director Murray and carried, and the Board adopted the CEQA determination and (a) appropriated \$65.8 million (Appropriation No. 15121, No. 11, from Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) awarded a contract to J. F. Shea Construction, Inc. for \$65.806 million for construction of the North Reach of San Diego Pipeline No. 6, as set forth in the

letter signed by the Chief Executive Officer on December 7, 2004.

Directors Bakall and Coughran requested to be recorded as voting no.

46048 The following communications were submitted to the Board for information:

- a. Proposed Water Management Pilot Project with Lower Tule River Irrigation District, signed by the Chief Executive Officer on November 19, 2004.
- b. Restructuring of the Community Partnering Program for fiscal year 2005/2006, signed by the Chief Executive Officer on November 24, 2004.

46049 There being no objection, Chairman Pace adjourned the Meeting at 2:28 p.m. in memory of the late Director and Chairman of the Board E. Thornton Ibbetson.

HELEN Z. HANSEN

SECRETARY

PHILLIP J. PACE

CHAIRMAN

Exhibit D

Colantuono
letter

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April 12, 2010

Mr. Tim Brick, Chairman and Members of the Board
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Proposed Water Rates to be Effective January 1, 2011

Dear Chairman Brick and Members of the Board:

Introduction and Summary of Conclusions. I write on behalf of the San Diego County Water Authority to express the basis of our conclusion that the proposed water rates that Metropolitan's staff recommends for Board adoption on April 13, 2010 do not comply with industry practice or California law. This opinion is based on our review of the rates, Board letters and attachments that purport to justify them, an April 5th memo from your General Manager and General Counsel which seeks to rebut these concerns as expressed by the Water Authority at the Board's March 8th meeting ("the April 5th memo"), the April 6th report from Raffelis Financial Consultants ("April 6th Raffelis Report"), and other Metropolitan documents. We have also reviewed the Water Authority letter of March 8, 2010, the Bartle Wells Associates memorandum attached to that letter, the public hearing testimony of Dennis Cushman, and the further letter from the Water Authority dated April 12, 2010 and a Bartle Wells memorandum attached to that letter of that same date. For the reasons expressed below, we conclude the proposed rates do not reflect industry practice and are not consistent with the requirements of California law. In particular, the rates as proposed do not meet Metropolitan's legal obligation to adopt rates which reflect the actual, reasonable and proportionate cost of serving each customer of Metropolitan. Accordingly, we urge your Board to refrain from adopting these rates and to direct Metropolitan staff to revise the proposed rates to address the specific issues which are addressed in the Bartle Wells memoranda, this letter and correspondence and testimony previously provided by the Water Authority.

Discussion. Metropolitan is legally obligated to impose, and claims that it has imposed, a rate structure that reflects costs to serve its various customers that are real, reasonable, and proportionate to the cost of service. This obligation derives from Metropolitan's principal act, Proposition 13 and statutes implementing it, and the common law of utility rate-making developed by California courts.

Metropolitan Water District of Southern California
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Metropolitan's Principal Act, Water Code Appendix Section 109-134 (West's) states that Metropolitan's rates "shall be uniform for like classes of service throughout the district." Metropolitan may not establish rates that discriminate between similarly situated customers. Rather, Metropolitan's rates must be equitable and apportion costs equitably among its customers.

Proposition 13 and Its Implementing Statutes. Prop. 13 requires two-thirds voter approval of "special taxes." California Constitution Article XIII A, Section 4. The Legislature implemented that section by adopting Government Code Section 50076, which states:

As used in this article, "special tax" shall not include any fee which does not exceed the reasonable cost of providing the service or regulatory activity for which the fee is charged and which is not levied for general revenue purposes.

Unless Metropolitan intends to obtain voter approval of its rates as special taxes, those rates must comply with this exception to Proposition 13 and be limited to the "reasonable cost of providing the service ... for which the fee is charged." The courts have amplified this standard. *Beaumont Investors v. Beaumont-Cherry Valley Water District*, 165 Cal.App.3d 227, 234-35 (1985), involved a challenge to a water connection fee imposed by the defendant district on the plaintiff apartment developer. That court articulated the cost-limitation principle of Proposition 13 for water rates and charges as follows:

Both plaintiff and defendant agree that the facilities fee enacted by defendant, if reasonably related to the cost of the service for which it was imposed, would fall within the scope of the "service" fee defined by Government Code section 50076, and would thus lie outside of the definition of "special tax" as contemplated by Proposition 13. Both agree further that defendant, a statutorily created irrigation district, is within the ambit of Proposition 13.

Hence, the sole issue before us boils down to whether the record demonstrates that the facilities fee sought to be imposed by defendant does or does not "exceed the reasonable cost" of constructing the water system improvements contemplated by the District. Such a showing would require, at the minimum, evidence of (1) the estimated construction costs of the proposed water system improvements, and (2) the District's basis for determining the amount of the fee allocated to plaintiff, i.e., the manner in which defendant apportioned the contemplated construction costs among the new users, such that the charge allocated to plaintiff bore a fair or reasonable relation to plaintiff's burden on, and benefits from, the system. (*Mills v. County of Trinity*, *supra*, 108 Cal.App.3d at pp. 659-660, 166 Cal.Rptr. 674; *County of Fresno v. Malmstrom* (1979) 94 Cal.App.3d 974, 983-985, 156 Cal.Rptr. 777.) (Emphasis added.)

Thus, Metropolitan's rates must not only be limited to the "reasonable cost" of providing services for which those rates are imposed, these rates must also "bear a fair or reasonable relation to [each customer's] burden on, and benefits from, the [water] system." Accordingly, Proposition 13 requires that water rates be proportionate to the cost of service to each customer just as does Metropolitan's principal act. Other cases imposing this proportionate-cost standard include *San Diego Gas & Electric Company v. San Diego County Air Pollution Control District*, 203 Cal.App.3d 1132 (1988) (regulatory fees must be proportionate to cost of regulating each fee payor).

Proposition 218, adopted in 1996 as "the Right to Vote on Taxes Act," provides a useful summary of these rate-making rules. Although water charges of wholesalers like Metropolitan are not "property related fees" subject to Proposition 218, the substantive rules of Section 6(b) of Article XIII D of the California Constitution (unlike the procedural requirements of the balance of that Section 6) provide instructive guidance to Metropolitan and other wholesalers because courts are very likely to look to the language of Section 6(b) in evaluating the related requirements of Proposition 13. Article XIII D, Section 6(b) states, in relevant part:

Requirements for Existing, New or Increased Fees and Charges. A fee or charge shall not be extended, imposed, or increased by any agency unless it meets all of the following requirements:

- (1) Revenues derived from the fee or charge shall not exceed the funds required to provide the property related service.
- (2) Revenues derived from the fee or charge shall not be used for any purpose other than that for which the fee or charge was imposed.
- (3) The amount of a fee or charge imposed upon any parcel or person as an incident of property ownership shall not exceed the proportional cost of the service attributable to the parcel.

Common Law of Utility Ratemaking. Even before the 1978 adoption of Proposition 13, California law required utility rates established by local governments like Metropolitan to be fair, reasonable, and proportionate to the cost of service. This body of judge-made, or common, law includes *Elliott v. City of Pacific Grove*, 54 Cal.App.3d 53, 59 (1975), which described the pre-Proposition 13 rate-making standard by rejecting a demurrer to a challenge to a differential sewer rate imposed on customers outside the defendant city:

[W]e conclude that plaintiffs have stated a cause of action. The complaint ... alleges sufficient facts warranting judicial relief if such facts can be established at trial. It is alleged therein that the ordinance in question sets a sewer service charge for plaintiffs, who are users outside the city limits, at four times the rate set inside

the city limits without any proper basis for the differential. This is an allegation that the sewer charge imposed on plaintiffs is unreasonable. There exists in plaintiffs, as users of a public utility's sewer service, a primary right that they cannot be charged an unreasonable rate for such service and there rests on the city, as a public utility, the corresponding duty not to charge plaintiffs an unreasonable rate for such service. The complaint seeks to enforce defendants' obligation to charge a reasonable rate. Having stated a cause of action it will be incumbent upon plaintiffs at trial to sustain the burden of showing that the rates charged them are unreasonable and, therefore, discriminatory. (Emphasis added.)

Similarly, in *Boynton v. City of Lakeport Mun. Sewer Dist. No. 1*, 28 Cal.App.3d 91, 94 (1972), the Court of Appeal reiterated the requirement that rates "must be reasonable, fair and equitable." In particular, they "must be proportional and not in excess of the benefits received." *Id.* at 95. "[I]f the difference in rates is based upon a reasonable and fair difference in conditions which equitably and logically justify a different rate, it is not an unjust discrimination." *Id.* at 97-98 quoting 12 McQuillin, *Municipal Corporations*, § 34.101, p. 231. Ultimately, the *Boynton* court found irrational and discriminatory the defendant district's practice of charging higher minimum rates to commercial users with the same number of meters as other users charged less. *Id.* at 98. Thus, the pre-Proposition 13 common law of utility rate-making also requires rates to be reasonable and non-discriminatory.

In sum, Metropolitan's principal act, Proposition 13 and the statutes implementing it, and the common law of utility rate-making all require Metropolitan's rates to reflect costs of service that are (i) actual, (ii) reasonable, and (iii) proportionate to the cost of serving the customers which pay those rates.

Metropolitan's Rates Violate These Rules, Industry Practice and Public Policy. Metropolitan's rates violates these legal requirements because, as opinions prepared by Bartle Wells & Associates dated March 5, 2010 and April 12, 2010 ("the BWA Opinions") demonstrate, Metropolitan recovers most of its cost of obtaining a water supply via the State Water Project (SWP) by rates that are not charged solely in connection with obtaining Metropolitan's supplies. Instead these costs are allocated to Metropolitan's conveyance and aqueduct service function and recovered through rates imposed for the use Metropolitan's conveyance system. This has the effect of over-charging for transportation and undercharging for water supply. Accordingly, this proposed rate structure does not comply with the duty to impose rates that are fair, reasonable, and proportionate to the cost of service to each customer.

Though the California Public Utilities Commission does not regulate public agency water utilities like Metropolitan, its accounting guidelines for water utilities are nevertheless instructive as to the reasonableness of Metropolitan's cost of service allocation for its SWP costs, particularly in light of Metropolitan's claim that its rates have been peer-reviewed and reflect

Metropolitan Water District of Southern California

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industry standard practices. *Uniform System of Accounts for Water Utilities* (Cal. Pub. Util. Comm'n, 1955). Those guidelines require a separate expense category for "Source of Supply Expenses," which includes an account for "purchased water." Section 704 of those guidelines provides as follows:

A. This [purchased water] account shall include the cost at the point of delivery of water purchased for resale. This includes charges for readiness to serve and the portion applicable to each accounting period of annual or more frequent payments for the right to divert water at the source of supply.

B. The records supporting this account shall be so kept as to show for each supplier from which water is purchased, point of delivery, quantity purchased, basis of charges, and the cost of water purchased.

Stated in essentially identical language is Section 610 of the *Uniform System of Accounts for Class A Water Utilities* (1996) published by the National Association of Regulatory Utility Commissioners (NARUC), which requires separate cost accounting for water purchase costs, as follows:

610. Purchased Water

A. This account shall include the cost at the point of delivery of water purchased for resale.

B. The records supporting this account shall be so kept as to show for each supplier from which water is purchased, point of delivery, quantity purchased, basis of charges, and the cost of water purchased."

These NARUC standards are incorporated into the American Water Works Association's Manual M-1, Principles of Water Rates, Fees and Charges, with which Metropolitan claims to comply. As the BWA Opinions note, rather than identifying the SWP costs as water supply costs, Metropolitan "functionalizes" purchased water costs into non-supply accounts in a manner which is not consistent with the AWWA Manual.

Given the terms of the "November 4, 1960 Contract Between the Metropolitan Water District of Southern California and the State of California Department of Water Resources for a Water Supply" as amended to date (Metropolitan SWP agreement), all the costs Metropolitan pays the Department of Water Resources (DWR) for a water supply under that agreement should be assigned to a "purchased water," or Supply, account. Indeed, the very title of the Metropolitan SWP Agreement suggests as much. Thus, Metropolitan's practice of including its SWP costs in its wheeling and exchange rates plainly deviates from industry standards.

Metropolitan Water District of Southern California
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Further evidence on this point can be taken from Raffell's *Comprehensive Guide to Water and Wastewater Finance and Pricing*, 2nd Ed., 1993, pp. 168-69, in which Metropolitan's own cost-of-service consultant concludes that costs arising from water purchases, supply development, and conservation are "supply" costs and not conveyance, transmission or distribution costs.

In the April 5th memo, your General Manager and General Counsel admit that Metropolitan treats its costs under the Metropolitan SWP Agreement just as it does costs for maintaining and operating the Colorado River Aqueduct (CRA). The memo claims Metropolitan may do so because it wheels some water through the SWP and cites *Goodman v. County of Riverside* (1983) 140 Cal.App.3d 900, 903-04 for the proposition that Metropolitan may differentiate transportation and supply costs for service over the SWP. While we do not address here the propriety of Metropolitan's charges for wheeling service across the SWP, we note the California Supreme Court's conclusion that Metropolitan is merely a customer of the SWP in *Metropolitan Water District v. Marguand* (1963) 59 Cal.2d 159, 201-202 ("The [Metropolitan] does not obtain ownership of any facilities, ownership by the state being expressly provided for [by the Metropolitan SWP Agreement].") Thus, Metropolitan's claims are unpersuasive and do not justify its treatment of the amounts it pays DWR for imported water service as a cost of transporting water across its own system within Southern California.

Charging some customers more than the cost of service determined under industry standards and generally accepted cost allocation principles, and concomitantly charging other customers less than the cost of service, amounts to a cross-subsidy between customers. Such cross-subsidies violate each of the legal authorities identified above requiring water service rates to be proportionate to, and not to exceed, the cost of service.

As the BWA opinions note, overcharging for some services and undercharging for others also distorts the decisions of customers to use imported water rather than reducing demand, conserving water, developing additional local supplies and pursuing water transfers from agricultural and other users. In so doing, Metropolitan's rate structure frustrates the policy objectives of the State of California and the Metropolitan Board itself, as each has stated commitments to encourage conservation,¹ the development of local water sources,² and the development of a water market.³

¹ The State's commitment to promoting water conservation is stated at Water Code Sections 10608 and 10608.4, recently adopted to impose a 20% conservation standard on urban water providers. Metropolitan's commitment is stated in the justification for its 2001 rate structure. See, e.g., January 8, 2002 Board Letter 9-1 at page 1.

² Water Code Section 10608(c) states the Legislature's finding that "(c) Diverse regional water supply portfolios will increase water supply reliability and reduce dependence on the Delta." Metropolitan's commitment to the development of local water sources is stated in the October 18, 2001 Board Letter No. 9-6 at page 2.

³ Water Code Sections 109(h) and 475 state the Legislature's support for water transfers and the development of a water market. Metropolitan support for these goals is stated in the October 16, 2001 Board Letter No. 9-6 at page 2.

Counter-Arguments of Staff and Raffelis are Unpersuasive. Metropolitan's rate consultant concluded in the April 6th Raffelis Report that Metropolitan's rates comply with California law because they are updated at least once every 10 years, as required by Government Code Section 54999.7. April 6th Raffelis Report at pp. 1 and 10. This is not correct. First, the cited statute is a provision of the *San Marcos* legislation governing the application of water service and other public utility rates to schools and other public agencies, which does not apply to a water wholesaler like Metropolitan. Moreover, the rate-setting standards of Section 54999.7 and the *San Marcos* statute more generally require more than a once-a-decade review of costs.⁴ These standards require that rates be actual, reasonable and proportionate to the cost of service, just as do the authorities discussed above. See, Government Code Section 54999.7(a) (fee "shall not exceed the reasonable cost of providing the public utility service"); Section 54999.7(b) (fee on public agency "shall be determined on the basis of the same objective criteria and methodology applicable to comparable nonpublic users, based on customer classes established in consideration of service characteristics, demand patterns, and other relevant factors"). As the BWA opinions demonstrate, Metropolitan's proposed rates do not comply with these standards and the April 6th Raffelis Report's conclusion to the contrary is both unsupported and unpersuasive. Indeed, that report concedes Metropolitan's capacity and readiness-to-serve charges exceed Metropolitan's actual costs. April 6th Raffelis Report at pp. 2 and 14.

More generally, the April 6th Raffelis Report provides no explanation why Metropolitan's review of compliance with California law is limited to, "specifically Government Code Section 54999.7 (requiring a COS study every 10 years)."⁴ The report thus suggests that compliance with Section 54999.7's 10-year cost-of-service review requirement is tantamount to compliance with all relevant provisions of California law. As described above, California law demands more of Metropolitan than this.

Similarly, the April 6th Raffelis Report claims Metropolitan's rates comply with its principal act because those rates are sufficient to cover its costs, reflect the costs of the District's major service functions and are uniform for like classes of service throughout the District. April 6th Raffelis Report at pp. 1 and 10. However, these bald statements are unsupported by discussion or analysis and are rebutted by the BWA Opinions. Moreover, the April 6th Raffelis Report concedes that Metropolitan treats SWP and CRA costs alike which, as demonstrated above, neither law nor industry practice permits. *Id.* at 7.

Your General Manager and General Counsel also claim that Metropolitan's Water Stewardship rate is appropriately applied to transportation rates because the demand management and local supply development efforts funded by that rate lower the capital costs of the Metropolitan system for the benefit of all its customers and it is therefore appropriate that all

⁴ Nor is it clear that Metropolitan has satisfied even this limited view of California law given that the cost of service study on which Metropolitan claims to rely has as its basis a study performed in 1998, well before the current multi-year drought and the imposition of legal restrictions on water deliveries via the Sacramento-San Joaquin Delta.

Metropolitan Water District of Southern California
April 12, 2010
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customers pay that rate. April 5th Memo at 3-4. This begs the question. It is not enough to show that particular costs Metropolitan incurs benefit its customers. To bear its burden to defend its rates, Metropolitan must also show what portion of that benefit accrues to each class of Metropolitan customers and that Metropolitan's rates fairly apportion costs to those who benefit from them. Thus your Manager and Counsel essentially admit Metropolitan has not done the cost-accounting and rate-design tasks required by industry practice and by law to support application of the Water Stewardship rate to rates for water transportation.

Similarly, the April 6th Rafelis Report suggests that the water conservation and local water supply development efforts funded by the Water Stewardship rate are properly charged to water transportation customers because those efforts conserve capacity in distribution lines that can be used for transportation. This reasoning, however, neglects two facts: first, Metropolitan is not obligated to provide transportation services that it cannot provide due to a lack of capacity;⁵ second, we understand that Metropolitan has not in recent years come close to its capacity to deliver water and does not expect to do so in the years it has forecasted. Thus, Metropolitan need incur no costs to generate excess capacity in its system to facilitate transportation for the SDCWA and others and therefore ought not to assign costs to do so on the basis of water conservation efforts. Again, Metropolitan's counter-arguments are simply unpersuasive and insufficient to justify a rate structure that violates law, industry practice, and public policy.

Conclusion. As demonstrated above, Metropolitan's proposed rates violate the legal requirements of Metropolitan's principal act, Proposition 13 and the statutes implementing it, and the California common law of utility rate-making. Those rates are also inconsistent with industry practice. The proposed rates fail to fairly apportion SWP costs and the costs recovered by the Water Stewardship rate to reflect the actual, reasonable and proportionate costs of the services for which those rates are imposed.

On behalf of the San Diego County Water Authority we urge your Board not to adopt the proposed rates, but to instruct Metropolitan staff to propose a revised rate structure that complies with California law and public policy as expressed by the Legislature and the Metropolitan Board.

Very truly yours,


Michael G. Colantuono

MGC:mgc

⁵Water Code § 1810.

Metropolitan Water District of Southern California
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cc: San Diego County Water Authority

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[GOVERNMENT CODE § 6103]

8 Attorneys for Petitioner and Plaintiff
SAN DIEGO COUNTY WATER AUTHORITY

10 SUPERIOR COURT OF THE STATE OF CALIFORNIA
11 IN AND FOR THE COUNTY OF SAN FRANCISCO

12 SAN DIEGO COUNTY WATER
13 AUTHORITY,

14 Petitioner and Plaintiff,

15 v.

16 METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA; ALL
17 PERSONS INTERESTED IN THE
VALIDITY OF THE RATES ADOPTED
18 BY THE METROPOLITAN WATER
DISTRICT OF SOUTHERN CALIFORNIA
19 ON APRIL 13, 2010 TO BE EFFECTIVE
JANUARY 2011; and DOES 1-10,

20 Respondents and Defendants.
21

Case No. CPF-10-510830

**EXHIBITS E-K TO SAN DIEGO COUNTY
WATER AUTHORITY'S THIRD
AMENDED PETITION FOR WRIT OF
MANDATE AND COMPLAINT FOR
DAMAGES AND DECLARATORY
RELIEF**

Judge: Hon. Curtis E.A. Karnow

Dept: 304

Date Filed: June 11, 2010

Trial Date: Not Set

Exhibit E



• **Board of Directors**
Business and Finance Committee

4/13/2010 Board Meeting

8-2

Subject

Adopt (1) recommended water rates and charges; and (2) resolutions to impose charges for fiscal year 2010/11

Description

SUMMARY

This letter recommends approval of an increase in rates and charges and, further, that the Board implement this increase by approving: (1) the revenue requirement for 2010/11; (2) the recommended rates and charges effective January 1, 2011 as discussed in this letter; (3) the resolution to impose the Readiness-to-Serve Charge effective January 1, 2011; and (4) the resolution to impose the Capacity Charge effective January 1, 2011.

The Board, Business and Finance Committee, and member agencies have been reviewing and evaluating Metropolitan's 2010/11 budget and the required rates necessary to support that budget since December 2009. During that time period, the Board held three board workshops and had three Business and Finance Committee meetings, as well as a public hearing before the Business and Finance Committee. In addition, staff and the member agencies met on four separate occasions to discuss options regarding the overall size of the budget, the average rate increase and the cost of service supporting the rates. As a result of that process, this letter presents four options for the Board's consideration as it adopts the fiscal year 2010/11 budget and rates and charges.

In four of the last five years Metropolitan has not collected sufficient revenues to cover its costs. Instead, in an effort to mitigate rate increases, Metropolitan has been utilizing its reserves to fund expenditures. At the same time, the largest court ordered supply cutback in the history of the State Water Project (SWP) occurred. Supply cutbacks are expected to continue due to hydrology and pumping restrictions imposed to protect endangered fish (e.g. Delta smelt). In July 2009 Metropolitan responded to continued supply constraints by declaring a Level 2 Regional Water Supply Allocation. This allocation imposes a set of penalties for member agencies that use more than their allocation limits. Conservation measures have been implemented throughout Southern California to manage within the limits of the water supply allocation. These conservation measures, combined with lower levels of economic activity due to the recession, have combined to reduce water sales throughout Metropolitan's service area. Metropolitan's water sales in fiscal year 2009/10 are trending at 1.83 million acre-feet, below the budgeted levels of 1.9 million acre-feet, and significantly lower than water sales of almost 2.3 million acre-feet just three years ago.

At the same time that water supplies and water sales are constrained, some of Metropolitan's costs are expected to increase in 2010/11 including:

- a. **Higher costs for State Water Project deliveries:** The cost payable under the State Water Contract in 2010/11 is estimated to be about \$45 million higher than projected in 2009/10. These cost increases are primarily driven by increases in off-aqueduct power and capital-related costs, as well as Metropolitan's share of the environmental work and preliminary engineering of the Delta Habitat Conservation and Conveyance Program (DHCCP).
- b. **Debt service:** The financing costs for Metropolitan's ongoing \$3.85 billion capital program will result in an increase of about \$43 million in debt service from 2009/10. A significant portion of the capital

program is to repair and improve treatment processes and to upgrade and repair Metropolitan's aging water delivery system.

- c. **Increase in Pay-as-you-go (PAYGO) for R&R capital funding:** Funding of replacement and refurbishment (R&R) capital from PAYGO is projected to increase by almost \$58 million from about \$37 million in 2009/10 to \$95 million in 2010/11. This increase is necessary to meet the Board's policy of funding \$95 million of capital expenditures associated with replacement and refurbishment of existing facilities from revenues. Funding higher levels of PAYGO is consistent with restoring Metropolitan's revenue bond coverage and fixed charge coverage ratios to board-adopted targets, thus helping to preserve Metropolitan's current bond ratings. In addition, funding more of the CIP from revenues will reduce the long-term cost of the program by reducing interest costs.
- d. **Higher power costs on the Colorado River Aqueduct (CRA):** CRA power costs are projected to be \$13 million higher in 2010/11 as a result of higher flows on the CRA.

In order to help mitigate impacts on member agencies, the proposed 2010/11 departmental operating budget has been reduced by \$3 million compared to the 2009/10 budget. Additionally, proposed demand management costs are equal to the 2009/10 budget, and Metropolitan's Capital Investment Plan has been reduced by \$84 million from the 2009/10 budget as expenditures for large capital projects like the Inland Feeder and Skinner Oxidation Retrofit Program come to a close.

As has been discussed over the past four months, drought and environmental constraints have combined to limit the amount of water that has been available to Metropolitan over the past two years. The proposed budget, which was initially presented in January, has been modified to reflect input received from the Board and member agencies, and reflects staff's best estimate of the costs to effectively operate the system while investing in those capital projects necessary to ensure reliable water supplies in the future. In particular, the estimates for the State Water Project and the payouts associated with the Cargill litigation have each been reduced from the January budget proposal.

The resulting budget would require a 12.4-percent overall increase in water rates and charges, effective January 1, 2011 in order to meet the Board's direction to recover the full cost of service in 2010/11. This increase would be required even though the expenditure budget has been reduced by \$66 million compared to last year's budget, with the Metropolitan Operating and Maintenance budget down about \$3 million compared to the 2009/10 budget. This would be the second year in a row that the operating budget has been reduced from the prior year. As part of that reduction, over 60 positions will be eliminated in the 2010/11 budget. This will mean that Metropolitan has eliminated 100 positions over the past two budget years.

The four rate options are presented within the context of the state of the economy today, as well as the need to invest in a safe and reliable water supply for now and the future. While the recommended 12.4 percent rate increase is substantially lower than the 21 percent increase that was forecast at this time last year, it is recognized that this is a large increase that has impacts on the member agencies and the public. As such, three other options are presented for the Board's consideration. These three options require lower increases, and as such require changes to expenditures (or other revenues) in order to meet the cost-of-service recovery identified by the Board last year.

REVENUE REQUIREMENTS

Table 1 summarizes the 2010/11 revenue requirements. Based on the proposed 2010/11 budget, the revenue requirements (including capital financing costs, but not construction outlays financed with bond proceeds) will total approximately \$1.389 billion in 2010/11.

Table 1. Revenue Requirements (by budget line item)

	Fiscal Year Ending 2011	% of Revenue Requirements (1)
Departmental Operations & Maintenance	322,028,600	19.0%
General District Requirements		
State Water Project	497,325,222	29.3%
Colorado River Aqueduct	59,599,187	3.5%
Supply Program Costs paid from operating revenues	103,165,940	6.1%
Water Management Programs	58,236,726	3.4%
Capital Financing Program	443,120,428	26.1%
Other O&M	15,436,100	0.9%
Increase (Decrease) in Required Reserves	45,100,000	2.7%
Total	1,221,983,584	71.9%
Revenue Offsets	(154,880,962)	9.1%
Net Revenue Requirements	\$ 1,389,131,232	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.
Totals may not foot due to rounding

Metropolitan generates a significant amount of revenue from interest income, hydroelectric power sales and miscellaneous income. These additional revenues are expected to generate about \$74 million in fiscal year 2010/11. It is expected that Metropolitan will also generate about \$81 million in ad valorem property tax revenues and annexation charges. Property tax revenues are used to pay for a portion of Metropolitan's general obligation bond debt service, and a portion of Metropolitan's obligation to pay for debt service on bonds issued to fund the State Water Project. The total revenue offsets for fiscal year 2010/11 are estimated to be around \$155 million. Therefore, the revenue required from rates and charges is the difference between the total costs and the revenue offsets, or \$1.389 billion.

MAJOR ASSUMPTIONS - REVENUE REQUIREMENTS FOR FY 2010/11

Water Sales

1.93 million acre-feet

Cash year water sales (including Tier 1, Tier 2, agricultural, and wheeling/exchange sales) are projected to be about 1.93 million acre-feet in fiscal year 2010/11. This forecast is based on expected demands under average weather conditions. If water sales are less than anticipated, rate stabilization reserves would be used to meet expenditures. Treated water sales are expected to be about 1.3 million acre-feet or 65 percent of total sales. About 1.66 million acre-feet are expected to be sold at the Tier 1 rate, 48 thousand acre-feet are expected to be sold at the higher Tier 2 rate, 62 thousand acre-feet are expected to be sold through the Interim Agricultural Water Program, and no water sales are projected at Replenishment rates.

State Water Project (including SWP power)

\$497.3 million

Total costs for 2010/11 under the State Water Project are estimated to be approximately \$497.3 million, including about \$100 million for variable power costs, net of projected credits. Costs for OMP&R and capital are expected to be \$45 million higher than in 2009/10. State Water Project costs in 2010/11 will not benefit from this refund. Variable power costs for the State Water Project are expected to be \$3.3 million higher than in 2009/10, due to a higher projected power rate on the State Water Project. Costs of off-aqueduct power facilities are also projected to increase by more than \$8 million. SWP cost estimates are based on projected water deliveries of about 0.92 million acre-feet in 2010/11 and estimates provided by DWR.

Colorado River Power Costs

\$59.6 million

The revenue requirement incorporates costs associated with pumping approximately 1.18 million acre-feet from the Colorado River in 2010/11. Power from Metropolitan's share of Hoover and Parker, plus energy under the contract

with Southern California Edison will not be sufficient to move these supplies. Total costs for pumping are estimated to be about \$59.6 million, which includes about \$39 million to procure power on the open market in 2010/11.

Supply and Storage Programs

\$103.2 million

Total expenditures for water transfer and storage programs are estimated to be about \$103.2 million in 2010/11. Colorado River Supply Program expenditures total \$54.2 million and include \$17.3 million for the Palo Verde Irrigation District (PVID) Program, \$10.1 million for the Imperial Irrigation District/Metropolitan Conservation Program, new agricultural water transfers of \$13.7 million, and \$13.1 million for various other Colorado River-based supply programs. Supply program costs along the State Water Project total \$39.2 million and include approximately \$30.3 million in water transfer purchases, \$4.2 million for the Arvin-Edison Water Storage Program, \$2.1 million for the Yuba Accord Program, and \$2.6 million for the Semitropic Water Storage Program. An additional \$9.8 million will be used to fund ongoing operating costs for in-basin supply projects including conjunctive use programs within Metropolitan's service area. Water transfer costs reflect expenditures for transfers that will be delivered in calendar year 2011. It is anticipated that 100 thousand acre-feet of transfer water will be purchased through the State Water Contractors for calendar year 2011.

Demand Management Programs

\$58.2 million

Demand management program payments made to the member agencies in support of local resources development and active conservation efforts are expected to total \$58.2 million in 2010/11. This reflects incentive payments for conservation of \$19.1 million and local resources development of \$39.1 million. These incentives do not reflect other costs associated with these programs, including labor, administration, and public information and outreach costs of almost \$19.3 million that are included in Metropolitan's departmental O&M estimates. Recycling and groundwater recovery projects supported by Metropolitan are expected to increase annual production by about 27 thousand acre-feet over current year estimates, to a total of 250 thousand acre-feet in 2010/11. Projected expenditures reflect Metropolitan's ongoing commitment to water conservation, local recycling, and groundwater cleanup. These estimates are consistent with efforts to develop local water supplies in cooperation with the member agencies and other local agencies based on the Integrated Resources Plan.

Capital Financing Program

\$443.1 million

Capital Financing Program costs include \$294 million of water revenue bond debt service payments on approximately \$4.6 billion of outstanding Water Revenue Bond debt as of December 31, 2009. This represents an increase of approximately \$43 million above 2009/10 projected debt service payments, due in part to the issuance of water revenue bonds in 2009/10 and 2010/11 to finance the ongoing CIP. These costs also reflect debt service increases that are the result of higher interest payments for taxable Build America Bonds (BABs). As part of the Federal American Recovery and Reinvestment Act, the federal government will provide a subsidy to public entities like Metropolitan that issue taxable bonds. While the interest payments on these bonds are higher than tax-exempt bonds, Metropolitan will receive a subsidy from the federal government equal to 35 percent of the interest payment, making these bonds an attractive funding option for the capital program. The subsidy does not show up in Metropolitan's debt service, rather it increases Metropolitan's revenue offsets, which reduce the revenue requirement to be generated from rates and charges. Additional capital financing costs include \$39 million of general obligation bond debt service which are paid by ad valorem property taxes, and \$15.1 million for debt administration expenses for remarketing, liquidity support, and administrative costs associated with Metropolitan's variable rate debt program, and State Revolving Fund Loan payments.

In addition to debt service, Metropolitan's capital financing costs include \$95 million of capital expenditures funded from revenues or reserves, also referred to as PAYGO funding. By way of comparison, more than \$170 million of the proposed Capital Improvement Program in 2010/11 is for replacement and refurbishment (R&R). R&R expenditures are reflective of the ongoing cost to maintain Metropolitan's facilities due to the current and previous use of the system. Under prior board policy and direction, \$95 million of these costs would be paid by current users of the system, as opposed to debt-financed. This policy was included in the Long Range Finance Plan, and reflected a compromise between funding all repair and replacement capital costs through revenues and mitigating rate impacts in the near term. As such, it is appropriate for PAYGO levels to be increased from the \$36.7 million in the 2009/10 budget to \$95 million in 2010/11. By restoring PAYGO funding to \$95 million from rates and charges in 2010/11 and beyond, Metropolitan's revenue bond coverage will come closer to meeting the board-adopted target of 2 times

debt service coverage. In the future, funding PAYGO through rates at or above \$100 million per year will be an important part of Metropolitan's strategy to maintain its high bond ratings and mitigate long-term debt service costs.

Operations and Maintenance

\$337.5 million

The revenue requirement includes \$337.5 million for operations and maintenance, including labor and benefits, professional services, operating equipment purchases and water treatment chemicals, power, and solids handling. This estimate is \$2.8 million or about one percent lower than projected 2009/10 costs. A detailed breakdown of departmental budgets is provided in the 2010/11 proposed budget.

Adjustments in Reserves

\$45.1 million

Required reserve balances are estimated to increase by \$45.1 million from June 30, 2010 to June 30, 2011, in accordance with board policies contained in Metropolitan's Administrative Code for the State Water Contract Fund, and Revenue Remainder Fund, and in accordance with bond covenants for the Operations and Maintenance Fund and Revenue Bond Reserve Funds. About \$15.5 million of this portion of the revenue requirement is for the increase in the board-adopted minimum reserve levels for rate stabilization purposes. This portion is subtracted from the revenue requirement for the purposes of calculating the necessary rate increases.

Other Revenues

\$154.9 million

To determine the rates and charges revenue requirement, the total estimated obligations of \$1.54 billion are reduced by revenue from ad valorem property taxes, interest income, hydropower revenues, CRA power sales, Federal BAB subsidies, and miscellaneous revenues. Ad valorem property taxes levied at the current tax rate of 0.0043 percent of assessed valuations are estimated to be \$80.8 million. Annexation charges are expected to provide \$1 million. BAB subsidies are expected to generate \$10.4 million in 2010/11. Power recoveries, interest on investments and miscellaneous revenue are expected to produce \$62.7 million in 2010/11. Based on the projected expenditure estimates described above, total revenues required from rates and charges in 2010/11 are projected to be \$1.389 billion.

RATE OPTIONS

As shown above, the total revenue requirement to be generated from rates and charges in fiscal year 2010/11 is projected to be \$1.389 billion. Rate options 1, 2, and 4 as presented in this letter would fully recover Metropolitan's cost of service in 2010/11. Rate option 3 would fully recover the cost-of-service by 2011/12.

Major Assumptions and Cost Drivers Common to all Options

The four most important cost drivers and assumptions are:

- a. **Sales volumes.** Rate options discussed in this letter have been developed based on water sales of 1.93 million acre-feet in 2010/11 and 2 million acre-feet in 2011/12.
- b. **Expenditures.** Budget expenditures of \$1.732 billion or \$66 million lower from the 2009/10 budget. Details of the proposed budget are included in Board Letter 8-1, which is also under consideration at the Board's April meeting.
- c. **Capital funding.** Pay-As-You-Go (PAYGO) funding for refurbishment and replacement (R&R) projects in the Capital Investment Plan in 2010/11 of \$95 million and \$125 million in 2011/12.
- d. **Delta Surcharge.** The Delta pumping restrictions impacts on Metropolitan's finances are reflected in the Delta Surcharge first introduced last year. The costs and derivation of the Delta Surcharge are detailed below.

The following overall rate options are provided for the Board's consideration.

- **Option 1** – Average rate increase of 12.4 percent effective on January 1, 2011. This rate increase recovers the full cost-of-service within fiscal year 2010/11 without draws from reserves. Revenue bond debt service coverage would be 1.9 times in 2010/11.
- **Option 2** – Average rate increase of 8.9 percent effective on January 1, 2011, and a reduction in the 2010/11 expenditures by \$14 million. This cost reduction could be achieved by delaying some of the CIP

projects and postponing an expected bond issuance to the last half of 2011/12, and reducing SWP capital costs by \$5 million. This rate increase recovers the full cost of service within fiscal year 2010/11 without draws from reserves. Revenue bond debt service coverage would be 1.9 times in 2010/11. The 2012 overall rate increase is estimated to be 6 percent.

- **Option 3** – Average rate increases of 7.5 percent on January 1, 2011 and 7.5 percent on January 1, 2012. This option would require draws of about \$20 million from reserves in 2010/11. Revenues would recover the full cost of service in 2011/12. Revenue bond debt service would be 1.9 times in 2010/11, and 2.0 in 2011/12.
- **Option 4** - Average rate increase of 9.6 percent in 2011 and no change to Metropolitan's property tax rate. This option presents an average increase in rates and charges of 9.6 percent on January 1, 2011. In addition to the rate increase, Metropolitan would maintain the current property tax rate of 0.0043 percent of assessed valuations in the service area. Under Option 4 Metropolitan would sponsor legislation to change Section 124.5 of the MWD Act to allow Metropolitan to cap the maximum tax levy rate at the rate in effect for fiscal year 2009/10. Maintaining the tax rate at its current level would generate an additional \$10 million in tax revenues in 2010/11 compared to the other options. This would reduce the need for revenues to be generated from rates and charges, resulting in a 9.6 percent average rate increase in 2011. The 9.6 percent average rate would recover the full cost of service without any draws from financial reserves. Revenue bond coverage would be 1.9 in 2010/11 and 2.0 in 2011/12.

Ad valorem tax rate

While Option 4 includes capping Metropolitan's tax rate, this revenue source could apply to any option, and will be considered by the Board in coming months. Metropolitan could seek a legislative change to Section 124.5 of the MWD Act to allow Metropolitan to cap the tax levy rate at the rate in effect for fiscal year 2009/10. Despite the fact that Metropolitan currently has statutory authority and voter authorization to levy ad valorem tax assessments on property within its service territory for its own general obligation bonds and its State Water Contract obligation, since fiscal year 1990/91, Section 124.5 of the MWD Act limits property tax revenues (and thereby the tax levy rate) to the total of annual debt service on Metropolitan's general obligation bonds and the portion of the State Water Contract payment for debt service on State general obligation bonds (Burns Porter bonds) issued to finance facilities that benefit Metropolitan and outstanding in the 1990/91 fiscal year. As principal payments on these bond obligations are made, the sum of these amounts is decreasing over time.

Metropolitan would seek to cap its tax levy rate at the current level of 0.0043 percent to help mitigate impacts on future water rates due to increased costs of capital facilities paid through the State Water Contract. Under the State Water Contract, Metropolitan and all other contractors are authorized to use property tax revenues to make payments to California to fund their share of the State Water Project costs. Capping the property tax rate at current levels (0.0043 percent of assessed valuations in Metropolitan's service area) would generate an additional \$10 million in property tax revenues in fiscal year 2010/11, if the change was effective.

Delta Supply Surcharge

Each of the rate options includes a Delta Supply Surcharge of \$51 per acre-foot. This surcharge reflects the impact on Metropolitan's water rates of lower supplies from the State Water Project due to pumping restrictions associated with U.S. Fish & Wildlife's Biological Opinion on Delta smelt and other actions to protect endangered fish species. The Delta Surcharge would remain in effect until a long-term solution for the Delta was achieved. It is expected that the surcharge would be phased out as interim Delta improvements ease pumping restrictions.

The Delta Supply Surcharge reflects the additional supply costs that Metropolitan faces as a result of the pumping restrictions (such as purchases of water transfers, Yuma Desalter, etc.), lost value in supplies available from the State Water Project, and the cost of personnel and consultants working on Delta improvements. These costs are estimated to be approximately \$87 million in 2010/11. The Delta Supply Surcharge would be charged to all Tier 1 sales, IAWP and Replenishment sales, estimated to total about 1.7 million acre-feet. This results in a Delta Supply Surcharge of \$51 per acre-foot.

The detailed cost of service study, supporting Option 1, is included in Attachment 2; the proposed Readiness-to-Serve Charge resolution is included as Attachment 3; and the proposed Capacity Charge is included as Attachment 4.

Cost-of-service Analysis

Attachment 2, Metropolitan Water District of Southern California, FY-2010/11 Cost of Service, is the detailed cost-of-service study that allocates Metropolitan's costs to the different rate elements shown in Table 2. This cost-of-service study is for the recommended option, the full cost-of-service recovery and overall rate increase of 12.4 percent. The cost-of-service methodology is consistent with the policy and guidelines approved by the Board in 2001, and first implemented in 2003 when rates were "unbundled". The cost-of-service methodology was adopted after three years of study and work with the member agencies and the Board, culminating in the rate structure currently used by Metropolitan. As part of this year's cost-of-service study, Metropolitan retained the services of Raffellis Financial Consulting, a leading rate and finance consultant, to evaluate the cost-of-service methodology to ensure that it continues to be consistent with the Board's objectives, consistent with practices in the water industry, and consistent with state law. In a report to be mailed separately from this board letter, Raffellis finds that the existing methodology is consistent in all three areas, and makes suggestions as to improvements to be considered as Metropolitan and the member agencies negotiate and renew (as appropriate) the purchase order agreements that expire in 2012.

Depending on the rate option adopted by the Board, the detailed cost-of-service study will be updated to reflect that option, consistent with the current methodology.

Table 2 shows the individual rate elements proposed under each option, along with the fully bundled rates.

Table 2: Rates and Charges by Option

Effective	Jan 1, 2010	Option 1 Jan. 1, 2011	Option 2 Jan 1, 2011	Option 3		Option 4
				Jan 1, 2011	Jan 1, 2012	Jan 1, 2011
Tier 1 Supply Rate (\$/AF)	\$101	\$112	\$106	\$104	\$106	\$108
Delta Supply Surcharge (\$/AF)	\$89	\$51	\$61	\$61	\$68	\$51
Tier 2 Supply Rate (\$/AF)	\$280	\$280	\$280	\$280	\$280	\$280
System Access Rate (\$/AF)	\$164	\$217	\$207	\$204	\$217	\$206
Water Stewardship Rate (\$/AF)	\$41	\$43	\$41	\$41	\$43	\$42
System Power Rate (\$/AF)	\$119	\$135	\$131	\$127	\$136	\$133
Full Service Untreated Volumetric Cost (\$/AF)						
Tier 1	\$484	\$568	\$538	\$527	\$580	\$540
Tier 2	\$584	\$676	\$659	\$652	\$696	\$661
Replenishment Water Rate Untreated (\$/AF)	\$386	\$440	\$418	\$409	\$442	\$422
Interim Agricultural Water Program Untreated (\$/AF)	\$416	\$513	\$491	\$482	\$537	\$495
Treatment Surcharge (\$/AF)	\$217	\$217	\$217	\$217	\$234	\$217
Full Service Treated Volumetric Cost (\$/AF)						
Tier 1	\$701	\$776	\$763	\$744	\$794	\$767
Tier 2	\$811	\$892	\$876	\$869	\$920	\$878
Treated Replenishment Water Rate (\$/AF)	\$558	\$632	\$610	\$601	\$661	\$614
Treated Interim Agricultural Water Program (\$/AF)	\$616	\$718	\$696	\$687	\$765	\$700
Readiness-to-Serve Charge (\$M)	\$114	\$133	\$127	\$125	\$146	\$129
Capacity Charge (\$/cfs)	\$7,200	\$7,200	\$7,200	\$7,200	\$7,400	\$7,200

Policy

Metropolitan Water District Administrative Code Sections 4301 (a) (b): Cost of Service and Revenue Requirement

Metropolitan Water District Administrative Code Sections 4304 (c) (f): Apportionment of Revenues and Setting of Water Rates and Charges to Raise Firm Revenues

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2, #3, #4 and #5:

The proposed actions are not defined as a project under CEQA, because they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or 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 actions are 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

- a. Determine that the revenue requirement to be paid from rates and charges is \$1.389 billion;
- b. Approve water rates effective January 1, 2011;
- c. Adopt Resolution to Impose the Readiness-to-Serve Charge; and
- d. Adopt Resolution to Impose the Capacity Charge.

Fiscal Impact: Revenues from rates and charges of \$1.37 billion in fiscal year 2010/11, and an increase in the effective rate of 12.4 percent in 2011 if the rates and charges are adopted as recommended. This represents an increase of \$48 million in revenues in fiscal year 2010/11.

Option #2

Adopt the CEQA determination and

- a. Determine that the revenue requirement to be paid from rates and charges is \$1.377 billion;
- b. Approve water rates effective January 1, 2011;
- c. Adopt Resolution to Impose the Readiness-to-Serve Charge; and
- d. Adopt Resolution to Impose the Capacity Charge.

Fiscal Impact: Revenues from rates and charges of \$1.36 billion in fiscal year 2010/11, and an increase in the effective rate of 8.9 percent in 2011 if the rates and charges are adopted as recommended. This represents an increase of \$34 million in revenues in fiscal year 2010/11.

Option #3

Adopt the CEQA determination and

- a. Determine that the revenue requirement to be paid from rates and charges is \$1.389 billion for FY 2010/11 and \$1.517 billion for FY 2011/12;
- b. Approve water rates effective January 1, 2011, and January 1, 2012;
- c. Adopt Resolution to Impose the Readiness-to-Serve Charge; and
- d. Adopt Resolution to Impose the Capacity Charge.

Fiscal Impact: Revenues from rates and charges of \$1.35 billion in fiscal year 2010/11, and an increase in the effective rate of 7.5 percent in 2011, and 7.5 percent in 2012 if the rates and charges are adopted as recommended. This represents an increase of \$29 million in revenues in fiscal year 2010/11.

Option #4

Adopt the CEQA determination and

- a. Determine that the revenue requirement to be paid from rates and charges is \$1.379 billion;
- b. Approve water rates effective January 1, 2011;
- c. Adopt Resolution to Impose the Readiness-to-Serve Charge;
- d. Adopt Resolution to Impose the Capacity Charge; and
- e. Sponsor legislation to change Section 124.5 of the MWD Act to allow Metropolitan to cap the maximum tax levy rate at the rate in effect for fiscal year 2009/10.

Fiscal Impact: Revenues from rates and charges of \$1.36 billion in fiscal year 2010/11, and an increase in the effective rate of 9.6 percent in 2011 if the rates and charges are adopted as recommended. This represents an increase of \$37 million in revenues in fiscal year 2010/11.

Option #5

Adopt the CEQA determination and instruct staff to modify the recommended rates and charges.

Fiscal Impact: Unknown

Staff Recommendation

Option #1


 Brian G. Thomas
 Chief Financial Officer

4/1/2010
 Date


 Jeffrey K. King
 General Manager

4/1/2010
 Date

Attachment 1 – Public Comments

Attachment 2 – Metropolitan Water District of Southern California, FY 2010/11 Cost of Service

Attachment 3 – Resolution to Fix and Adopt Readiness-to-Serve Charge

Attachment 4 – Resolution to Fix and Adopt Capacity Charge

4/13/2010

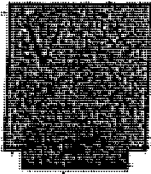
8-2

Attachment 1, Page 1 of 15

Attachment 1

Public Comments

Public Hearing Held March 8, 2010



BOARD OF DIRECTORS

Brian Bowcock
David D. De Jesus
Dan Horus
Luís M. Jarama
Bob Kuhn
John Mendoza
Joseph T. Ruzicka

GENERAL MANAGER/CHIEF ENGINEER
Richard W. Hansen, P.E.

February 17, 2010

Mr. Jeff Kightlinger, General Manager
Metropolitan Water District of Southern California

RE: Proposed 2011 Rates

Dear Jeff:

I am writing on behalf of Three Valleys Municipal Water District and its partner sub-agencies to state that we are looking for cost certainty with rates over the next few years. Our primary objective is to have MWD adopt a multi-year rate structure, as the uncertainty of rates from year-to-year hinders realistic financial planning. We support MWD adopting a three-year rate increase that achieves full cost of service for 2011 with sustainable rate increases after that between 2% and 5% for 2012 and 2013.

By adopting multi-year rates, the following benefits are achieved:

- Improved creditability with the citizens of Southern California
- Smoother implementation related to Proposition 218 compliance and Public Utility Commission hearings for both public and investor-owned retailers
- Improved financial planning for wholesalers and retailers

We are also aware that rate setting is dependent upon water sales. We propose MWD adopt rates based on a lower amount of expected sales. We believe this makes sense in light of the following:

- Ever-present possibility of lower projected State Water Project allocations
- Lower sales expected due to the message of conservation
- Increasing adoption of tiered rate structures by retail agencies that are likely to significantly reduce current and future water sales.
- The ability to strengthen MWD's reserves with any additional water sold.

Three Valleys and its sub-agencies appreciate your consideration of these suggestions as you continue the budgetary and rate setting process. Please don't hesitate to contact me regarding any questions.

Sincerely,

Richard W. Hansen, P.E.
General Manager/Chief Engineer



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
 (858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

MEMBER AGENCIES

March 8, 2010

Carlsbad
 Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook
 Public Utility District

Heald Water District

Lakeside Water District

Obregon
 Municipal Water District

Olney Water District

Pacific Dam
 Municipal Water District

Carson
 Marine Corps Base

Rainbow
 Municipal Water District

Imperial
 Municipal Water District

Imperial
 Municipal Water District

San Diego
 Water District

South
 San Diego Water District

South Bay
 Irrigation District

Vallecito
 Water District

Valley Center
 Municipal Water District

Vista
 Irrigation District

Vista
 Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Mr. Tim Brick
 Chairman of the Board
 Metropolitan Water District of Southern California
 P.O. Box 54153
 Los Angeles, CA 90054-0153

Re: Business and Finance Committee
 Meeting of March 8, 2010
 Agenda Item 1
 Public Hearing: Comments on proposed rates and charges.

Dear Chairman Brick:

The Water Authority believes that Metropolitan must charge rates reflecting the actual cost of its water and services; that those rates must be reasonable, and that the rates paid by each member agency must be proportionate to the cost of providing the services that member agency receives from Metropolitan. Because Metropolitan's rate structure does not meet these requirements, it violates industry standard, cost-of-service principles, and California law.

The Water Authority objected when Metropolitan first adopted its new rate structure in 2001, and again during the public hearing in 2003 through a letter from Maurèen Stapleton to Metropolitan's General Manager that was attached to the March 11, 2003 Metropolitan Board letter 9-L. The Water Authority has repeatedly raised its concerns in all possible forums, including Metropolitan's Member Agency Managers meetings and meetings of this committee and board of directors, but our concerns have not been addressed.

Because a financially sound Metropolitan requires a rate structure that complies with industry standards and California law, the Water Authority retained Bartle Wells Associates, experts in public agency utility rates, to evaluate Metropolitan's proposed rates. These rate experts have identified fundamental flaws in Metropolitan's rate structure that must be corrected.

A public agency providing a safe and reliable water supply to the San Diego region

Mr. Tim Brick
March 8, 2010

First, Metropolitan's costs under its contract for State Water Project water supplies must be allocated to the water supply rate. Because these costs are supply-related, neither the System Access rate nor the System Power rate should recover any of these costs.

Met does not own, operate, or maintain the State Water Project facilities. In fact, its State Water Project supply costs are to Metropolitan the same as Metropolitan's costs are to its member agencies - they are plainly and solely a cost of supply. By way of example, the Water Authority assigns to its water supply rate the cost of purchasing water from Met and its other suppliers such as its Colorado River Quantification Settlement Agreement water. The Water Authority also assigns to its supply rate the costs it pays to Metropolitan for wheeling and exchanges because it does not own the Met facilities through which its transfer water is transported. This is the correct and lawful way to do it. Indeed, neither Bartle Wells nor the Water Authority's own professional staff have been able to find any other SWP contractor that allocates payments for SWP water in a manner similar to Metropolitan's practice.

Second, the Water Stewardship rate must also be assigned to supply and charged to member agencies purchasing water from Metropolitan. This is because the Water Stewardship rate recovers costs associated with the provision of subsidies for local supply projects and conservation programs. These are supply functions and these costs clearly have no relation to Metropolitan's transportation facilities.

Metropolitan's principal act, the common law of utility rate-making in California, Proposition 13, and statutes implementing Proposition 13 all require that Metropolitan's rates reflect costs of service which are (i) actual, (ii) reasonable, and (iii) proportionate to the cost of serving the customers that pay those rates. Because Metropolitan's rate structure requires a customer or a class of customers to bear costs that ought to be borne by others, Metropolitan's rates violate these rules.

As a result of its misallocation of State Water Project and Water Stewardship costs, Metropolitan is undercharging for supply services and overcharging recipients of other Metropolitan services. These illegal subsidies and over-charges subvert stated policy objectives of the Metropolitan Board and California Legislature by deterring:

- (i) Water conservation, because the cost of water is underpriced;
- (ii) Development of local water supply resources because the relative cost of imported water and locally developed supplies is distorted and causes local projects to appear relatively more costly than is actually the case; and,
- (iii) Development of a water market by overpricing the cost of transportation.

A copy of the Bartle Wells Associates memorandum of findings is attached to this letter. This letter is being submitted in connection with public testimony at the public hearing of the Business and Finance Committee. The Water Authority requests that the letter be

4/13/2010

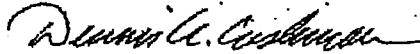
8-2

Attachment 1, Page 5 of 15

Mr. Tim Brick
March 8, 2010

made a record of the Committee and Board proceedings relating to the setting of rate for 2011. Thank you for your consideration and we look forward to working with this Committee, the Metropolitan Board of Directors, and Metropolitan staff to remedy these concerns.

Sincerely,


Dennis A. Cushman,
Assistant General Manager

cc: Business and Finance Committee
MWD Board of Directors

Attachment: Bartle Wells Associates Memorandum dated March 5, 2010

BWA



BARTLE WELLS ASSOCIATES
INDEPENDENT PUBLIC FINANCE ADVISORS

1889 Alcatraz Avenue
Berkeley, CA 94703
510 653 3399 fax: 510 653 3769
e-mail: rschmidt@bartlewells.com

TO: San Diego County Water Authority
FROM: Thomas Gaffney / Reed Schmidt
DATE: March 5, 2010
SUBJECT: Metropolitan Water District of Southern California Water Rates

Introduction

Bartle Wells Associates (BWA) has been retained by San Diego County Water Authority (SDCWA) to examine the water rates charged by Metropolitan Water District of Southern California (MET) to its member agencies. Bartle Wells Associates provides expert financial, rate structure design, and similar consulting services to many cities and special districts. We have extensive experience in cost of service rate structure requirements. The general, overarching rule for cost of service rate design for California public agencies is that rates must reflect actual costs of providing service, they must be reasonable, and the rates must be proportional to the cost of the service to the customers paying those rates.

In conducting our review, we have examined information regarding MET's rates available from MET's website, MET's Administrative Code provisions regarding rates and funds, MET board letters regarding rates from 2000 to the present, MET's State Water Project contract, and other information provided by Water Authority staff or obtained by our independent research. This memorandum presents a summary of our findings.

Findings

Our primary finding is that MET fails to properly allocate to the Supply category all of its State Water Project (SWP) contract revenue requirement above that recovered by MET's readiness-to-serve charge (RTS) and property taxes. Instead of following standard industry practice and cost of service allocation principles, MET allocated a substantial portion of the costs from its water supplier (Department of Water Resources) to a MET revenue category for conveyance and distribution. This allocation has resulted in improper distortion of MET's water Supply and System Access rates. It has also resulted in distortion of the System Power rate. We also find that a portion of MET's Water Stewardship revenue requirement, which is intended to recover costs associated with providing subsidies for development of local water.

supplies and conservation programs, is improperly collected as a portion of MET's charge for conveyance services.

Allocation Of Expenses Is Not Equitable Or Logical. The January 12, 2010 MET Board Action Memo 8-1, shows in Schedule 1 that SWP costs amount to be nearly \$501 million, 30% of MET's revenue requirement. These costs are for payments MET makes under its SWP water supply contract. These are costs for purchasing water that MET then provides to its wholesale customers. The water is delivered to MET through facilities owned, maintained, and operated by the State of California, not through facilities MET owns, maintains, and operates. Yet Schedule 5 of the same memo shows that rather than allocating all of these costs to Supply, MET's proposed rate plan allocates \$429 million (85%) of such cost to MET's Conveyance and Aqueduct service function. Because MET does not own or operate, maintain, or operate any of the SWP facilities, the SWP costs are a MET cost of Supply and not a cost of Conveyance and Aqueduct service.

Although MET recovers some of the SWP costs through its RTS charge, property taxes, and its supply rate, MET allocates most of its SWP costs to MET's Conveyance and Aqueduct service function and then recovers these service function costs with the System Access Rate and the System Power rate. This is inconsistent with proper cost of service allocation. The portion of SWP costs currently collected by the System Access rate and the System Power rate should instead be assigned to the Supply service function and recovered with the Supply rates.

This misallocation of Supply costs is significant now and the misallocation will have an increasing impact over time — \$429 million is a large number, even in the context of an agency which serves a region of 19 million people. MET's own 10-year budget forecast projects that SWP costs will increase dramatically in the coming decade due to the costs of a Delta fix, environmental requirements and rising energy costs associated with global warming regulations.

MET does own and operate the Colorado River Aqueduct (CRA). MET allocates to the Supply rate water purchase costs that MET pays for Colorado River water under its delivery contracts with the Secretary of Interior and conserved water purchase agreements with Imperial Irrigation District, Palo Verde Irrigation District, and others. MET allocates other costs for the CRA that do relate to conveyance to its System Access Rate. This is entirely different than MET's SWP contract where it pays a price for a product delivered by infrastructure which it neither owns nor maintains. By treating both SWP costs and CRA costs as conveyance costs, when it is plain that the former are supply costs and the latter are in substantial part conveyance costs, the MET rate structure treats dissimilar costs as though they were the same and deviates from reasonable industry practice and the stated logic of the rates themselves in doing so.

Another misallocation regards the System Power rate, which recovers the costs of pumping water from the SWP and Colorado River to MET's service area. Currently, MET allocates the

power costs to the Conveyance and Aqueduct service function. This allocation is not correct for water supplied by the SWP. The SWP power costs should be allocated to the Supply service function and recovered through the Supply rates, because they are a supply-related cost. MET's current allocation is not consistent with how MET allocates power costs related to water treatment to the Treatment Surcharge. MET's allocation for supply should be consistent with the allocation of power costs for treatment.

We reviewed information from three other SWP contracting agencies and all of them allocate SWP costs as supply costs. We are aware of no other agency that benefits from the SWP that allocates SWP costs the way MET does. BWA finds MET's cost-of-service allocation is not consistent with proper cost of service allocation, and is not consistent with industry practice.

MET's Water Rate Structure Does Not Accomplish MET's Stated Goals. The October 16, 2001 MET Board Action Memo 9-6 stated that proposed MWD rate structure furthers MET's strategic objectives, supports and encourages sound water resource management, accommodates a water transfer market, enhances fiscal stability and is based on cost-of-service principles. The development of a water market in California is a goal also expressed as a Legislative policy of the State in Water Code Sections 109(b) and 475. However, by allocating a disproportionate amount of its costs to conveyance and aqueduct rates, MET hinders its member agencies from developing water transfer programs - i.e., the cost of water transfers is artificially inflated and the market is distorted to discourage what the MET Board has stated it wishes to encourage.

Artificially reducing supply rates reduces the financial incentive to secure local water supply alternatives, and disservices MET policy and good public policy given the water supply situation in our State, the long-term threats to the MET's SWP supply and increased competition from other Colorado River Basin states for supplies delivered via the CRA.

By not allocating SWP project costs to the supply rates, MET's current water rates and cost allocation do not encourage conservation by its member agencies, thus compromising another fundamental policy goal of MET and the Legislature (Water Code Sections 10608 and 10608.4). Higher supply rates that more accurately reflect supply costs would send an accurate price signal to MET member agencies and encourage water conservation and development of local water supplies. Subsidized supply prices distort the price signal and create irrational incentives for Southern Californians facing very grave risks to their short-term and long-term water supplies.

Water Stewardship Rate. MET has a goal of encouraging member agencies to develop other sources of water. (October 16, 2001 MET Board Action Memo 9-1, Att. 1, page 2.) MET's Water Stewardship Rate recovers the costs associated with MET's subsidies to local agencies for the development of new local supply projects and funding of conservation programs. The Water Stewardship Rate should not be charged on all water moved through the MET system, but only on water that MET sells to its member agencies. Because the Water Stewardship

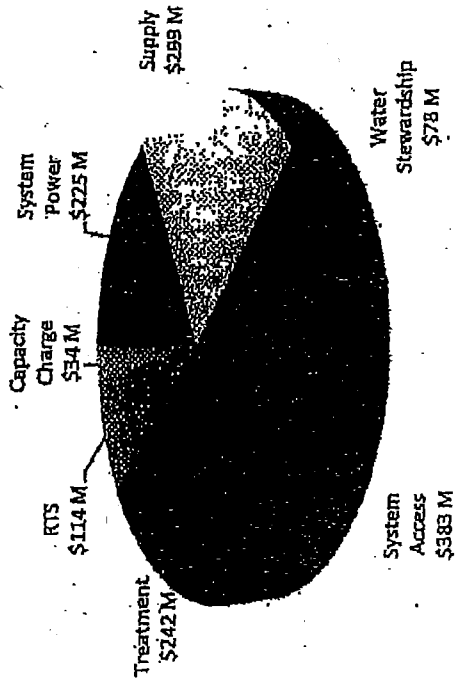
service function is intended to increase water supply through projects, such as recycling, desalination, and groundwater recovery, and conservation, the costs of these projects should be recovered with Supply rates.

MET's 2001 Rate Structure and Cost-of-Service Study. MET's current water rate structure differs from what was presented in MET's 2001 Rate Study. Several components of MET's current structure have changed in description and purpose since the 2001 Rate Study — which is the stated basis of MET's current rates — so that the current rate structure is therefore not well supported by that study.

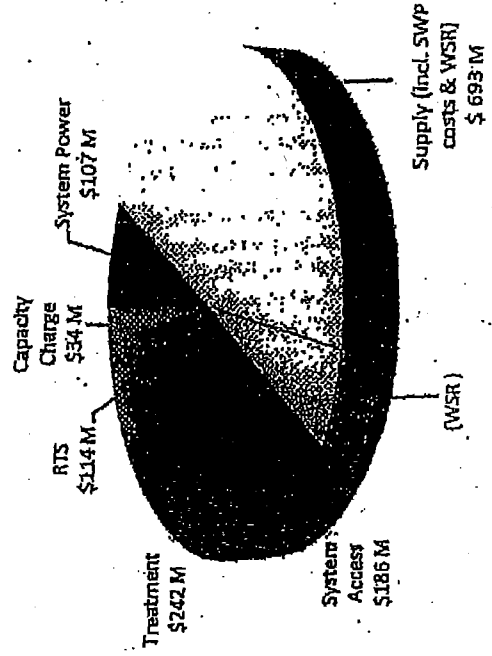
Attached is a graphic using data provided by MET during a cost of service review presentation in July 2009 that shows a proper reallocation of MET's revenue requirement to appropriate MET rate categories, based on the principles discussed in this memorandum.

Revenue Requirement Allocation

MWD's Current Allocation



Correct Allocation



Source: MWD Cost of Service Review presentation, slide 52 meeting #2, July 22, 2009

THOMAS E. GAFFNEY, PE, CIPFA

Experience

Thomas E. Gaffney is a principal consultant of the firm and has over 35 years of consulting experience. He is an expert in developing financing plans, impact fee studies, utility rate studies, multi-agency contracts and financing programs, contract negotiations, and bond marketing. Mr. Gaffney has directed projects involving more than 300 separate agencies in California and five other western states.

Mr. Gaffney has developed the key terms and conditions of multiple-agency agreements for over 20 regional financing programs. Tom has served as project manager on projects involving water and wastewater, reclaimed water, hydroelectricity, public buildings, community storm drainages, flood control, and highways. He has helped implement utility billing systems for over 20 local agencies. Mr. Gaffney has managed sales of various forms of municipal bonds.

Mr. Gaffney specializes in water-related financing plans and rate studies. He has worked extensively developing wastewater revenue programs conforming to the SWRCB's Revenue Program Guidelines. He has developed water rate analyses involving virtually every type of fixed and volume water rate configurations.

Representative Assignments

- **City of Yreaville:** Water and wastewater rate studies and wastewater capital facilities financing plan. Developed wastewater connection charge.
- **City of Fresno:** Prepared financial plan and rate study for \$400 million of wastewater facilities. Worked with citizen's Utility Advisory Board to secure approval of rate recommendations.
- **Selma-Kingsburg-Fowler CSD:** Prepared a Financial Policies and CIP Update for \$28 million of capital facilities. Recommended connection charges for the district and its member cities.
- **City of Woodland:** Prepared water, wastewater, and storm drain rate studies. Developed a fully pay-as-you-go financing plan for each of the three City enterprises.
- **City of Thousand Oaks:** Wastewater financing plan including SRF loans, revenue bonds, and rates and connection charges for \$75 million of capital improvements. Water financing plans and rate studies.
- **City of Petaluma:** Developed financing plan for \$125 million Ellis Creek wastewater treatment plant. Assisted with securing \$115 million of SRF loans and \$100 million line of credit.
- **Napa Sanitation District:** Prepared a revenue program required for SRF loan approval. Developed a pay-as-you-go financing plan for \$10 million of wastewater facilities.
- **Novato Sanitary District:** Financial advisor for \$110 million wastewater treatment master plan. Recommended a reserve policy plan for District funds.
- **Zone 7 Water Agency:** Prepared a plan for financing agricultural water facilities totaling over \$200 million. Developing financing elements for stream management master plan.

Memberships and Professional Affiliations

- California Association of Sanitation Agencies
- California Water Environment Association

Registrations/Certifications

Registered Civil Engineer in California
 Certified Independent Public Finance Advisor (CIPFA), and professional member of the National Association of Independent Public Finance Advisors

Education

B.S., Civil Engineering, University of California, Berkeley
 M.B.A., Finance, University of California, Berkeley

REED V. SCHMIDT, CIPFA

Experience

Reed V. Schmidt is a principal consultant with 30 years of practical experience in financial and economic consulting, research, and analysis. He has directed over 150 projects for cities, counties, and special districts in the areas of public works financing, utility rate studies, utility connection fee studies, public utility pricing and valuation, and energy planning.

Mr. Schmidt's expertise is creating financial plans for local governments in order to complete water, wastewater, and recycled water capital programs. His comprehensive plans have analyzed a wide variety of financing mechanisms, both conventional and innovative, and have identified the sources of revenue to fund capital and operating costs. He has developed cost-of-service studies for water, wastewater, and electricity rates, and has developed computer models to design water and sewer rates and connection fees.

Mr. Schmidt has appeared as an expert witness on utility rates and costs before regulatory agencies in California, Nevada, Texas, Arkansas, and Ohio. He has appraised public utility property and has appeared as an expert witness in superior court.

Before joining Bartle Wells Associates, Mr. Schmidt was a partner in Chester & Schmidt Consultants and had also worked as an independent consultant. He began his consulting career as senior financial analyst with Turner, Collier & Braden, Inc., in Houston, and was also senior economist and utilities analyst with Jones-Tilmon & Associates in San Mateo.

Representative Assignments

- **Montara Water & Sanitary District:** Water rate design, financial feasibility analysis, and negotiations for purchase of the District's water system. Financial advisor on sale of bonds & notes.
- **City of Brentwood:** water and wastewater rate studies.
- **City of Cotati:** Water and wastewater rate studies and development impact fees.
- **Delta Diablo Sanitation District:** Wastewater rate and fee analysis; power purchase negotiations.
- **South Tahoe Public Utility District:** Financing plans for water and wastewater capital improvement programs and financial advisory services for water and wastewater revenue bonds.
- **City of Huntington Beach:** Water rate study and evaluation of transitioning to tiered quantity rates.
- **East Bay Municipal Utility District:** Power purchasing evaluations for water and wastewater operations, electric rate analysis, and feasibility studies.
- **Tahoe City Public Utility District:** Water and wastewater financing plans and bond sales.
- **City of Benicia:** Financing options analysis for water and sewer capital projects.
- **Ironhouse Sanitary District:** Financing plan and rate recommendations for wastewater treatment and disposal facilities.
- **San Lorenzo Valley Water District:** feasibility assessment of purchase of a private water system.
- **Town of Apple Valley:** feasibility study of acquisition of two privately owned water companies.
- **Sanitary District No. 2 of Marin County:** Design of wastewater connection fee.
- **City of Yuba City:** Sale of water revenue certificates to acquire a private water company and valuation of water system.

Memberships and Professional Affiliations

National Association of Business Economists, International Association of Energy Economics, and American Water Works Association

Education

B.A., magna cum laude, Economics - University of Houston

M.A., Economics - University of Houston

Certification

Certified Independent Public Finance Advisor (CIPFA)

Professional member of the National Association of Independent Public Finance Advisors

BARTLE WELLS ASSOCIATES

Bartle Wells Associates is an independent financial advisor to public agencies with expertise in water, wastewater and recycled water rates and finance. Our firm was established in 1964 and is owned and managed by its principal consultants. We have advised over 480 public agencies in the western United States and completed over 3,000 assignments. Bartle Wells Associates has the diversity of experience and abilities to evaluate all types of financial issues faced by local governments and to recommend the most appropriate, cost-effective, and practical solutions.

Bartle Wells Associates specializes in three professional services: financial plans, utility rate & fee studies, and project financing. We are the only independent financial advisor providing all three services to public agencies.

PROFESSIONAL SERVICES

- Financial Plans
- Rate & Fee Studies
- Project Financing

Bartle Wells Associates has a highly-qualified professional staff with backgrounds in finance, civil engineering, business, public administration, and economics. The firm is a charter member of the National Association of Independent Public Finance Advisors (NAIPFA), which establishes strict criteria for independent advisory firms. All of our consultants are Certified Independent Public Finance Advisors (CIPFAs).

FINANCIAL PLANS Our *financial plans* provide agencies with a flexible roadmap for funding long-term operating and capital needs. We develop long-term cash flow projections to help agencies evaluate the wide range of financing options available and identify long-term revenue requirements. If debt is needed, we recommend the most appropriate and lowest-cost financing approaches and clearly identify the sources of revenue for funding projects and repaying debt. We also help agencies develop prudent financial policies, such as fund reserve targets, to support sound financial management. BWA has developed over 1,000 financial plans to help water and wastewater agencies fund their operating and capital programs and maintain long-term financial health.

RATE & FEE STUDIES Our *rate and fee studies* employ a cost-of-service approach and are designed to maintain the long-term financial health of a utility enterprise while being fair to all customers. We develop practical recommendations that are easy to implement and often phase in rate adjustments over time to minimize the impact on ratepayers. We also have extensive experience developing impact fees to recover the costs of infrastructure required to serve new development. BWA has completed hundreds of water, wastewater, and recycled water rate and fee studies. We are familiar with virtually every type of water and sewer rate structure and are knowledgeable about the legal requirements governing water and sewer rates and connection fees. We develop clear, effective presentations and have represented cities and special districts at hundreds of public hearings to build consensus and public acceptance for our recommendations.

PROJECT FINANCING Our *project financing* experience includes coordination of over 300 bond sales including General Obligation bonds, water and sewer revenue bonds, Assessment District bonds, Mello-Roos Community Facilities District bonds, multi-agency bond pools, and Certificates of Participation (COPs). We also have extensive experience helping agencies secure funding via competitively bid bank loans, lines of credit, and state and federal grants and loan programs. To date, we have helped California agencies obtain over \$4 billion of infrastructure financing. We generally recommend issuing debt via a competitive sale process to achieve the lowest interest rates possible. As independent financial advisors, we work only for public agencies and do not buy, trade, or resell bonds. Our work is concentrated on providing independent advice which enables our clients to finance their projects on the most favorable terms – lowest issuance costs, lowest interest rates, smallest issue size, and greatest flexibility.

Bartle Wells Associates is committed to providing value and the best advice to our clients. Our strength is *quality*—the quality of advice, service, and work we do for all our clients.

4/13/2010

-8-2

Attachment 1, Page 14 of 15

Board of Directors



General Manager

General Counsel

Municipal Water District
50 Years of Pure Excellence
1959 - 2009

March 4, 2010

Metropolitan Water District of Southern California
Business and Finance Committee Board of Directors
700 N. Alameda Street
Los Angeles, CA 90012

Re: *Olivenhain Municipal Water District's Objections to MWD's Options for 2010/11 rates and charges*

Dear Business and Finance Committee Board of Directors:

The Olivenhain Municipal Water District (District) would like to officially be entered into the public record of the Metropolitan Water District of Southern California (MWD) Business and Finance Committee meeting as objecting to the large water wholesale cost increases,

The District is a member agency of the San Diego County Water Authority (Authority), and provides retail water treatment and supply to approximately 68,000 customers in north San Diego County. The District purchases its water from the Authority who gets the majority of its water supply from MWD.

Our customers are being faced with unprecedented, grave economic times, with San Diego's unemployment rate soaring at 10.1%. We are asking the MWD's Business and Finance Committee members to be extremely sensitive to the retail water agencies' water customers who, in effect, would be expected to cover MWD's budget shortfalls.

When the MWD's Board of Directors adopted a 21.1% rate increase and the Authority increased its wholesale water cost to all of its retail agencies by 18.1% in 2009, the District passed through only 9% of the water wholesale cost increase to our customers by implementing a variety of mitigation measures. The District has aggressively implemented budget cutting measures in response to dramatic increases in our cost of water combined with concurrently lower water sales due to conservation. Six (6) of our Full-Time positions have not been filled, representing an approximate 7% reduction in our work force. Our customers and Board of Directors expect District's Staff to operate with less personnel and resources in coping with the tough economic times.

The District believes that customers who have participated in our conservation programs to reduce water use, including but not limited to our farmers who have absorbed a 30% cut in their water use over the last few years, should not be rewarded with a higher cost of water.



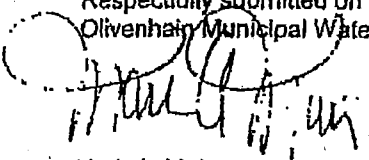
We propose the following suggestion for the Committee's consideration:

The District understands the importance of maintaining Metropolitan's financial health and the need to preserve the excellent bond ratings which ultimately provide considerable savings to rate payers. However, in light of the need to balance difficult external economic conditions impacting the member agencies, we expect more budget cutting measures proposed by MWD's Staff in the Operation and Maintenance expenditures, not just a \$3 million reduction (or a 1% cut) as currently proposed in order to mitigate the depletion in MWD's financial reserves. While the District understands that the wholesale water costs will continue to rise, we are requesting the Business and Finance Committee members to ask their Staff to identify additional, creative cost-cutting measures in response to dramatically lower revenues.

Thank you for allowing us the opportunity to be heard. The District believes passionately that MWD needs to take into account the perspectives and needs of the retail water suppliers who are on the front line and directly accountable to the public. As a side note, we are also concerned that the information was only available one week before the public hearing on this issue by MWD.

Finally, when a rate option is ultimately selected by the MWD Board, please consider support for an option similar to your proposed option 2 that allows for a smoother rate implementation for our customers.

Respectfully submitted on behalf of,
Olivenhain Municipal Water District Board of Directors



Mark A. Mulr
OMWD Board Treasurer and
OMWD San Diego County Water Authority Representative

Copy To: San Diego Delegates for Metropolitan

Metropolitan Water District of Southern California
Fiscal Year 2010/11 Cost of Service

April 2010

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1 Cost of Service

Prior to discussing the specific rates and charges that make up the rate structure, it is important to understand the cost of service process that supports the rates and charges. The purpose of the cost of service process is to: (1) identify which costs should be recovered through rates and charges; (2) organize Metropolitan's costs into service functions; and (3) classify service function costs on the basis for which the cost was incurred. The purpose of sorting Metropolitan's costs in a manner that reflects the type of service provided (e.g. supply vs. conveyance), the characteristics of the cost (e.g. fixed or variable) and the reason why the cost was incurred (e.g. to meet peak or average demand) is to create logical cost of service "building blocks". The building blocks can then be arranged to design rates and charges with a reasonable nexus between costs and benefits.

1.1 Cost of Service Process

The general cost of service process involves the four basic steps outlined below.

Step 1 - Development Of Revenue Requirements

In the revenue requirement step, the costs that Metropolitan must recover through rates and charges, after consideration of revenue offsets, are identified. The cash needs approach, an accepted industry practice for government-owned utilities, has historically been used in identifying Metropolitan's revenue requirements and was applied for the purposes of this study. Under the cash needs approach, revenue requirements include operating costs and annual requirements for meeting financed capital items (debt service, funding of replacement and refurbishment from operating revenues, etc.).

Step 2 - Identification of Service Function Costs

In the functional allocation step, revenue requirements are allocated to different categories based on the operational functions served by each cost. The functional categories are identified in such a way as to allow the development of logical allocation bases. The functional categories used in the cost of service process include:

- Supply
- Conveyance and Aqueduct
- Storage
- Treatment
- Distribution
- Demand Management
- Administrative and General
- Hydroelectric

In order to provide more finite functional allocation, many of these functional categories are subdivided into more detailed sub-functions in the cost of service process. For example, costs for the Supply and Conveyance and Aqueduct functions are further subdivided into the sub-functions State Water Project (SWP), Colorado River Aqueduct (CRA), and Other. Similarly, costs in the Storage function are broken down into the sub-functions Emergency Storage, Drought Carryover Storage, and Regulatory Storage.

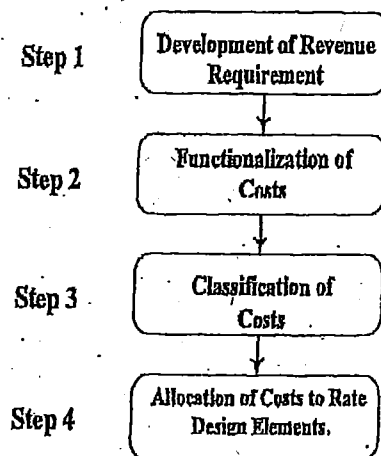
Step 3 - Classification Of Costs

In the cost classification step, functionalized costs are separated into categories according to their causes and behavioral characteristics. Proper cost classification is critical in developing a rate structure that recovers costs in a manner consistent with the causes and behaviors of those costs. Under American Water Works Association (AWWA) guidelines, cost classification may be done using either the Base/Extra-Capacity approach or the Commodity/Demand approach. In the simplest sense, these approaches offer alternative means of distinguishing between utility costs incurred to meet average or base demands and costs incurred to meet peak demands. The Commodity/Demand approach was modified for its application to Metropolitan's rate structure by adding a separate cost classification for costs related to providing standby service. Analysis of system operating data indicated that a modified Commodity/Demand approach was most appropriate for developing Metropolitan's cost of service classification bases.

Step 4 - Allocation Of Costs To Rate Design Elements

The allocation of costs to the rate design elements depends on the purpose for which the cost was incurred and the manner in which the member agencies use the Metropolitan system. For example, costs incurred to meet average system demands are typically recovered by dollar per acre-foot rates and are allocated based on the volume of water purchased by each agency. Rates that are levied on the amount or volume of water delivered are commonly referred to as volumetric rates as the customer's costs vary with the volume of water purchased. Costs incurred to meet peak demands (referred to in this report as demand costs) are recovered through a peaking charge (the Capacity Charge) and are allocated to agencies based on their peak demand behavior. Costs incurred to provide standby service in the event of an emergency are referred to here as standby costs. Differentiating between costs for average usage and peak usage is just one example of how the cost of service process allows for the design of rates and charges that improves overall customer equity and efficiency. Figure 1 summarizes the cost of service process.

Figure 1. The Cost of Service Process



1.2 Revenue Requirements

The estimated revenue requirements presented in this report are for FY 2010/11. Throughout the report, FY 2010/11 is used as the "test year" to demonstrate the application of the cost of service process. Schedule 1 summarizes the FY 2010/11 revenue requirement by the major budget line items used in Metropolitan's budgeting process. Current estimates indicate Metropolitan's annual cash expenditures (including capital financing costs, but not construction outlays financed with bond proceeds) will total approximately \$1.54 billion in FY 2010/11.

The rates and charges do not have to cover this entire amount. Metropolitan generates a significant amount of revenue from interest income, hydroelectric power sales and miscellaneous income. These internally generated revenues are referred to as revenue offsets and are expected to generate about \$73 million in FY 2010/11. It is expected that Metropolitan will also generate about \$82 million in ad valorem property tax revenues and annexation charges. Property tax revenues are used to pay for a portion of Metropolitan's general obligation bond debt service, and a portion of Metropolitan's obligation to pay for debt service on bonds issued to fund the State Water Project. The total revenue offsets for FY 2010/11 are estimated to be around \$155 million. Therefore, the revenue required from rates and charges is the difference between the total costs and the revenue offsets, or \$1.39 billion. No withdrawals from the Water Rate Stabilization Fund will be used to fund Metropolitan's expenditures during 2010/11. Given an effective date of January 1, 2011, the rates and charges recommended in this report, combined with rates and charges effective through

December 31, 2010 will generate a total of \$1.37 billion in 2010/11. The rates would recover the cost of service.¹

All of Metropolitan's costs fall under the broad categories of Departmental Costs or General District Requirements. Departmental Costs include budgeted items identified with specific organizational groups. General District Requirements consist of requirements associated with the Colorado River Aqueduct, State Water Project, the capital financing costs associated with the Capital Investment Program (CIP), and Water Management Programs. General District Requirements also include reserve fund transfers required by bond covenants and Metropolitan's Administrative Code.

When considered in total, General District Requirements make up approximately 72 percent of the absolute value of the allocated costs. The largest component of the revenue requirement relates to SWP expenditures, which make up approximately 29 percent of Metropolitan's FY 2010/11 revenue requirements. Metropolitan's SWP contract requires Metropolitan to pay its allocated share of the capital, minimum operations, maintenance, power and replacement costs incurred to develop and convey water through the project irrespective of the quantity of water Metropolitan takes delivery of in any given year. Metropolitan's capital financing program is the second largest component of the revenue requirement, constituting approximately 26 percent of the revenue requirement. Departmental O&M costs make up 19 percent of the total revenue requirement in FY 2010/11. Water System Operations is the largest single component of the Departmental Costs and accounts for 11 percent of the revenue requirement. Water System Operations responsibilities include operating and maintaining Metropolitan's pumping, storage, treatment, and hydroelectric facilities, as well as the Colorado River Aqueduct and other conveyance and supply facilities.

¹ The revenue requirement includes a \$15.5 million increase in required reserves associated with changes in the minimum rate stabilization reserves. Since the rate stabilization funds exceed this minimum, revenues are not required to fund that change in required reserves. As such, revenues need to only generate \$1.37 billion.

Schedule 1. Revenue Requirements (by budget line item)

	Fiscal Year Ending 2011	% of Revenue Requirements (1)
Departmental Operations & Maintenance	322,028,600	19.0%
General District Requirements		
State Water Project	497,325,222	29.3%
Colorado River Aqueduct	59,599,167	3.5%
Supply Program Costs paid from operating revenues	103,166,940	6.1%
Water Management Programs	58,236,726	3.4%
Capital Financing Program	443,120,428	26.1%
Other O&M	15,436,100	0.9%
Increase (Decrease) In Required Reserves	45,100,000	2.7%
Total	1,221,983,584	71.9%
Revenue Offsets	(154,880,952)	9.1%
Net Revenue Requirements	\$ 1,389,131,232	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.
Totals may not foot due to rounding

1.3 Service Function Costs

Several major service functions result in the delivery of water to Metropolitan's member agencies. These include the supply itself, the conveyance capacity and energy used to move the supply, storage of water, distribution of supplies within Metropolitan's system, and treatment of these supplies. Metropolitan's rate structure recovers the majority of the cost of providing these functions through rates and charges.

The functional categories developed for Metropolitan's cost of service process are consistent with the American Water Works Association rate setting guidelines, a standard chart of accounts for utilities developed by the National Association of Regulatory Commissioners (NARUC), and the National Council of Governmental Accounting. Because all water utilities are not identical, the rate structure reflects Metropolitan's unique physical, financial, and institutional characteristics.

A key goal of functional allocation is to maximize the degree to which rates and charges reflect the costs of providing different types of service. For functional allocation to be of maximum benefit, two criteria must be kept in mind when establishing functional categories.

- The categories should correlate charges for different types of service with the costs of providing those different types of service; and
- Each function should include reasonable allocation bases by which costs may be allocated.

Each of the functions developed for the cost of service process is described below.

- **Supply.** This function includes costs for those SWP and CRA facilities and programs that relate to maintaining and developing supplies to meet the member agencies' demands. For example, Metropolitan's supply related costs include investments in the Conservation Agreement with the Imperial Irrigation District and the Palo Verde Irrigation District (PVID) Program from the Colorado River supply programs. The SWP programs include the Drought

Water Bank purchases, and transfer programs such as Semitropic Water Storage Program, Yuba Accord Program, and the Arvin-Edison Water Storage Program. Supply costs also include costs of the State Water Project that relate to developing water supply and are reflected in Metropolitan's invoices as supply costs. Costs for groundwater conjunctive use programs within Metropolitan's service area, such as the North Las Posas Groundwater Basin Conjunctive Use Agreement are also included.

- *Conveyance and Aqueduct.* This function includes the capital, operations, maintenance, and overhead costs for SWP and CRA facilities that convey water to Metropolitan's internal distribution system. Variable power costs for the SWP and CRA are also considered to be Conveyance and Aqueduct costs but are separately reported under a "power" sub-function. Conveyance and Aqueduct facilities can be distinguished from Metropolitan's other facilities primarily by the fact that they do not typically include direct connections to the member agencies. For purposes of this study, the Inland Feeder Project functions as an extension of the SWP East Branch and is therefore considered a Conveyance and Aqueduct facility as well.
- *Storage.* Storage costs include the capital financing, operating, maintenance, and overhead costs for Diamond Valley Lake, Lake Mathews, Lake Skinner, and five smaller regulatory reservoirs within the distribution system. Metropolitan's larger storage facilities are operated to provide (1) emergency storage in the event of an earthquake or similar system outage; (2) drought storage that produces additional supplies during times of shortage; and (3) regulatory storage to balance system demands and supplies and provide for operating flexibility. To reasonably allocate the costs of storage capacity among member agencies, the storage service function is categorized into sub-functions of emergency, drought, and regulatory storage.
- *Treatment.* This function includes capital financing, operating, maintenance, and overhead costs for Metropolitan's five treatment plants and is considered separately from other costs so that treated water service may be priced separately.
- *Distribution.* This function includes capital financing, operating, maintenance, and overhead costs for the "in-basin" feeders, canals, pipelines, laterals, and other appurtenant works. The "in-basin" facilities are distinguished from Conveyance and Aqueduct facilities at the point of connection to the SWP, Lake Mathews, and other major turnouts along the CRA facilities.
- *Demand Management.* A separate demand management service function has been used to clearly identify the cost of Metropolitan's investments in local resources like conservation, recycling, and desalination.
- *Administrative and General (A&G).* These costs occur in each of the Groups' departmental budgets and reflect overhead costs that cannot be directly functionalized. The cost-of-service process allocates A&G costs to the service functions based on the labor costs of non-A&G dollars allocated to each function.
- *Hydroelectric.* Hydroelectric costs include the capital financing, operating, maintenance, and overhead costs incurred to operate the 16 small hydroelectric plants located throughout the water distribution system.

1.3.1 Functional Allocation Bases

The functional allocation bases are used to allocate a cost to the various service functions. The primary functional allocation bases used in the cost-of-service process are listed below.

- Direct assignment
- Work-In-Progress or Net Book Value plus Work-In-Progress
- Prorating in proportion to other allocations
- Manager analysis

Schedule 2 summarizes the amounts of total cost allocated using each of the above types of allocation bases.

Schedule 2. Summary of Functional Allocations by Type of Allocation Basis

Primary Functional Allocation Bases	Estimated for FY 2011	% of Allocated Dollars
Direct Assignment	\$ 1,006,828,974	59.3%
Work in Progress/Net Book Value	484,302,292	28.5%
Prorating	76,942,830	4.5%
Manager Analysis	27,653,100	1.6%
Other	\$ 103,165,940	6.1%
Total Dollars Allocated	\$ 1,698,893,135	100.0%
Portion of Above Allocations Relating to:		
Revenue Requirements before Offsets	1,544,012,184	
Revenue Offsets	154,880,952	
Total Dollars Allocated	\$ 1,698,893,135	

Totals may not foot due to rounding

Each of the primary allocation bases is discussed in detail in the remainder of this section. Discussion of each allocation basis includes examples of costs allocated using that particular basis.

(a) Direct assignment

Direct assignment makes use of a clear and direct connection between a revenue requirement and the function being served by that revenue requirement. Directly assigned costs typically include costs associated with specific treatment plants, purely administrative costs, and certain distribution and conveyance departmental costs. Examples of costs that are directly assigned to specific functional categories are given below.

- * Water System Operations Group departmental costs for treatment plants are directly assigned to treatment.
- * Transmission charges for State Water Contract are directly assigned to conveyance SWP.

(b) Work-In-Progress; Net Book Value Plus Work-In-Progress

Capital financing costs, including debt service and "pay-as-you-go" funding of replacements and refurbishments from operating revenues, comprise about 26 percent of Metropolitan's annual revenue requirements. One approach would be to allocate payments on each debt issue in direct proportion to specific project expenditures made using bond proceeds. But, this approach would result in a high degree of volatility in relative capital cost allocations from year to year. The approach used in this analysis is one widely used in water industry cost-of-service studies. Capital and debt-related costs (including repair and replacement costs paid from current revenues) are allocated on the basis of the relative net book values of fixed assets within each functional category. This approach produces capital cost allocations that are consistent with the functional distribution of assets. Also, since the allocation basis is tied to fixed asset records rather than debt payment records, the resulting allocations are more reflective of the true useful lives of assets. Use of net book values as an allocation basis provides an improved matching of functional costs with asset lives. A listing of fixed asset net book values summarized by asset function is shown in Schedule 3.

Schedule 3. Net Book Value and Work in Progress Allocation Base

Functional Categories	NEV for FY 2011	% of Total NEV
Source of Supply	\$ 34,910,760	0.4%
Conveyance & Aqueduct	1,451,574,789	18.3%
Storage	2,289,080,169	28.9%
Treatment	2,615,926,731	33.0%
Distribution	1,157,166,004	14.6%
Administrative & General	273,732,097	3.5%
Hydroelectric	111,873,118	1.4%
Total Fixed Assets Net Book Value	\$ 7,934,263,668	100.0%

Totals may not foot due to rounding

In most instances, the cost-of-service process uses net book value *plus* work-in-progress to develop allocation bases for debt and capital costs. For organizational units handling current construction activity, however, allocations are based on work-in-progress alone. For these organizational units, exclusion of net book value from the allocation basis is done because the costs being allocated relate directly to work in progress not yet reflected in the completed assets records.

Examples of revenue requirements allocated using these net book value and work-in-progress allocations are shown below.

- * General Obligation and Revenue Bond Debt Service: *allocated using Work In Progress plus Net Book Value.*
- * Annual deposit of operating revenue to replacement and refurbishment fund: *allocated using Work In Progress plus Net Book Value.*

To calculate the relative percentage of fixed assets in each functional category, Metropolitan staff conducted a detailed analysis of historical accounting records and built a database of fixed asset accounts that contains records for all facilities currently in service and under construction. Each facility was sorted into the major service function that best represented the facilities primary purpose and was then further categorized into the appropriate sub-functions described earlier.

(c) Prorating in proportion to other allocations

Utility cost of service studies frequently contain line items for which it would be difficult to identify an allocation basis specific to that line item. In these cases, the most logical allocation basis is often a prorata blend of allocation results calculated for other revenue requirements in the same departmental group, or general category. Reasonable prorata allocations are based on a logical nexus between a cost and the purpose which it serves. For example: Human Resources Section costs are allocated using all labor costs, since Human Resources spends its time and resources attending to the labor force.

(d) Manager analyses

The functional interrelationships of some organizational units are so complex and/or dynamic that reliable allocation bases can only be developed with extensive input from the organization's managers. In these cases, managers use their first-hand knowledge of the organization's internal operations to generate a functional analysis of departmental costs. An example of revenue requirements allocated based on manager analyses is: Water System Operations Group: Operations Planning Unit.

A summary of the functional allocation results is shown in Schedules 4 and 5. Schedule 4 provides a breakdown of the revenue requirement for FY 2010/11 into the major service functions and sub-functions prior to the re-distribution of administrative and general costs. Schedule 5 serves as a cross-reference summarizing how the budget line items are distributed among the service functions. The largest functional component of Metropolitan's revenue requirement is the Conveyance and Aqueduct function, which constitutes approximately 38 percent of the allocated revenue requirement.

Schedule 4. Revenue Requirement (by service function)

Functional Categories	Fiscal Year Ending 2011	% of Allocated Dollars (1)
Source of Supply		
CRA	\$ 58,811,499	4.2%
SWP	117,442,786	8.3%
Other Supply	18,508,845	1.3%
Total	194,763,131	13.8%
Conveyance & Aqueduct		
CRA		
CRA Power (net of sales)	65,314,384	4.6%
CRA All Other	40,847,958	2.9%
SWP		
SWP Power	172,884,553	12.2%
SWP All Other	202,357,663	14.3%
Other Conveyance & Aqueduct	61,422,230	4.3%
Total	642,826,988	38.4%
Storage		
Storage Costs Other Than Power		
Emergency	66,570,522	4.7%
Drought	54,428,113	3.8%
Regulatory	13,319,681	0.9%
Wadsworth plant pumping/generation	(1,349,650)	0.1%
Total	132,968,666	9.8%
Treatment		
Jensen	42,554,959	3.0%
Weymouth	40,091,231	2.8%
Damer	51,061,307	3.6%
Mills	36,049,155	2.5%
Skinner	63,276,920	4.5%
Total	233,033,572	18.5%
Distribution	114,511,923	8.1%
Demand Management	69,602,962	4.9%
Hydroelectric	(11,637,889)	0.8%
Administrative & General	113,061,970	8.0%
Total Functional Allocations:	\$ 1,389,131,232	100.0%

(1) Given as a percentage of the absolute values of total dollars allocated.
Totals may not foot due to rounding

Schedule 5. Service Function Revenue Requirements (by budget line item)

	Source of Supply	Conveyance & Appurtenant	Storage	Treatment	Distribution	Demand Management	Hydro Benefits	Administrative & General	Total \$ Allocated
Departmental Operations & Maintenance									
Office of the General Manager & Human Resources	\$ 1,039,880	\$ 1,522,053	\$ 793,198	\$ 3,478,894	\$ 2,272,888	\$ 388,874	\$ 157,700	\$ 6,667,496	\$ 16,284,800
External Affairs	-	-	-	-	-	-	-	12,784,427	13,939,800
Water System Operations	11,826,793	31,128,237	3,494,178	90,840,431	48,877,507	7,483	3,254,385	1,195,108	190,451,300
Chief Financial Officer	-	-	-	-	-	-	-	5,818,100	5,818,100
Corporate Resources	1,970,388	8,750,249	7,762,511	13,804,889	7,300,128	697,009	582,878	19,536,004	55,097,300
Real Property Development & Mgmt.	-	-	11,778,000	-	-	-	-	-	11,778,000
Water Resources Management	3,672,178	7,216	-	-	974,163	8,826,694	-	41,218	17,820,400
Ethics Department	-	-	-	-	-	-	-	481,800	481,800
General Counsel	-	-	-	-	-	-	-	7,679,700	7,679,700
Audit Department	-	-	-	-	-	-	-	1,873,600	1,873,600
Total Departmental O&M	24,309,338	36,414,749	23,797,888	197,860,746	59,424,566	11,028,573	4,095,873	52,149,752	322,028,630
General District Requirements									
State Water Project	70,398,318	428,320,904	-	-	-	-	-	-	497,325,222
Colorado River Aqueduct	-	59,189,167	-	-	-	-	-	-	59,698,167
Water Treatment and Storage Programs	103,155,840	-	-	-	-	-	-	-	103,155,840
Demand Management	-	-	-	88,238,728	-	-	-	-	88,238,728
Capital Financing Programs	1,776,008	74,823,820	118,583,039	145,098,805	84,094,855	-	5,897,707	13,841,158	443,120,429
Other Operating Costs	178,352	281,883	136,477	398,044	397,090	1,762,240	27,133	12,050,398	16,436,100
Increase (Decrease) in Required Reserves	-	-	-	-	-	-	-	45,100,000	45,100,000
Total General District Requirements	175,119,069	563,116,774	118,719,513	146,894,649	85,486,945	80,008,868	5,724,842	71,091,685	1,221,889,594
Revenue Offsets									
Net Revenue Requirements	\$ (8,852,296)	\$ (68,706,525)	\$ (7,468,932)	\$ (21,622,022)	\$ (99,360,619)	\$ (1,451,278)	\$ (21,399,704)	\$ (10,179,377)	\$ (164,880,882)
Total Revenue Requirements	\$ (8,852,296)	\$ (68,706,525)	\$ (7,468,932)	\$ (21,622,022)	\$ (99,360,619)	\$ (1,451,278)	\$ (21,399,704)	\$ (10,179,377)	\$ (164,880,882)

Totals may not foot due to rounding

1.4 *Classified Costs*

In the cost classification step, functionalized costs are further categorized based on the causes and behavioral characteristics of these costs. An important part of the classification process is identifying which costs are incurred to meet average demands vs. peak demands and which costs are incurred to provide standby service. As with the functional allocation process, the proposed classification process is consistent with AWWA guidelines, but has been tailored to meet Metropolitan's specific operational structure and service environment.

In the cost of service process, cost classification is done using a hybrid of two methods discussed in the AWWA M1 Manual, Principles of Water Rates, Fees and Charges. These two methods are the Commodity/Demand method and the Base/Extra Capacity method.

The Commodity/Demand method allocates costs that vary with the amount of water produced to the commodity category with all other costs associated with water production allocated to the demand category. In the Base/Extra Capacity method costs related to average demand conditions are allocated to the base category and capacity costs associated with meeting above average demand conditions are allocated to the extra capacity category.

The approach used to classify Metropolitan's costs differs from the Base/Extra Capacity method by the fact that costs are separated into a variable category and a fixed category. The Base/Extra Capacity method does not separate these costs into two categories but rather combines them into one category referred to as base costs. The approach used to classify Metropolitan's costs differs from the Commodity/Demand method in the fact that demand costs are separated into fixed commodity and fixed demand costs. The Commodity/Demand method would not make this distinction, but would combine these costs into the demand category. By using the hybrid method, costs are disaggregated to a lower level of detail, providing greater visibility to costs. Under the hybrid classification method, functional cost categories are reallocated into demand, commodity, or standby categories, which are discussed below. Classification of costs into these categories depends on an analysis of system capacity as well as actual system operating data.

Classification categories used in the analysis include:

- Fixed demand costs
- Fixed commodity costs
- Fixed standby costs
- Variable commodity costs
- Hydroelectric costs

Demand costs are incurred to meet peak demands. Only the direct capital financing costs were included in the demand classification category. A portion of capital financing costs was included in the demand cost category because in order to meet peak demands additional physical capacity is designed into the system and, therefore, additional capital costs are incurred. Commodity costs are generally associated with average system demands. Variable commodity costs include costs of chemicals, most power costs, and other cost components that increase or decrease in relation to the volume of water supplied. Fixed commodity costs include fixed operations and maintenance and capital financing costs that are not related to accommodating peak demands or standby service.

Standby service costs relate to Metropolitan's role in ensuring system reliability during emergencies such as an earthquake or an outage of a major facility like the Colorado River Aqueduct. The two principal components of the standby costs were identified as the emergency storage capacity within the system and the standby capacity within the State Water Project conveyance system.

An additional component used in Metropolitan's cost classification process is the hydroelectric component. While not a part of most water utilities' cost classification procedures, the hydroelectric classification component is necessary to segregate revenue requirements carried from the hydroelectric function established in the functional allocation process. Hydroelectric revenue requirements are later embedded in the distribution function. Any net revenues generated by the hydroelectric operations offset the distribution costs and reduce the System Access Rate. All users of the distribution system benefit proportionately from the revenue offset provided by the sale of hydroelectric energy.

Schedule 6 provides the classification percentages used to distribute the service function costs into demand, commodity and standby service classification categories. All of the supply costs are classified as fixed commodity costs. Because these particular supply costs have been incurred to provide an amount of annual reliable system yield and not to provide peak demand delivery capability or standby service they are reasonably treated as fixed commodity costs.

Costs for the Conveyance and Aqueduct (C&A) service function are classified into demand, commodity, and standby categories. Because the capital costs for C&A were incurred to meet all three classification categories, an analysis of C&A capacity usage for the three years ending June 2011 was used to determine that 62 percent of the available conveyance capacity has been used to meet member agency demands on an average annual basis. A system peak factor² of 1.5 was applied to the average annual usage to determine that 30 percent of available capacity is used to meet peak monthly deliveries to the member agencies. The remaining portion of C&A, around 8 percent, is used for standby. The same classification percentages are applied to the CRA, SWP, and Other (Inland Feeder) Conveyance and Aqueduct sub-functions. The classification shares reflect the system average use of conveyance capacity and not the usage of individual facilities. All of the Conveyance and Aqueduct energy costs for pumping water to Southern California are classified as variable commodity costs and, therefore, are not shown in Schedule 6 because they carry through the classification step.

Storage service function costs for emergency, drought and regulatory storage are also distributed to the classification categories based on the type of service provided. Emergency storage costs are classified as 100 percent standby related. Emergency storage is a prime example of a cost Metropolitan incurs to ensure the reliability of deliveries to the member agencies. In effect, through the emergency storage capacity in the system, Metropolitan is "standing by" to provide service in the event of a catastrophe such as a major earthquake that disrupts regional conveyance capacity for an extended period of time. Drought carryover storage serves to provide reliable supplies by carrying over surplus supplies from periods of above normal precipitation and snow pack to drought periods when supplies decrease. Drought storage creates supply and is one component of the portfolio of resources that result in a reliable amount of annual system supplies. As a result, drought storage is classified as a fixed commodity cost, in the same manner as Metropolitan's supply costs. Regulatory storage within the Metropolitan system provides operational flexibility in meeting peak demands and

² Peak monthly deliveries to the member agencies average about 50 percent more than the average monthly deliveries.

flow requirements, essentially increasing the physical distribution capacity. Therefore, regulatory storage is classified in the same manner as distribution costs.

Distribution service function costs were classified using daily flow data for the three calendar years ending December 2008. During this period, the average annual volume of deliveries to the member agencies used 58 percent of the peak distribution capacity. The difference between the average flow and system capacity, or 42 percent of the distribution capacity, was used to meet peak day demands in excess of average annual flows. Although the Metropolitan distribution system has a great deal of operational flexibility, the total amount of distribution capacity was limited to the peak non-coincident³ 24-hour daily flow of all the member agencies.

As presented in Schedule 6, treatment service function costs were also classified using daily flow data of deliveries to the member agencies for the ten years ending December 2010. Total treated water capacity of 4,204 cfs, the total design capacity of all the treatment plants, was used in the calculation. Schedule 7 summarizes the service function revenue requirements by classification category. Administrative and general costs have been allocated to the classification categories by service function based on the ratio of classified non-A&G service function costs to total non-A&G service function costs.

³ The term "non-coincident" means that the peak day flow for each agency may or may not coincide with the peak day system flow. Both non-coincident and coincident approaches to measuring peak demands are used in rate design approaches. A non-coincident approach is used in the rate design to capture the different operating characteristics of the member agencies (e.g., the distribution system is designed to meet peak demands in different load areas within the System that have non-coincident demands due to each member agencies' unique operating characteristics).

Schedule 6. Classification Percentages

Function	Classification Percentages			Total % Classified	Comments
	Commodity	Fixed Demand	Standby		
Source of Supply					
Colorado River Aqueduct	100%	0%	0%	100%	Supply costs classified as commodity
State Water Project	100%	0%	0%	100%	Supply costs classified as commodity
Conveyance & Aqueduct					
Colorado River Aqueduct	82%	30%	8%	100%	Demand (peaking) percentage represents application of system monthly peak factor of 1.5 to average monthly flow. Commodity percentage represents average flows. Remainder of capacity is for standby (expected growth). SNP and CRA are treated the same due to application of system wide uniform price.
State Water Project	52%	30%	8%	100%	Standby services (recovered by RTB) Recovered by Supply Rates See distribution (below)
Other Storage	52%	30%	8%	100%	
Emergency Drought Regulatory	0%	0%	100%	100%	Demand percentage represents amount of system treatment capacity used to meet peak day flows in excess of average. Commodity percentage represents amount of capacity used to meet average flows. Standby percentage is estimated as remaining total capacity. The same classification is applied to all five treatment plants due to the use of a uniform system wide treatment surcharge.
	100%	42%	0%	100%	
Treatment	45%	55%	0%	100%	Demand percentage represents amount of system distribution capacity used to meet peak day flows in excess of average. Commodity percentage represents amount of capacity used to meet average flows. Standby percentage is estimated as remaining total system capacity. The same classification is applied to all distribution facilities due to the use of a system wide uniform system access rate.
Distribution	58%	42%	0%	100%	

Totals may not foot due to rounding

A summary of cost classification results is shown in Schedule 7. The classification of the service function costs results in about 10 percent, or \$140 million of the total revenue requirements, being allocated to the demand classification category. This amount represents a reasonable estimate of the annual fixed capital financing costs incurred to meet peak demands (plus the allocated administrative and general costs). A portion of Metropolitan's property tax revenue is allocated to C&A fixed demand costs and offsets the amount that is recovered through rates. The taxes are used to pay for the general obligation bond debt service allocated to the C&A costs.

Schedule 7. Service Function Revenue Requirements (by classification category)

Functional Categories (by sub-function)	Fixed Demand	Commodity	Standby	Variable Commodity	Hydroelectric	Total Classified
Source of Supply						
CRA	\$ -	64,808,999 / \$	-	-	-	\$ 64,808,999
SWP	-	128,419,408	-	-	-	128,419,408
Other Supply	-	20,895,347	-	-	-	20,895,347
Subtotal: Source of Supply	-	214,824,754	-	-	-	214,824,754
Conveyance & Aqueduct						
CRA						
CRA Power		7,801,723		81,088,458		88,890,182
CRA All Other	2,905,650	41,271,898	737,343			44,915,092
SWP						
SWP Power				181,388,615		181,388,615
SWP All Other	21,603,221	185,205,670	5,476,044			222,284,935
Other Conveyance & Aqueduct	17,246,789	45,132,871	4,730,168			67,111,628
Subtotal: Conveyance & Aqueduct	41,780,660	288,411,863	10,943,566	242,488,974		584,605,352
Storage						
Storage Costs Other Than Power						
Emergency			71,714,427			71,714,427
Drought						
Regulatory		58,878,802				58,878,802
Storage Power	5,143,648	9,385,437				14,529,085
Subtotal: Storage	5,143,648	68,374,028	71,714,427	(1,416,046)		144,816,958
Water Quality						
CRA						
SWP						
Other						
Subtotal: Water Quality						
Treatment	87,389,660	154,437,895		31,582,380		253,399,845
Distribution						
Demand Management	25,865,070	58,626,037				125,491,107
Hydroelectric		78,700,957				78,700,957
Total Costs Classified	\$ 140,155,138	\$ 804,176,734	\$ 82,867,983	\$ 272,836,319	\$ (10,486,842)	\$ 1,389,131,232
Totals may not foot due to rounding						

About 65 percent of the revenue requirement (\$904 million) is classified as "fixed commodity". These fixed capital and operating costs are incurred by Metropolitan to meet annual average service needs and are typically recovered by a combination of fixed charges and volumetric rates. Fixed capital costs classified to the "Standby" category total about \$83 million and account for about 6 percent of the revenue requirements. Standby service costs are commonly recovered by a fixed charge allocated on a reasonable representation of a customer's need for standby service. The variable commodity costs for power on the conveyance and aqueduct systems, and power, chemicals and solids handling at the treatment plants change with the amount of water delivered to the member agencies. These costs are classified as variable commodity costs, total about \$273 million, and account for about 20 percent of the total revenue requirement. Because of the variable nature of these costs, it is appropriate to recover them through volumetric rates.

2 Rates and Charges

Schedule 8 provides a cross-reference between the classified service function costs and their allocation to the rate design elements. The specifics of each rate design element are discussed in detail in the following section. Schedule 9 summarizes the rates and charges that would be effective on January 1, 2011 in order to collect all costs from rates and charges in fiscal year 2010/11, without the use of draws from reserve funds. Average costs by member agency will vary depending upon an agency's RTS allocation, capacity charge and relative proportions of treated and untreated Tier 1, Tier 2, Replenishment, and Interim Agricultural Water Program purchases.

Schedule 8. Classified Service Function Revenue Requirements (by rate design element)

Service Function by Classification Category	Rate Design Elements							Total Costs Allocated
	Supply Rates	System Access Fee	Water Wastewater Rate	System Permit Fee	Capacity Charge	Residence-Serve Charge	Treatment Surcharges	
Supply								
Fixed Demand								
Fixed Community								
Fixed Sludge								
Variable Community								
Hydroelectric								
Subtotal Supply	\$ 214,824,794							\$ 214,824,794
Conveyance and Aqueduct								
Fixed Demand								
Fixed Community								
Fixed Sludge								
Variable Community								
Hydroelectric								
Subtotal Conveyance and Aqueduct	214,824,794							214,824,794
Storage								
Fixed Demand								
Fixed Community								
Fixed Sludge								
Variable Community								
Hydroelectric								
Subtotal Storage	51,974,902	295,411,963	78,700,867	262,468,974	5,143,641	41,760,960		41,760,960
Treatment								
Fixed Demand								
Fixed Community								
Fixed Sludge								
Variable Community								
Hydroelectric								
Subtotal Treatment	1,416,345	3,385,427	78,700,867	262,468,974	5,143,641	71,714,427		5,143,641
Disinfection								
Fixed Demand								
Fixed Community								
Fixed Sludge								
Variable Community								
Hydroelectric								
Subtotal Disinfection	51,952,957	2,385,427	78,700,867		20,965,070	21,365,070		21,365,070
Demand Management								
Fixed Demand								
Fixed Community								
Fixed Sludge								
Variable Community								
Hydroelectric								
Subtotal Demand Management	27,000,567	78,700,867	78,700,867					78,700,867
Total								
Fixed Demand								
Fixed Community								
Fixed Sludge								
Variable Community								
Hydroelectric								
Subtotal	\$ 274,187,311	\$ 352,284,441	\$ 78,700,867	\$ 262,468,974	\$ 3,209,618	\$ 324,114,645	\$ 263,330,045	\$ 1,269,131,232

Totals may not add due to rounding

Schedule 9. Rates and Charges Summary

	Effective Jan 1, 2010*	Effective Jan. 1, 2011**
Tier-1 Supply Rate (\$/AF)	\$101	\$112
Delta Supply Surcharge (\$/AF)	\$69	\$51
Tier 2 Supply Rate (\$/AF)	\$280	\$280
System Access Rate (\$/AF)	\$154	\$217
Water Stewardship Rate (\$/AF)	\$41	\$43
System Power Rate (\$/AF)	\$119	\$136
Full Service Untreated Volumetric Cost (\$/AF)		
Tier 1	\$484	\$558
Tier 2	\$594	\$675
Replenishment Water Rate Untreated (\$/AF)	\$366	\$440
Interim Agricultural Water Program Untreated (\$/AF)	\$416	\$513
Treatment Surcharge (\$/AF)	\$217	\$217
Full Service Treated Volumetric Cost (\$/AF)		
Tier 1	\$701	\$775
Tier 2	\$811	\$892
Treated Replenishment Water Rate (\$/AF)	\$558	\$632
Treated Interim Agricultural Water Program (\$/AF)	\$815	\$718
Readiness-to-Serve Charge (\$M)	\$114	\$133
Capacity Charge (\$/ofs)	\$7,200	\$7,200

* Most rates effective Sept 1, 2009

** Rates and charges necessary to collect sufficient revenues when combined with rates effective through 2010 to cover expenditures incurred in fiscal year 2010/11. Note that rates effective in 2011 provide only four months of revenue in 2010/11

2.1 System Access Rate (SAR)

The SAR is a volumetric⁴ system-wide rate levied on each acre-foot of water that moves through the MWD system. All system users (member agency or third party) pay the SAR to use Metropolitan's conveyance and distribution system. To meet the board stated objective to collect all costs in 2010/11 the SAR would increase from its current level of \$154 per acre-foot to \$217 per acre-foot. The SAR recovers the cost of providing conveyance and distribution capacity to meet average annual demands. Current estimates indicate that the SAR revenue requirement will be about \$388 million in FY 2010/11, or 28 percent of the total revenue requirement.

2.2 Water Stewardship Rate (WSR)

Under the board's guidelines, the WSR would increase from its current level of \$41 per acre-foot to \$43 per acre-foot. The WSR recovers the costs of providing financial incentives for existing and future investments in local resources including conservation and recycled water. These investments or incentive payments are identified as the "demand management" service function in the cost of service process. Demand management costs are classified as 100 percent fixed commodity costs and are estimated to be about \$77 million in FY 2010/11, about 6 percent of the revenue requirement. The WSR is a volumetric rate levied on each acre-foot of water that moves through the Metropolitan system. All system users (member agency or third parties) will pay the same proportional costs for existing and future conservation and recycling investments.

2.3 System Power Rate (SPR)

SPR would increase from \$119 per acre-foot to \$135 per acre-foot in 2011. The SPR is a volumetric rate that recovers the costs of pumping water to Southern California. The SPR recovers the cost of power for both the SWP and CRA. In FY 2010/11 the revenue requirement for the SPR is estimated to be about \$242 million, about 17 percent of the total revenue requirement.

2.4 Treatment Surcharge

The treatment surcharge would remain unchanged at its current level of \$217 per acre-foot to collect all treatment costs in 2010/11. The treatment surcharge is a system-wide volumetric rate set to recover the cost of providing treated water service. The treatment surcharge revenue requirement is expected to be about \$253 million in FY 2010/11, almost 18 percent of the total revenue requirement. The treatment surcharge recovers all costs associated with providing treated water service, including commodity, demand and standby related costs. Significant capital improvements at Metropolitan's five treatment plants, such as the Ozone Retrofit Program, Skinner Filtration Plant Expansion Project, and improvement programs at all five treatment plants result in additional capital financing costs being allocated to the treatment surcharge.

2.5 Capacity Charge

The Capacity Charge would remain at its current level of \$7,200 per cubic-foot-second of capacity during 2011. The capacity charge is levied on the maximum-summer day demand placed on the system between May 1 and September 30 for a three-calendar year period. The three-year period

⁴ A volumetric rate is a charge applied to the actual amount of water delivered.

ending December 31, 2009 is used to levy the capacity charge effective January 1, 2011 through December 31, 2011. Demands measured for the purposes of billing the capacity charge include all firm demand and agricultural demand, including wheeling service and exchanges. Replenishment service is not included in the measurement of peak day demand for purposes of billing the capacity charge.

The capacity charge is intended to pay for the cost of peaking capacity on Metropolitan's system, while providing an incentive for local agencies to decrease their use of the Metropolitan system to meet peak day demands and to shift demands into lower use time periods particularly October through April. Over time, a member agency will benefit from local supply investments and operational strategies that reduce its peak day demand on the system in the form of a lower total capacity charge. The estimated capacity charge to be paid by each member agency in calendar year 2011 (as of March 2010) is included in Schedule 10.

Schedule 10. Capacity Charge (by member agency)

AGENCY	Peak Day Demand (cfs) (May 1 through September 30) Calendar Year				Calendar Year 2011 Capacity Charge (\$7,200/cfs)
	2007	2008	2009	3-Year Peak	
Anaheim	37.9	36.1	40.7	40.7	\$ 293,040
Beverly Hills	33.9	32.9	31.0	33.9	\$ 244,080
Burbank	33.7	34.2	21.6	34.2	\$ 246,240
Calleguas	260.8	250.0	192.8	260.8	\$ 1,877,760
Central Basin	125.9	102.7	94.7	125.9	\$ 906,480
Compton	7.1	4.9	5.9	7.1	\$ 51,120
Eastern	303.0	283.1	227.8	303.0	\$ 2,181,600
Foothill	25.4	21.5	24.3	25.4	\$ 182,880
Fullerton	36.9	27.1	37.4	37.4	\$ 269,280
Glendale	54.6	55.7	56.0	56.0	\$ 403,200
Inland Empire	176.2	125.8	108.1	176.2	\$ 1,288,640
Las Virgenes	45.3	45.3	42.7	45.3	\$ 326,160
Long Beach	61.3	68.1	67.2	68.1	\$ 490,320
Los Angeles	768.5	821.9	698.2	821.9	\$ 5,917,680
MWDOC	469.2	453.7	630.4	630.4	\$ 4,538,880
Pasadena	58.5	55.6	50.2	58.5	\$ 421,200
San Diego	1278.4	1039.9	1055.3	1278.4	\$ 9,204,480
San Fernando	6.5	0.1	0.0	6.5	\$ 46,800
San Marino	5.2	5.2	3.5	5.2	\$ 37,440
Santa Ana	29.7	14.5	16.4	29.7	\$ 213,840
Santa Monica	27.6	26.2	25.0	27.6	\$ 198,720
Three Valleys	171.4	168.1	132.7	171.4	\$ 1,234,080
Torrance	41.6	35.5	39.3	41.6	\$ 299,520
Upper San Gabriel	63.8	36.9	27.6	63.8	\$ 459,360
West Basin	262.3	243.3	221.3	262.3	\$ 1,888,560
Western	289.1	271.4	219.9	289.1	\$ 2,081,520
Total	4,873.8	4,239.7	4,068.0	4,900.4	\$ 35,282,880

Totals may not foot due to rounding

2.6 Readiness-to-Serve Charge

The costs of providing standby service, such as emergency storage, are recovered by the RTS. Metropolitan's cost for providing emergency storage capacity within the system are estimated to be about \$72 million in FY 2010/11. In addition, to simplify the rate design by reducing the number of separate charges, the demand and standby related costs identified for the conveyance and aqueduct service function are also allocated to the RTS. These costs are estimated to be about \$42 million in FY 2010/11. Currently the RTS recovers \$114 million, an amount that represents a portion of the capital financing costs for facilities that serve existing users. The RTS would increase to \$133 million in calendar year 2011 to recover the additional costs associated with conveyance.

The RTS is allocated to the member agencies based on each agency's proportional share of a ten-year rolling average of all firm deliveries (including water transfers and exchanges that use Metropolitan system capacity). The ten-year rolling average will not include replenishment service and interim agricultural deliveries because these deliveries will be the first to be curtailed in the event of an emergency. A ten-year rolling average leads to a relatively stable RTS allocation that reasonably represents an agency's potential long-term need for standby service under different demand conditions. Member agencies that so choose may have a portion of their total RTS obligation offset by standby charge collections levied by Metropolitan on behalf of the member agency. Schedule 11 provides an estimate as of March 2010 of each agency's total RTS obligation for calendar year 2011.

Schedule 11. Readiness-to-Serve Charge (by member agency)

Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre-Feet) FY1999/00 - FY2008/09	RTS Share	12 months @ \$133 million per year (1/11-12/11)
Anaham	20,966	1.11%	\$ 1,470,578
Burbank	12,908	0.68%	906,398
Central Basin MWD	63,256	3.34%	4,438,942
Eastern MWD	92,013	4.85%	6,463,999
Fullerton	9,694	0.51%	678,989
Inland Empire Utilities Agency	61,205	3.23%	4,283,052
Long Beach	36,970	1.95%	2,583,193
Municipal Water District of Orange County	231,692	12.22%	16,251,408
San Diego County Water Authority	481,238	25.91%	34,458,666
San Marino	1,001	0.05%	70,184
Santa Monica	12,794	0.67%	897,409
Torrance	20,742	1.09%	1,464,916
West Basin MWD	141,822	7.46%	9,923,700
MWD Total	1,096,143	100.00%	\$ 133,000,000

Totals may not foot due to rounding

2.7 Purchase Order

The rate structure relies on a Purchase Order to establish a financial commitment from the member agency to Metropolitan. In return for providing a financial commitment to Metropolitan the member agency may purchase more of its supply at the lower Tier 1 Supply Rate than had it not provided the commitment.

The Purchase Order is voluntarily submitted by the member agency to Metropolitan. Through the Purchase Order the member agency commits to purchase a fixed amount of supply from Metropolitan (the Purchase Order Commitment). The Purchase Order Commitment is determined as a portion of the member agency's historical demands on the Metropolitan system and the term of the Purchase Order.

Term

The Purchase Order is for a ten-year term beginning January 1, 2003. Ten years was chosen as a balance between the long-term investments Metropolitan makes to secure water supply (many of the supply development agreements Metropolitan commits to are for 20 years or more) and a shorter period that would require less of a commitment from the member agencies. In addition, a ten-year period will most likely allow sufficient time for high and low demand years to average, reducing the likelihood that a member agency will pay for unused water.

Initial base demand

The maximum annual firm demands since FY 1989/90 through June 30, 2002 are used to establish each member agency's "initial base demand". Firm demands are defined as all deliveries through the Metropolitan system to a member agency excluding replenishment service, interim agricultural service, deliveries made under the interruptible service program and deliveries made to cooperative and cyclic storage accounts at the time water was put into the accounts.

Purchase Order Commitment

The Purchase Order Commitment is limited to a portion of a member agency's initial base demand. The Purchase Order Commitment is defined as ten times 60 percent of the member agency's initial base demand. The ten times reflects the ten-year term of the Purchase Order and the 60 percent was chosen to balance risk transferred to the member agencies with the need for a financial commitment to Metropolitan.

Two factors influenced the use of the 60 percent demand level. First, there is substantial fluctuation in demands as a result of weather. During cool, wet weather, member agencies use less imported supply from Metropolitan's system. As a result, the Purchase Order Commitment was set at a level that would accommodate these annual fluctuations in weather driven demands, while helping to ensure that member agencies would have a reasonable opportunity to utilize all of the water during the ten-year Purchase Order term. Second, the 60 percent level was selected in consultation with member agency representatives and represents a sufficient incentive to utilize Metropolitan's supplies and provide a base financial commitment to the regional system. Since the Purchase Order Commitment is voluntary, no member agency is required to commit to the minimum level. But, in exchange for the commitment, the member agency may purchase more Metropolitan water supply (up to 90 percent of its Base Demand) at the lower Tier 1 Supply Rate. The Purchase Order Commitment quantity and the Tier 1 Annual Limit for all member agencies are shown in Schedule 12.

Schedule 12. Purchase Order Commitment Quantities (acre-feet)

	2011 Tier 1 limit with Opt-outs	Purchase Order Commitment (acre-feet)
Anaheim	22,240	148,268
Beverly Hills	13,380	89,202
Burbank	16,336	108,910
Calleguas	110,249	692,003
Central Basin	72,361	482,405
Compton	5,058	33,721
Eastern	87,740	504,664
Foothill	10,997	73,312
Fullerton	11,298	75,322
Glendale	26,221	174,809
Inland Empire	59,792	398,348
Las Virgenes	21,087	137,103
Long Beach	39,471	263,143
Los Angeles	304,970	2,033,132
MWDOC	228,130	1,486,161
Pasadena	21,180	141,197
San Diego	547,239	3,342,571
San Fernando	630	-
San Marino	1,199	-
Santa Ana	12,129	80,858
Santa Monica	11,515	74,052
Three Valleys	70,474	469,331
Torrance	20,987	139,780
Upper San Gabriel	16,512	110,077
West Basin	156,874	1,045,825
Western	69,720	391,791
Total	1,957,768	12,495,995

Totals may not foot due to rounding

4 Proof of Revenue

Based on expected sales of 1.93 MAF the expected revenues would be about \$101 million higher than the total revenue requirement, if the rates and charges were in effect the entire test year period. The cost-of-service allocation assuming a full twelve months of revenue is used to allocate costs among the various rate elements, but should not be interpreted as over- or under-collection during a given fiscal year. However, because the recommended rates do not take effect until January 1, 2011, the expected revenues for 2010/11 will be about \$15.1 million (one percent) less than the total revenue requirement in 2010/11. The total revenue requirement includes a \$15.5 million increase in the required reserves for the Revenue Remainder Fund. Accounting for this adjustment, the proposed rates and charges will recover the full cost of service in 2010/11.

Schedule 13. FY 2010/11 Proof of Revenue if Rates Effective for Full Test Year (\$-millions)

	Revenues if Rates Effective May 1	Revenue Requirements	Difference	% Over (Under) Collected
Supply	293.6	273.2	20.4	7%
System Access Rate	416.4	387.9	28.5	7%
Water Stewardship Rate	82.5	76.7	5.8	8%
System Power Rate	259.1	242.5	16.6	7%
Treatment Surcharge	270.2	253.4	16.8	7%
Readiness-to-serve Charge	133.0	124.4	8.6	7%
Capacity Charge	35.3	31.0	4.3	14%
Total	1,490.1	1,389.1	101.0	7%

Totals may not foot due to rounding

Schedule 14. FY 2010/11 Proof of Revenue if Rates Effective January 1 (\$ millions)

	Revenues if Rates Effective Jan 1	Revenue Requirements	Difference	% Over (Under) Collected
Supply	301.8	273.2	28.6	10%
System Access Rate	327.9	387.9	(60.0)	-15%
Water Stewardship Rate	79.6	76.7	2.9	4%
System Power Rate	236.3	242.5	(6.1)	-3%
Treatment Surcharge	270.0	253.4	16.6	7%
Readiness-to-serve Charge	123.5	124.4	(0.9)	-1%
Capacity Charge	34.9	31.0	3.9	12%
Total	1,374.0	1,389.1	(15.1)	-1%

Totals may not foot due to rounding

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
FIXING AND ADOPTING
A READINESS-TO-SERVE CHARGE FOR CALENDAR YEAR 2011

WHEREAS, at its meeting on October 16, 2001, the Board of Directors ("Board") of The Metropolitan Water District of Southern California ("Metropolitan") approved a rate structure proposal described in Board Letter 9-6 dated October 16, 2001, including a readiness-to-serve charge; and

WHEREAS, providing firm revenue sources is a goal of such rate structure; and

WHEREAS, the amount of revenue to be raised by the readiness-to-serve charge shall be as determined by the Board and allocation of the readiness-to-serve charge among member public agencies shall be in accordance with the method established by the Board; and

WHEREAS, the readiness-to-serve charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership; and

WHEREAS, Metropolitan has legal authority to impose such readiness-to-serve charge as a water rate pursuant to Section 134 of the Metropolitan Water District Act (the "Act"), and as an availability of service charge pursuant to Section 134.5 of the Act; and

WHEREAS, under authority of Sections 133 and 134 of the Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan's operating expenses and provide for payment of other costs, including payment of the interest and principal of Metropolitan's non-tax funded bonded debt; and

WHEREAS, pursuant to Resolution 8329, adopted by the Board on July 9, 1991, proceeds of the readiness-to-serve charge and other revenues from the sale or availability of water are pledged to the payment of Metropolitan's outstanding revenue bonds issued and revenue bonds to be issued pursuant to Resolution 8329; and

WHEREAS, under authority of Section 134.5 of the Act, a readiness-to-serve charge imposed as an availability of service charge may be collected from the member public agencies within Metropolitan, or may be imposed as a standby charge against individual parcels within Metropolitan's service area; and

WHEREAS, under such authority, the water standby charge may be imposed on each acre of land or each parcel of land less than an acre within Metropolitan to which water is made available for any purpose by Metropolitan, whether the water is actually used or not; and

WHEREAS, certain member public agencies of Metropolitan have opted in prior fiscal years to provide collection of all or a portion of their readiness-to-serve charge obligation through a Metropolitan water standby charge imposed on parcels within those member agencies; and

WHEREAS, Metropolitan is willing to comply with the requests of member public agencies opting to have Metropolitan continue to levy water standby charges within their respective territories, on the terms and subject to the conditions contained herein; and

WHEREAS, the readiness-to-serve charge applicable to each member public agency, the method of its calculation, and the specific data used in its determination are as specified in the Engineer's Report dated April 2010 (the "Engineer's Report"); and

WHEREAS, the Business and Finance Committee of the Board conducted a public hearing at its regular meeting on March 8, 2010, at which interested parties were given the opportunity to present their views regarding the readiness-to-serve charge and the Engineer's Report; and

WHEREAS, notice of the public hearing on the proposed rates and charges was published prior to the hearing in various newspapers of general circulation within Metropolitan's service area; and

WHEREAS, notice of the public hearing and of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held April 13, 2010, on the General Manager's recommendation to increase Metropolitan's readiness-to-serve charge for calendar year 2011 was mailed to each of Metropolitan's member public agencies; and

WHEREAS, board workshops regarding the proposed budget and future rates and charges were held on January 26, February 16, and March 23, 2010; and

WHEREAS, an updated cost of service report, dated April 2010 and included in the General Manager's recommendation for rates and charges on April 12, 2010, was produced based on the feedback received from the public comments and the board workshops; and

WHEREAS, each of the meetings of the Board were conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which quorums were present and acting throughout;

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the Board of Directors of Metropolitan hereby fixes and adopts a readiness-to-serve charge for the period from January 1, 2011 through December 31, 2011.

Section 2. That said readiness-to-serve charge shall be in an amount sufficient to provide for payment of debt service and other appropriately allocated costs, for capital expenditures for projects needed to provide standby and emergency storage service needs.

Section 3. That such readiness-to-serve charge for January 1, 2011 through and including December 31, 2011 shall be a water rate equal to \$70.14 per acre-foot, which shall be charged on a historic basis for each acre-foot of water, excluding water used for purposes of replenishing local storage and agriculture as defined by the Administrative Code, included in Metropolitan's average water deliveries to its member agencies for the applicable ten-year period identified in Section 5 below. The

aggregate readiness-to-serve charge for the period from January 1, 2011 through and including December 31, 2011 shall be \$133,000,000.

Section 4. That in the alternative, and without duplication, the readiness-to-serve charge shall be an availability-of-service charge pursuant to Section 134.5 of the Act.

Section 5. That the readiness-to-serve charge for January 1, 2011 through December 31, 2011 shall be allocated among the member public agencies in proportion to the average of deliveries through Metropolitan's system (in acre-feet) to each member public agency during the ten-year period ending June 30, 2009. Metropolitan sales of reclaimed water under the Local Projects Program, groundwater under the Groundwater Recovery Program, and deliveries under the Replenishment and Interim Agricultural Water Service Programs are not included in the readiness-to-serve charge water sales calculation. The allocation of the readiness-to-serve charge among member agencies is based on sales data recorded by Metropolitan and shall be conclusive in the absence of manifest error.

The amount of the readiness-to-serve charge to be imposed on each member public agency effective January 1, 2011, is as follows:

Table 1

Calendar Year 2011 Readiness-To-Serve Charge

Member Agency	Rolling Ten-Year Average Firm Deliveries (Acre-Foot) FY1999/00 - FY2008/09	RTS Share	12 months @ \$133 million per year (1/11-12/11)
Anaheim	20,988	1.11%	\$ 1,470,578
Burbank	12,908	0.68%	805,388
Central Basin MWD	63,269	3.34%	4,436,942
Eastern MWD	82,013	4.85%	6,453,989
Fullerton	8,694	0.51%	679,989
Inland Empire Utilities Agency	61,205	3.23%	4,253,062
Long Beach	36,970	1.95%	2,568,183
Municipal Water District of Orange County	231,082	12.22%	16,251,406
San Diego County Water Authority	491,238	25.91%	34,488,586
San Marino	1,001	0.05%	70,184
Santa Monica	12,784	0.67%	897,409
Torrance	20,742	1.09%	1,454,915
West Basin MWD	141,522	7.48%	9,928,700
MWD Total	1,636,143	100.00%	\$ 133,000,000

Totals may not foot due to rounding

Section 6. That the allocation of the readiness-to-serve charge among member agencies set forth in Section 5 above is consistent with the per-acre-foot water rates imposed pursuant to Section 3 above.

Section 7. That it is the intent of the Board that water conveyed through Metropolitan's system for the purposes of water transfers, exchanges or other similar arrangements shall be included in the calculation of a member agency's rolling ten-year average firm demands used to allocate the readiness-to-serve charge.

Section 8. That the readiness-to-serve charge and the amount applicable to each electing member public agency, the method of its calculation, and the specific data used in its determination are as specified in the General Manager's recommendation on rates and charges to be effective January 1, 2011, which forms the basis of the readiness-to-serve charge. Such recommendation is on file and available for review by interested parties at Metropolitan's headquarters. An updated cost of service report, dated April 2010 and included in the General Manager's recommendation for rates and charges on April 12, 2010, was produced based on the feedback received from the public comments and the board workshops.

Section 9. That except as provided in Section 11 below with respect to any readiness-to-serve charge collected by means of a Metropolitan water standby charge, the readiness-to-serve charge shall be due monthly, quarterly or semiannually as agreed upon by Metropolitan and the member agency.

Section 10. That such readiness-to-serve charge may, at the request of any member agency which elected to utilize Metropolitan's standby charge as a mechanism for collecting its readiness-to-serve charge obligation in FY 1996/97, be collected by continuing the Metropolitan water standby charge at the same rates imposed in FY 1996/97 upon land within Metropolitan's (and such member public agency's) service area to which water is made available by Metropolitan for any purpose, whether such water is used or not.

Section 11. That the proposed water standby charge, if continued, shall be collected on the tax rolls, together with the *ad valorem* property taxes which are levied by Metropolitan for the payment of pre-1978 voter-approved indebtedness. Any amounts so collected shall be applied as a credit against the applicable member agency's obligation to pay a readiness-to-serve charge. After such member agency's readiness-to-serve charge allocation is fully satisfied, any additional collections shall be credited to other outstanding obligations of such member agency to Metropolitan or future readiness-to-serve obligations of such agency. Notwithstanding the provisions of Section 9 above, any member agency requesting to have all or a portion of its readiness-to-serve charge obligation collected through standby charge levies within its territory as provided herein shall pay any portion not collected through net standby charge collections to Metropolitan within 50 days after Metropolitan issues an invoice for remaining readiness-to-serve charges to such member agency, as provided in Administrative Code Section 4507.

Section 12. That on March 8, 2010, the Business and Finance Committee of Metropolitan's Board conducted a public hearing at which interested parties were afforded the opportunity to present their views regarding the readiness-to-serve charge in accordance with Section 4304(c) of Metropolitan's Administrative Code.

Section 13. That notice is hereby given to the public and to each member public agency of The Metropolitan Water District of Southern California of the intention of Metropolitan's Board to consider and take action at its regular meeting to be held May 11, 2010 (or such other date as the Board shall hold its regular meeting in such month), on the General Manager's recommendation to continue its water standby charge for FY 2010/11 under authority of Section 134.5 of the Act on land within Metropolitan at the same rates, per acre of land, or per parcel of land less than an acre, imposed in FY 1996/97 upon land within Metropolitan's (and such member public agency's) service area. Such water standby charge will be continued as a means of collecting the readiness-to-serve charge.

Section 14. That no failure to collect, and no delay in collecting, any standby charges shall excuse or delay payment of any portion of the readiness-to-serve charge when due. All amounts collected as water standby charges shall be applied solely as credits to the readiness-to-serve charge of the applicable member agency, with any excess collections being carried forward and credited against other outstanding obligations of such member agency to Metropolitan.

Section 15. That the readiness-to-serve charge is imposed by Metropolitan as a rate or charge on its member agencies, and is not a fee or charge imposed upon real property or upon persons as incidents of property ownership, and the water standby charge is imposed within the respective territories of electing member agencies as a mechanism for collection of the readiness-to-serve charge. In the event that the water standby charge, or any portion thereof, is determined to be an unauthorized or invalid fee, charge or assessment by a final judgment in any proceeding at law or in equity, which judgment is not subject to appeal, or if the collection of the water standby charge shall be permanently enjoined and appeals of such injunction have been declined or exhausted, or if Metropolitan shall determine to rescind or revoke the water standby charge, then no further standby charge shall be collected within any member agency and each member agency which has requested continuation of Metropolitan water standby charges as a means of collecting its readiness-to-serve charge obligation shall pay such readiness-to-serve charge obligation in full, as if continuation of such water standby charges had never been sought.

Section 16. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 17. That this Board finds that the readiness-to-serve charge and other charges provided in this Resolution are not defined as a Project under the California Environmental Quality Act ("CEQA") since they involve continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed actions are not subject to CEQA because they involve the creation of government funding mechanisms or 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).

Section 18. That if any provision of this Resolution or the application to any member agency, property or person whatsoever is held invalid, that invalidity shall not affect other provisions or applications of this Resolution which can be given effect without the invalid portion or application, and to that end the provisions of this Resolution are severable.

Section 19. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by mailing or by publication.

Section 20. That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on April 13, 2010.

Board Executive Secretary
The Metropolitan Water District
of Southern California

**THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
ENGINEER'S REPORT**

**PROGRAM TO LEVY READINESS-TO-SERVE CHARGE,
INCLUDING LOCAL OPTION FOR STANDBY CHARGE,
DURING FISCAL YEAR 2010/11**

April 2010

BACKGROUND

The Metropolitan Water District of Southern California is a public agency with a primary purpose to provide imported water supply for domestic and municipal uses at wholesale rates to its member public agencies. More than 18 million people reside within Metropolitan's service area, which covers over 5,000 square miles and includes portions of the six counties of Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura. Metropolitan currently provides over 50 percent of the water used within its service area.

REPORT PURPOSES

As part of its role as an imported water supplier, Metropolitan builds capital facilities and implements water management programs that ensure reliable high quality water supplies throughout its service area. The purpose of this report is to: (1) identify and describe those facilities and programs that will be financed in part by Metropolitan's readiness-to-serve (RTS) charge in fiscal year 2010/11, and (2) describe the method and basis for continuing Metropolitan's standby charge for those agencies electing to collect a portion of their RTS obligation through Metropolitan's standby charge. Because the standby charge is levied and collected on a fiscal year basis the calculations in this report also are for the fiscal year, even though the RTS charge is imposed on a calendar year basis. The RTS charge for calendar year 2010 was adopted by Metropolitan's Board on April 14, 2009 and the RTS charge for 2011 will be considered by the Board on April 13, 2010. The calculations in this report use six months of RTS charges for calendar year 2010 at the adopted rate and six months of RTS charges for calendar year 2011 at the rate recommended below.

Metropolitan levies the RTS charge on its member agencies to recover a portion of the debt service on bonds issued to finance capital facilities needed to meet existing demands on Metropolitan's system. The standby charge is levied on parcels of land within certain of Metropolitan's member agencies as a method of collecting part or all of such member agency's RTS charge obligation. The RTS charge will partially pay for the facilities and programs described in this report. The standby charge, if continued within a member agency, will be utilized solely for capital payments and debt service on the capital facilities identified in this report.

METROPOLITAN'S RESPONSE TO INCREASING WATER DEMANDS

To respond to increasing demands for water, Metropolitan and its member agencies collectively examined the available local and imported resource options in order to develop a least-cost plan that meets the reliability and quality needs of the region. The product of this intensive effort was an Integrated Resources Plan (IRP) for achieving a reliable and affordable water supply for Southern California. The major objective of the IRP was to develop a comprehensive water resources plan that ensures (1) reliability, (2) affordability, (3) water quality, (4) diversity of supply, and (5) adaptability for the region, while recognizing the environmental, institutional, and political constraints to resource development. As these constraints change over time, the IRP is periodically revisited and updated by Metropolitan and the member agencies to reflect current conditions. The IRP update is

currently underway and the final report is expected at the end of 2010. To meet the water supply needs of existing and future customers within its service area, Metropolitan continues to identify and develop additional water supplies to maintain the reliability of the imported water supply and delivery system. These efforts include the construction of capital facilities and implementation of demand management programs.

Capital Facilities

The capital facilities include the State Water Project (SWP), the Colorado River Aqueduct (CRA), storage facilities including the recently completed Diamond Valley Lake (DVL), and additional conveyance and distribution system components. The benefits of these capital facilities are both local and system-wide, as the facilities directly contribute to the reliable delivery of water supplies throughout Metropolitan's service area.

State Water Project Benefits

In 1960, Metropolitan contracted with the California Department of Water Resources (DWR) to receive SWP supplies. Under this contract, Metropolitan is obligated to pay its portion of the construction and operation and maintenance costs of the SWP system through at least the year 2035, regardless of the quantities of project water Metropolitan takes. Metropolitan has contracted to receive 1.9 million acre-feet of the total SWP Table A amount of 4.2 million acre-feet. All Metropolitan member agencies benefit from the SWP supplies, which are distributed to existing customers and are available to future customers throughout Metropolitan's service area. The potential benefit of the SWP allocable to the RTS charge and standby charge in fiscal year 2010/11 is shown in Table 1.

System Storage Benefits

The Metropolitan system, for purposes of meeting demands during times of shortage, regulating system flows, and to ensure system reliability in the event of a system outage, provides over 1,000,000 acre-feet of system storage capacity. DVL provides 800,000 acre-feet of storage capacity for water from the Colorado River Aqueduct and SWP, effectively doubling Southern California's previous surface water storage capacity. Water stored in system storage during above average supply conditions (surplus) provides a reserve against shortages when supply sources are limited or disrupted. System storage also preserves Metropolitan's capability to deliver water during scheduled maintenance periods, when conveyance facilities must be removed from service for rehabilitation, repair, or maintenance. The potential benefit of system storage in fiscal year 2010/11 is shown in Table 1.

Conveyance and Distribution System Benefits

Metropolitan has an ongoing commitment, through physical system improvements and the maintenance and rehabilitation of existing facilities, to maintain the reliable delivery of water throughout the entire service area. System improvement projects include additional conveyance and distribution facilities to maintain the dependable delivery of water supplies, provide alternative system delivery capacity, and enhance system operations. Conveyance and distribution system improvement benefits also include projects to upgrade obsolete facilities or equipment, or to rehabilitate or replace facilities or equipment. These projects are needed to enhance system operations, comply with new regulations, and maintain a reliable distribution system. A list of conveyance and distribution system facilities is provided in Table 3 along with the fiscal year 2010/11 estimated conveyance and distribution system benefits.

Demand Management Program Benefits

Demand management programs to be financed by the RTS charge and standby charge include Metropolitan's participation in providing financial incentives to local agencies for the construction and development of local

resource programs and conservation projects. Investments in demand side management programs like conservation, water-recycling and groundwater recovery reduce the need to provide additional imported water supplies and help defer the need for additional conveyance, distribution, and storage facilities. A summary of the estimated benefits of the demand management programs as measured by Metropolitan's anticipated expenditures for these programs in fiscal year 2010/11 is shown in Table 1.

Local Resources Program

In 1998, Metropolitan's Board adopted the Local Resources Program (LRP) with the goal of developing local water resources in a cost-efficient manner. Financial incentives of up to \$250 per acre-foot are provided to member agency-sponsored projects that best help the region achieve its local resource production goals of restoring degraded groundwater resources for potable use and developing recycled supplies. In both instances, the programs provide new water supplies, which help defer the need for additional regional conveyance, distribution and storage facilities.

Combined production from participating recycling and groundwater recovery projects is expected to yield approximately 250,130 acre-feet of water for fiscal year 2010/11 with financial incentive payments of about \$39 million. Regional recycling, recovered groundwater, and desalinated seawater production are projected to be about 750,000 acre-feet per year, by year 2025. An estimate of potential benefits as measured by Metropolitan's estimated incentive payments for recycling and groundwater recovery projects is shown in Table 2.

Water Conservation

Metropolitan actively promotes water conservation programs within its service area as a cost-effective strategy for ensuring the long-term reliability of supplies and as a means of reducing the need to expand system conveyance, distribution and treatment-capacity. Through the Conservation Credits Program, Metropolitan reimburses local agencies for a share of their costs of implementing conservation projects. Since fiscal year 1990/91, Metropolitan has spent over \$268 million in financial incentives to support local conservation projects.

In 1991, Metropolitan agreed to implement conservation "Best Management Practices" (BMPs). By signing the California Urban Water Conservation Council's *Memorandum of Understanding Regarding Urban Water Conservation* (amended March 10, 2004), Metropolitan committed to implement proven and reliable water conserving technologies and practices within its jurisdiction. Based on Metropolitan's IRP, the Conservation Credits Program, in conjunction with plumbing codes and other conservation efforts, has saved over 1,271,000 acre-feet since inception through fiscal year 2008/09. By 2025, it is estimated that conservation practices will save over one million acre-feet per year, reducing Metropolitan's total water requirements by about 15 percent. Conservation is a critical element of Metropolitan's demand management program, effectively increasing the reliability of existing water supplies by lessening the need to import additional water while at the same time deferring the need to expand system capacity. An estimate of the potential benefits of water conservation projects as measured by Metropolitan's incentive payments is given in Table 2.

LONG-RANGE FINANCIAL PLANNING

Metropolitan's major capital facilities are financed largely from the proceeds of revenue bond issues, which are repaid over future years. The principal source of revenue for repayment of these bonds is water sales, which is currently Metropolitan's largest source of revenue. In addition, *ad valorem* property taxes provide an additional limited revenue source, which is used to pay pre-1978 voter-approved indebtedness.

Since the passage of Article XIII A of the California Constitution, Metropolitan has necessarily relied more on water sales revenue than on *ad valorem* property taxes for the payment of debt. Water sales have become the

dominant source of revenue, not only for operation and maintenance of the vast network of facilities supplying water to Southern California, but also for replacement and improvement of capital facilities.

The increased reliance on highly variable water sales revenue increases the probability of substantial rate swings from year to year. The use of water rates as a primary source of revenue has placed an increasing burden on ratepayers, which might more equitably be paid in part by assessments on land that in part derives its value from the availability of water. In December 1993, Metropolitan's Board approved a revenue structure that included additional charges to establish a commitment to Metropolitan's capital improvement program and provide revenue stability. This revenue structure included the RTS charge and standby charge.

Readiness-To-Serve Charge

As noted above, Metropolitan levies the RTS charge on its member agencies to recover a portion of the debt service on bonds issued to finance capital facilities needed to meet existing demands on Metropolitan's system. The estimated potential benefits that could be paid by an RTS charge, including standby charge, in fiscal year 2010/11 are about \$330 million as shown in Table 1.

Although the RTS charge could be set to recover the entire potential benefit amount, the General Manager is recommending that the RTS charge only recover a portion of the total potential benefit. For fiscal year 2010/11, this amount is estimated to be \$123,500,000. These funds, when combined with Metropolitan's overall financial resources, will result in greater water-rate stability for all users throughout Metropolitan's service area. Consistent with the rate structure approved by the Board in October of 2001, the RTS charge for fiscal year 2010/11 is allocated to each member agency on the basis of a ten-year rolling average of historic water purchases from Metropolitan ending June 30, 2009. This average includes all deliveries used to meet firm demand (consumptive municipal industrial demands), including water transfers and exchanges. The estimated fiscal year 2010/11 RTS for each member agency is shown in Table 4.

Standby Charge Option

Metropolitan's standby charge is authorized by the State Legislature and has been levied by Metropolitan since fiscal year 1992/93. The standby charge recognizes that there are economic benefits to lands that have access to a water supply, whether or not such lands are using it. Utilization of the standby charge transfers some of the burden of maintaining Metropolitan's capital infrastructure from water rates and *ad valorem* taxes to all the benefiting properties within the service area. A fraction of the value of this benefit and of the cost of providing it can be effectively recovered, in part, through continuation of the standby charge. The projects to be supported in part by the standby charge are capital projects that provide both local and Metropolitan-wide benefit to current landowners as well as existing water users. The estimated potential benefits system-wide are several times the amount to be recovered by means of the standby charge.

Metropolitan will continue to levy standby charges only within the service areas of the member agencies that requested that the standby charge be utilized. The standby charge for each acre or parcel of less than an acre varies from member agency to member agency, as permitted under the legislation establishing Metropolitan's standby charge. The water standby charge for each member agency will be the same as that imposed by Metropolitan in fiscal year 1996/97 and is shown in Table 5.

The proposed standby charge includes the reimposition of water standby charges on: (1) parcels which water standby charges have been imposed in fiscal year 1996/97 and annually thereafter ("pre-1997 standby charges") and (2) parcels annexed to Metropolitan and to an electing member agency after January 1997 ("annexation standby charges"). Only land within member agencies which standby charges were imposed in fiscal year 1996/97 will be subject to the reimposition of pre-1997 standby charges for FY 2010/11. Only land annexed to Metropolitan and to an electing member public agency with respect to which standby charges were approved in

accordance with the procedures of Article XIII D, Section 4 of the California Constitution will be subject to the imposition or reimposition, as applicable, of annexation standby charges for fiscal year 2010/11. Table 6 lists parcels annexed, or to be annexed, to Metropolitan and to electing member agencies during FY 2009/10, such parcels being subject to the annexation standby charge upon annexation. Parcels annexed prior to FY 2009/10 are subject to annexation standby charges as described in the Engineer's Report for the fiscal year of their annexation. These parcels and parcels that are subject to the pre-1997 standby charges are identified in a listing filed with the Executive Secretary.

The estimated potential benefits of Metropolitan's water supply program, which could be paid by a standby charge, is approximately \$330 million for fiscal year 2010/11, as shown in Table 1. An average total standby charge of about \$76.12 per acre of land or per parcel of less than one acre would be necessary to pay for the total potential program benefits. Benefits in this amount will accrue to each acre of property and parcel within Metropolitan, as these properties are eligible to use water from the Metropolitan system. Because only properties located within Metropolitan's boundaries may receive water supplies from Metropolitan (except for certain contractual deliveries as permitted under Section 131 of the Metropolitan Water District Act), any benefit received by the public at large or by properties outside of the proposed area to be annexed is merely incidental.

Table 5 shows that the distribution of standby charge revenues from the various member agencies would provide net revenue flow of approximately \$43.6 million for fiscal year 2010/11. This total amount is less than the estimated benefits shown in Table 1. Metropolitan will use other revenue sources, such as water sales revenues, readiness-to-serve charge revenues (except to the extent collected through standby charges, as described above), interest income, and revenue from sales of hydroelectric power, to pay for the remaining program benefits. Thus, the benefits of Metropolitan's investments in water conveyance, storage, distribution and supply programs far exceed the continued standby charge.

Equity

The RTS charge is a firm revenue source. The revenues to be collected through this charge will not vary with sales in the current year. This charge is levied on Metropolitan's member agencies and is not a fee or charge upon real property or upon persons as an incident of property ownership. It ensures that agencies that only occasionally purchase water from Metropolitan but receive the reliability benefits of Metropolitan's system pay a greater share of the costs to provide that reliability. Within member agencies that elect to pay the RTS charge through Metropolitan's standby charges, the standby charge results in lower water rates than would otherwise be necessary due to the amount of revenue collected from lands which benefit from the availability of Metropolitan's water supply. With the standby charge, these properties are now contributing a more appropriate share of the cost of importing water to Southern California.

Metropolitan's water supply program increases the availability and reliable delivery of water throughout Metropolitan's service area. Increased water supplies benefit existing consumers and land uses through direct deliveries to consumers and properties, and through the replenishment of groundwater basins and reservoir storage as reserves against shortages due to droughts, natural emergencies, or scheduled facility shutdowns for maintenance. The benefits of reliable water supplies from the SWP, CRA, DVL, and system improvements accrue to more than 250 cities and communities within Metropolitan's six-county service area. Metropolitan's regional water system is interconnected, so water supplies from the SWP and CRA can be used throughout most of the service area and therefore benefit water users and properties system-wide.

Additional Metropolitan deliveries required in the coming fiscal year due to the demands of property development will be reduced by the implementation of demand management projects, including water conservation, water recycling, and groundwater recovery projects. As with the SWP, CRA and DVL and the conveyance and distribution facilities, demand management programs increase the future reliability of water supplies. In addition, demand management programs provide system-wide benefits by effectively decreasing the demand for imported

water, which helps to defer construction of additional system conveyance and distribution capacity. However, the abilities of each member agency to implement these projects under Metropolitan's financial assistance programs vary and are generally represented by the historic use of imported Metropolitan water.

A major advantage of a firm revenue source, such as a RTS charge, is that it contributes to revenue stability during times of drought or low water sales. It affords Metropolitan additional security, when borrowing funds, that a portion of the revenue stream will be unaffected by drought or by rainfall. This security will help maintain Metropolitan's historically high credit rating, which results in lower interest expense to Metropolitan, and therefore, lower overall cost to the residents of its service area.

SUMMARY

The foregoing and the attached tables describe the current benefits provided by the projects listed as mainstays to the water supply system for Metropolitan's service area. Benefits are provided to both water users and property owners. The projects represented by this report provide both local benefits as well as benefits throughout the entire service area. It is recommended, for fiscal year 2010/11, that the RTS charge be imposed with a continuing option for local agencies to request that a standby charge be imposed on lands within Metropolitan's service area as a credit against such member agency's RTS, up to the standby charge per acre or parcel of less than one acre levied by Metropolitan within the applicable member agency for fiscal year 2010/11. The maximum standby charge would not exceed \$15 per acre of land or per parcel of less than one acre. The benefits described in this Engineer's Report exceed the recommended charge. A listing of all parcels in the service area and the proposed 2010/11 standby charge for each is available in the office of the Chief Financial Officer.

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Water Resource Management

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TABLE 1		
ESTIMATED DISTRIBUTION OF BENEFITS OF WATER SUPPLY PAYABLE BY STANDBY CHARGE		
Water Conveyance, Storage, Distribution and Supply Program	Estimated Potential Program Benefits for FY2010/11	Dollars Per Parcel of 1 Acre or Less
Net Capital Payments to State Water Project (less portion paid by property taxes)	28,827,487	\$6.18
Non Tax Supported Debt Service Costs for System Storage ¹	118,683,036	\$26.88
Non Tax Supported Debt Service Costs for Conveyance and Distribution System ²	\$128,782,041	\$29.67
Sub-Total Capital Payments	\$272,182,574	\$62.71
less Estimated Standby Charge Revenues	\$ (43,804,198)	(\$10.05)
Remaining capital payments	\$228,588,437	\$52.66
Demand Management Programs; Water Recycling, Groundwater Recovery, and Water Conservation Projects	\$58,236,726	\$13.42
Sub-Total Capital Financing and Demand Management Programs Costs not Paid by Standby Charge Revenues	\$286,825,163	\$66.08
Total Benefits: Capital Financing and Demand Management Programs	\$330,429,300	\$76.12
Notes:		
[1] System storage includes Diamond Valley Lake, Lake Matthews, Lake Skinner and several other smaller surface reservoirs which provide storage for operational purposes.		
[2] Conveyance and Distribution facilities include the Colorado River Aqueduct and the pipelines, laterals, feeders and canals that distribute water throughout the service area.		
Totals may not foot due to rounding		

TABLE 2 WATER RECYCLING, GROUNDWATER RECOVERY AND CONSERVATION PROJECTS	
Project Name	FY 2010/11 Payment
Water Recycling Projects	\$29,186,111
Alamitos Barrier Reclaimed Water Project	
Burbank Reclaimed Water System Expansion Project	
Calabasas Reclaimed Water System Expansion	
Capistrano Valley Non-Domestic Water System Expansion	
Century Reclamation Program	
Cerritos Reclaimed Water Expansion Project	
City of Industry Regional Water System - Rowland	
City of Industry Regional Water System - Suburban	
City of Industry Regional Water System - Walnut	
Conejo Creek Diversion Project	
Decker Canyon WRP	
Development of Non-Domestic Water Sys. Exp. Ladera	
Direct Reuse Project Phase IIA	
Dry Weather Runoff Reclamation Facility	
Eastern Recycled Water Pipeline Reach 16	
Eastern Regional Reclaimed Water System	
EMWD Reach I Phase II	
Encina Basin Water Rec. Prog - Phases I and II	
Encina Water Pollution Control Facility Recl. Project	
Escondido Regional Reclaimed Water Project	
Fallbrook Reclamation Project	
Glendale Brand Park Reclaimed Water Project	
Glendale Verdugo-Schoff Canyon Recl. Water Project	
Glendale Water Reclamation Expansion Project	
Green Acres Reclamation Project - Coastal	
Green Acres Reclamation Project - MWDOC	
Green Acres Reclamation Project - Santa Ana	
Groundwater Replenishment System Talbert Seawater Intrusion Barrier Component	
Hansen Area Water Recycling Project Phase 1	
Hansen Area Water Recycling Project Phase 2	
Harbor Water Recycling Project	
IEUA Regional Recycled Water Dist. System	
IEUA Regional Recycled Water Dist. System Expansion	
Irvine Ranch Reclamation Project	
IRWD Recycled Water System Upgrade	
Lakewood Water Reclamation Project	
Las Virgenes Reclamation Project	

TABLE 2 (Continued)	
WATER RECYCLING, GROUNDWATER RECOVERY AND CONSERVATION PROJECTS	
Project Name	FY 2010/11 Payment
Water Recycling Projects (continued)	
Long Beach Reclamation Expansion Phase I	
Long Beach Reclamation Project	
Los Angeles Greenbelt Project	
Moulton Niguel Phase 4 Reclamation System Expansion	
Moulton Niguel Reclamation Project	
North City Water Reclamation Project	
Oak Park/North Ranch Water Reclamation Project	
Oceanside Water Reclamation Project	
Olivenhain Recycled Project - SE Quadrant	
Otay Recycled Water System	
Otay Water Reclamation Project	
Padre Dam Reclaimed Water System Phase I	
Ramona/Santa Maria Water Reclamation Project	
Rancho California Reclamation Expansion	
Rancho Santa Fe Reclaimed Water System	
RDDMWD Recycled Water Program	
Recycled Water Distribution Line Extension	
Rio Hondo Water Reclamation Program	
San Clemente Water Reclamation Project	
San Eljo Water Reclamation System	
San Pasqual Reclamation Project	
Santa Margarita Reclamation Expansion Project	
Sepulveda Basin Water Reclamation Project	
Sepulveda Basin Water Recycling Project Phase IV	
Shadowridge Reclaimed Water System	
South Laguna Reclamation Expansion Project	
South Laguna Reclamation Project	
South Valley Water Recycling Project	
Talor Yard Water Recycling Project	
Trabuco Canyon Reclamation Expansion Project	
Walnut Valley Reclamation Expansion Project	
West Basin Water Reclamation Program	

TABLE 2 (Continued)	
WATER RECYCLING, GROUNDWATER RECOVERY AND CONSERVATION PROJECTS	
Project Name	FY 2010/11 Payment
Groundwater Recovery Projects	\$9,702,922
Arlington Desalter	
Beverly Hills Desalter	
Burbank Lake Street GAC Plant	
Capistrano Beach Desalter	
Chino Basin Desalter No. 1 - IEUA	
Chino Basin Desalter No. 1 - Western	
Glenwood Nitrate	
Irvine Desalter	
Juan Well Filter Facility	
Lower Sweetwater Desalter Phase 1	
Madrona Desalter (Goldsworthy)	
Menifee Basin Desalter	
Mesa Consolidated Colored Water Treatment Facility	
Oceanside Desalter Phase I	
Oceanside Desalter Phase I and II	
Pomona Well # 37	
Rowland GW Treatment Project	
San Juan Desalter	
Sania Monica GW Treatment Plant	
Sequimeda Desalter	
Tapo Canyon Water Treatment Plant	
Temescal Basin Desalting Facility	
Tustin Desalter	
Wells # 7&8 - NF Water Treatment Facility	
West Basin Desalter No. 1	
Westlake Wells - Tapia WRF Intertie	
Other 5-year Supply Plan Local Projects	\$237,693
Conservation Projects	\$19,100,000
Regionwide Residential	
Regionwide Commercial	
Public Sector Program	
Member Agency	
Water Savings Performance Program	
Enhanced Conservation Program	
Agriculture Conservation	

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description

Conveyance and Aqueduct Facilities

ALL PUMPING PLANTS - 230 KV & 89 KV DISCONNECTS REPLACEMENT
 ACCESS STRUCTURE, TRANSITION STRUCTURE AND MANHOLE COVER REPLACEMENT
 ALL PUMPING PLANTS - BRIDGE CRANES
 ALL PUMPING PLANTS - TRANSFORMER BANK BRIDGE
 ALLEN MCCOLLOCH PIPELINE - RIGHT OF WAY
 ALLEN MCCOLLOCH PIPELINE - UPDATE / MODIFY ALL BOYLE ENGINEERING DRAWINGS
 AQUEDUCT & PUMPING PLANT ISOLATION / ACCESS FIXTURES - STUDY
 AQUEDUCT & PUMPING PLANT ISOLATION GATES
 ARROWHEAD EAST TUNNEL CONSTRUCTION
 ARROWHEAD TDS REDUCTION
 ARROWHEAD TUNNELS CLAIMS COST
 ARROWHEAD TUNNELS CONNECTOR ROAD
 ARROWHEAD TUNNELS CONSTRUCTION
 ARROWHEAD TUNNELS ENGINEERING
 ARROWHEAD TUNNELS RE-DESIGN
 ARROWHEAD WEST TUNNEL CONSTRUCTION
 AULD VALLEY CONTROL STRUCTURE AREA FACILITIES UPGRADE STUDY
 AUXILIARY POWER SYSTEM REHABILITATION / UPGRADES STUDY
 BACHELOR MOUNTAIN COMMUNICATION SITE ACQUISITION
 BACHELOR MOUNTAIN TELECOM SITE IMPROVEMENTS
 BANK TRANSFORMERS REPLACEMENT STUDY
 BLACK METAL MOUNTAIN - COMMUNICATIONS FACILITY UPGRADE
 BOX SPRINGS FEEDER REHAB PHASE III
 BUDGET ADJUSTMENT
 CABAZON RADIAL GATE FACILITY IMPROVEMENTS
 CATHODIC PROTECTION STUDY - DESIGN AND CONSTRUCTION
 CCRP - BLOW-OFF VALVES PHASE 4 PROJECT
 CCRP - CONTINGENCY
 CCRP - EMERGENCY REPAIR
 CCRP - HEADGATE OPERATORS & CIRCUIT BREAKERS REHAB.
 CCRP - PART 1 & 2
 CCRP - SAND TRAP CLEANING EQUIPMENT & TRAVELING CRANE STUDY
 CCRP - TRANSITION & MAN-WAY ACCESS COVER REPLACEMENT - STUDY & DESIGN
 CCRP - TUNNELS STUDY
 CEPSSRP - 230 KV SYSTEM SYNCHRONIZERS
 CEPSSRP - ALL PUMPING PLANTS - CONTINGENCY & OTHER CREDITS
 CEPSSRP - ALL PUMPING PLANTS - REPLACE 6.9 KV TRANSFORMER BUSHINGS
 CEPSSRP - ALL PUMPING PLANTS - REPLACE 230KV, 89 KV & 6.9 KV LIGHTENING ARRESTERS
 CEPSSRP - ALL PUMPING PLANTS - REPLACE 230KV TRANSFORMER PROTECTION
 CEPSSRP - SWITCHYARDS & HEAD GATES REHABILITATION
 CEPSSRP - ALL PUMPING PLANTS - IRON MOUNTAIN - 230KV BREAKER SWITCH, INST.
 COLORADO RIVER AQUEDUCT - PUMPING
 CONTROL SYSTEM DRAWING UPGRADE STUDY (PHASE I) - STUDY
 COPPER BASIN AND GENE DAM OUTLET WORKS REHABILITATION (STUDY & DESIGN)
 COPPER BASIN INTERIM CHLORINATION SYSTEM
 COPPER BASIN OUTLET GATES RELIABILITY
 COPPER BASIN POWER & PHONE LINES REPLACEMENT
 CORROSION CONTROL OZONE MATERIAL TEST FACILITY
 COST OF LAND AND RIGHT OF WAY
 CRA - ACCESS STRUCTURE, TRANSITION STRUCTURE AND MANHOLE COVER REPLACEMENT
 CRA - AQUEDUCT AND PUMPING PLANT ISOLATION GATES

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description

Conveyance and Aqueduct Facilities (continued)

CRA - AUXILIARY POWER SYSTEM REHAB
 CRA - BANK TRANSFORMERS REPLACEMENT STUDY
 CRA - BLOW-OFF VALVES PHASE 4
 CRA - CIRCULATING WATER SYSTEM STRAINER REPLACEMENT
 CRA - CONTROL SYSTEM IMPLEMENTATION PHASE CLOGE OUT
 CRA - CONVEYANCE RELIABILITY PROGRAM PART 1 & PART 2
 CRA - COPPER BASIN OUTLET, AND COPPER BASIN & GENE WASH SLUICWAYS REHABILITATION
 CRA - COPPER BASIN POWER & PHONE LINES REPLACEMENT
 CRA - CUT & COVER FORNAT WASH EXPOSURE STUDY
 CRA - CUT AND COVER FORNAT WASH EXPOSURE STUDY
 CRA - DANBY TOWER FOOTER REPLACEMENT
 CRA - DESERT PUMP PLANT OIL CONTAINMENT
 CRA - DESERT SEWER SYSTEM REHABILITATION
 CRA - DESERT WATER TANK ACCESS & SAFETY IMPROVEMENTS
 CRA - DISCHARGE CONTAINMENT PROGRAM - INVESTIGATION
 CRA - ELECTRICAL/ POWER SYST REL. PROG. - IRON MTN - 230KV BREAKER SWITC. INST.
 CRA - GENE PUMPING PLANT MAIN TRANSFORMER AREA
 CRA - INTAKE PUMPING PLANT - COOLING AND REJECT WATER DISCHARGE TO LAKE HAVASU
 CRA - INTAKE PUMPING PLANT AUTOMATION PROGRAMMING
 CRA - INVESTIGATION OF SIPHONS AND RESERVOIR OUTLETS
 CRA - LAKEVIEW SIPHON FIRST BARREL - REPAIR DETERIORATED JOINTS
 CRA - MAIN PUMP MOTOR EXCITERS
 CRA - MAIN PUMP STUDY
 CRA - MOUNTAIN SIPHONS SEISMIC VULNERABILITY STUDY
 CRA - PUMPING PLANT RELIABILITY PROGRAM CONTINGENCY
 CRA - PUMPING PLANTS VULNERABILITY ASSESSMENT
 CRA - PUMPING WELL CONVERSION
 CRA - QUAGGA MUSSEL BARRIERS
 CRA - REAL PROPERTY - BOUNDARY SURVEYS
 CRA - RELIABILITY PROGRAM 230 KV & 69 KV DISCONNECTS REPLACEMENT STUDY (5 PLANTS)
 CRA - RELIABILITY PROGRAM INVESTIGATION
 CRA - RELIABILITY PROGRAM PHASE 6 (AQUEDUCT PHASE 6 REHAB.) - SPEC 1568
 CRA - RELIABILITY PHASE II CONTINGENCY
 CRA - SAND TRAP CLEANING EQUIPMENT AND TRAVELING CRANE
 CRA - SERVICE CONNECTION DWCV-2T VALVES REPLACEMENT AND STRUCTURE CONSTRUCTION
 CRA - SERVICE CONNECTION DWCV-4 A, B, C, & D PLUG VALVES REPLACEMENT
 CRA - SIPHONS, TRANSITIONS, CANALS, AND TUNNELS REHABILITATION AND IMPROVEMENTS
 CRA - SUCTION & DISCHARGE LINES EXPANSION JOINT REHAB
 CRA - SUPERVISORY CONTROL AND DATA ACQUISITION (SCADA) SYSTEM
 CRA - SWITCHYARDS AND HEAD GATES REHAB
 CRA - TRANSFORMER OIL & CHEMICAL UNLOADING PAD CONTAINMENT
 CRA - TUNNELS VULNERABILITY STUDY - REPAIRS TO TUNNELS
 CRA - WEST PORTAL UPGRADE - REHAB OF STILLING WELL, SLIDE GATE OPERATORS AND RADIAL GATES
 CRA 2.4 KV STANDBY DIESEL ENGINE GENERATORS REPLACEMENT
 CRA 230 KV & 69 KV DISCONNECTS SWITCH REPLACEMENT
 CRA 230KV & 69KV PROTECTION PANEL UPGRADE
 CRA AQUEDUCT BLOCKER GATE REPLACEMENT
 CRA BLACK METAL COMMUNICATION SITE II UPGRADE
 CRA CANAL CRACK REHAB AND EVALUATION
 CRA CANAL CRACK REHABILITATION
 CRA CIRCULATING WATER SYSTEM STRAINER REPLACEMENT
 CRA CONVEYANCE RELIABILITY PROGRAM (CCRP) - BLOW-OFF REPAIR

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
Description
<i>Conveyance and Aqueduct Facilities (continued)</i>
CRA CONVEYANCE RELIABILITY PROGRAM PART 1 & PART 2
CRA DESERT AIRFIELDS IMPROVEMENT
CRA DISCHARGE CONTAINMENT PROGRAM - CONTINGENCY
CRA DISCHARGE CONTAINMENT PROGRAM - GENE & IRDN DRAIN SYSTEMS
CRA DISCHARGE CONTAINMENT PROGRAM - INVESTIGATION
CRA DISCHARGE CONTAINMENT PROGRAM - OIL & CHEMICAL UNLOADING PAD CONTAINMENT
CRA ELECTRICAL / POWER SYSTEM RELIABILITY PROGRAM (CEPSRP)
CRA ENERGY EFFICIENCY IMPROVEMENTS
CRA GENE STORAGE WAREHOUSE REPLACEMENT
CRA HINDS PUMPING PLANT - WASH AREA UPGRADE
CRA INTAKE PLANT - POWER & COMMUNICATION LINE REPLACEMENT
CRA IRON GARAGE HEAVY EQUIPMENT SERVICE PIT REPLACEMENT
CRA IRON HOUSING REPLACEMENT
CRA MAIN PUMP STUDY
CRA MILE 12 POWER LINE & FLOW MONITORING EQUIP. STUDY
CRA PUMP PLANT FLOW METER UPGRADE
CRA PUMP PLANT SUMP PIPING REPLACEMENT STUDY
CRA PUMPING PLANT RELIABILITY PROGRAM - HIGH PRESSURE COMPRESSOR REPLACEMENT
CRA PUMPING PLANT RELIABILITY PROGRAM - SUCTION & DISCHARGE LINES EXPANSION JOINT STUDY
CRA PUMPING PLANTS SWITCH HOUSE FAULT CURRENT PROTECTION
CRA PUMPING PLANTS VULNERABILITY ASSESSMENT
CRA PUMPING WELL CONVERSION
CRA QUAGGA MUSSEL BARRIERS
CRA RELIABILITY PROGRAM - DISCHARGE VALVE LUBRICATORS
CRA RELIABILITY PROGRAM - MOTOR BREAKER FAULTY CURRENT STUDY (5 PLANTS)
CRA RELIABILITY PROGRAM PHASE 6 (AQUEDUCT PHASE 8 REHAB.) - SPEC 1668
CRA SEISMIC EVALUATION - SWITCH HOUSE AND PUMP ANCHORAGE
CRA SERVICE CONNECTION DWCV-2T VALVES REPLACEMENT AND STRUCTURE CONSTRUCTION
CRA SERVICE CONNECTION DWCV-4 VALVES REPLACEMENT
CRA SIPHON REHAB
CRA SIPHONS, TRANSITIONS, CANALS, AND TUNNELS REHABILITATION AND IMPROVEMENTS
DAM SLUICWAYS AND OUTLETS REHABILITATION
DANBY TOWER FOOTER REPLACEMENT
DESERT FACILITIES FIRE PROTECTION SYSTEMS UPGRADE
DESERT LAND ACQUISITIONS
DESERT PUMP PLANT OIL CONTAINMENT
DESERT ROADWAY IMPROVEMENT
DESERT SEPTIC SYSTEM
DESERT SEWER SYSTEM REHABILITATION
DESERT WATER TANK ACCESS - FIRE WATER, CIRCULATING WATER, DOMESTIC WATER - STUDY
DIEMER FILTRATION PLANT - METROPOLITAN/SCS HELIPAD LAND SITE
DISCHARGE LINE ISOLATION BULKHEAD COUPLINGS
DISTRIBUTION SYSTEM FACILITIES - REHABILITATION PROGRAM
DISTRIBUTION SYSTEM FACILITIES REHABILITATION PROGRAM - MAINTENANCE & STORAGE SHOP (PC-1)
DISTRIBUTION SYSTEM RELIABILITY PROGRAM - PHASE 2
DVL TO SKINNER TRANSMISSION LINE STUDY
E. THORNTON IBBETSON GUEST QUARTERS
EAGLE AND HINDS EQUIPMENT WASH AREA UPGRADE
EAGLE KITCHEN UPGRADE
EAGLE MOUNTAIN PUMPING PLANT SCADA SYSTEM

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
<p>Description</p> <p><u>Conveyance and Aqueduct Facilities (continued)</u></p> <p>EAGLE MOUNTAIN SAND TRAPS STUDY</p> <p>EAGLE MOUNTAIN SIPHONS BEISMIC VULNERABILITY STUDY</p> <p>EAGLE MTN SAND TRAPS STUDY</p> <p>EAGLE ROCK ASPHALT REPAIR PROJECT</p> <p>EAGLE ROCK MAIN ROOF REPLACEMENT</p> <p>ENVIRONMENTAL MITIGATION</p> <p>ETWANDA PIPELINE LINER REPAIR</p> <p>ETWANDA RESERVOIR LINER REPAIR</p> <p>FUTURE SYSTEM RELIABILITY PROJECTS</p> <p>GARVEY RESERVOIR - AUTOMATED DATA ACQUISITION SYSTEM</p> <p>GARVEY RESERVOIR AUTOMATED DATA ACQUISITION SYSTEM REPLACEMENT</p> <p>GENE & INTAKE P.P. - FREQUENCY PROTECTION RELAY REPLACEMENT</p> <p>GENE & INTAKE PUMPING PLANTS - REPLACE UNDER FREQUENCY PROTECTION RELAY</p> <p>GENE AIR CONDITION</p> <p>GENE PUMPING PLANT - AIR STRIP EXTENSION PROJECT</p> <p>GENE PUMPING PLANT - HEAVY EQUIPMENT SERVICE PIT</p> <p>GENE PUMPING PLANT - PEDDLER SUBSTATION REPLACEMENT</p> <p>GENE PUMPING PLANT - SCADA SYSTEM</p> <p>GENE PUMPING PLANT MAIN TRANSFORMER AREA</p> <p>GENE STORAGE WAREHOUSE REPLACEMENT</p> <p>HEADGATE OPERATORS & CIRCUIT BREAKERS REHAB.</p> <p>HIGHLAND PIPELINE CONSTRUCTION</p> <p>HINDS PUMPING PLANT SCADA SYSTEM</p> <p>INLAND FEEDER CONTINGENCY</p> <p>INLAND FEEDER COST OF LAND AND RIGHT OF WAY</p> <p>INLAND FEEDER ENVIRONMENTAL MITIGATION</p> <p>INLAND FEEDER GROUNDWATER MONITORING</p> <p>INLAND FEEDER HIGHLAND PIPELINE CLAIMS COST</p> <p>INLAND FEEDER HIGHLAND PIPELINE CONSTRUCTION</p> <p>INLAND FEEDER HIGHLAND PIPELINE DESIGN</p> <p>INLAND FEEDER MENTONE PIPELINE CONSTRUCTION</p> <p>INLAND FEEDER MENTONE PIPELINE DESIGN</p> <p>INLAND FEEDER MENTONE PIPELINE RUSD CONSTRUCTION</p> <p>INLAND FEEDER OWNER CONTROLLED INSURANCE PROGRAM</p> <p>INLAND FEEDER PROJECT MANAGEMENT SUPPORT</p> <p>INLAND FEEDER PURCHASE OF LAND AND RIGHT OF WAY</p> <p>INLAND FEEDER RAISE BURIED STRUCTURES AND REALIGN DAVIS RD.</p> <p>INLAND FEEDER REVERSE OSMOSIS PLANT</p> <p>INLAND FEEDER RIVERSIDE BADLANDS TUNNEL CONSTRUCTION</p> <p>INLAND FEEDER RIVERSIDE NORTH PIPELINE DESIGN</p> <p>INLAND FEEDER RUSD CLAIMS DEFENSE</p> <p>INLAND FEEDER STUDIES</p> <p>INLAND FEEDER UNDERGROUND STORAGE TANK REMOVAL & ABOVEGROUND STORAGE TANK INSTALLATION</p> <p>INSULATION JOINT TEST STATIONS</p> <p>INTAKE P PLANT - POWER & COMMUNICATION LINE REPLACEMENT</p> <p>INTAKE PUMPING PLANT - COOLING AND REJECT WATER DISCHARGE TO LAKE HAVASU</p> <p>INTAKE PUMPING PLANT AUTOMATION PROGRAMMING</p> <p>INTAKE PUMPING PLANT INSTRUMENTATION REPLACEMENT</p> <p>INTAKE PUMPING PLANT INSTRUMENTATION REPLACEMENT & AUTOMATION</p> <p>INTAKE PUMPING PLANT INSTRUMENTATION REPLACEMENT & AUTOMATION (4 PLANTS)</p> <p>INTAKE PUMPING PLANT POWER & COMMUNICATION LINE REPLACEMENT</p>

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
<p>Description</p> <p><u>Conveyance and Aqueduct Facilities (continued)</u></p> <p>INTAKE PUMPING PLANT SCADA SYSTEM</p> <p>IRON MOUNTAIN PUMPING PLANT</p> <p>IRON MOUNTAIN PUMPING PLANT SCADA SYSTEM</p> <p>LAKE MATHEWS FOREBAY & HEADWORK FACILITY & EQUIPMENT</p> <p>LAKE MATHEWS FOREBAY WALKWAY REPAIRS</p> <p>LAKE MATHEWS ICS</p> <p>LAKE MATHEWS INTERIM CHLORINATION SYSTEM</p> <p>LAKE SKINNER - OUTLET CONDUIT FLOWMETER INSTALLATION</p> <p>LAKE SKINNER BYPASS PIPELINE NO. 2 CATHODIC PROTECTION</p> <p>LAKE SKINNER OUTLET CONDUIT</p> <p>LAVERNE FACILITIES - EMERGENCY GENERATOR</p> <p>LAVERNE FACILITIES - MATERIAL TESTING</p> <p>MAGAZINE CANYON OIL & WATER SEPARATOR</p> <p>MAGAZINE CANYON OIL/WATER SEPARATOR</p> <p>MAPES LAND ACQUISITION</p> <p>MILE 12 POWER LINE & FLOW MONITORING EQUIPMENT STUDY</p> <p>MILLS FILTRATION PLANT - MODULE NO. 1 FILTER BED</p> <p>MILLS PLANT SUPPLY PUMP STATION STUDY</p> <p>MOTOR BREAKER FAULTY (5 PLANTS)</p> <p>NEWHALL TUNNEL - REPAIR STEEL LINER</p> <p>NEWHALL TUNNEL - UPGRADE LINER SYSTEM</p> <p>OC 44 SERVICE CONNECTIONS & EOC#2 METER ACCESS ROAD REPAIR</p> <p>OC 88 PUMP PLANT FIRE PROTECTION STUDY</p> <p>OLINDA PCS FACILITY REHABILITATION AND UPGRADE</p> <p>OLINDA PRESSURE CONTROL STRUCTURE FACILITY REHABILITATION AND UPGRADE</p> <p>ORANGE COUNTY 44 SERVICE CONNECTIONS & EOC#2 METER ACCESS ROAD REPAIR</p> <p>ORANGE COUNTY 88 PUMP PLANT FIRE PROTECTION STUDY.</p> <p>OWNER CONTROLLED INSURANCE PROGRAM</p> <p>PALO VERDE VALLEY LAND PURCHASE - 16,000 ACRES</p> <p>PALOS VERDES FEEDER REHABILITATION OF DOMINGUEZ CHANNEL</p> <p>PALOS VERDES RESERVOIR SPILLWAY MODIFICATION</p> <p>PROJECT MANAGEMENT SUPPORT</p> <p>PUDDINGSTONE RADIAL GATE REHABILITATION</p> <p>PURCHASE OF LAND AND RIGHT OF WAY</p> <p>QUAGGA MUSSEL STUDY</p> <p>REPAIR UPPER FEEDER LEAKING EXPANSION JOINT</p> <p>REPAIRS TO TUNNELS</p> <p>RIALTO FEEDER REPAIR OF ANOMALOUS PIPE SECTION</p> <p>RIVERSIDE BADLANDS TUNNEL CONSTRUCTION</p> <p>RIVERSIDE BRANCH - ALESSANDRO BLVD. LEFT HAND TURN LANE</p> <p>RIVERSIDE BRANCH - CONSTRUCTION OF CONTROL PANEL DISPLAY WALL</p> <p>RIVERSIDE NORTH PIPELINE DESIGN & CONSTRUCTION</p> <p>RIVERSIDE SOUTH PIPELINE CONSTRUCTION</p> <p>SAN DIEGO PIPELINE REPAIR AT STATION 1288+57</p> <p>SAN FERNANDO TUNNEL STATION 778+80 VALVE REPLACEMENT</p> <p>SAN GABRIEL TOWER SEISMIC ASSESSMENT</p> <p>SAN GABRIEL TOWER SLIDE GATE REHABILITATION</p> <p>SAN JACINTO TUNNEL WEST PORTAL</p> <p>SAN JOAQUIN RESERVOIR - NEW DESIGN</p> <p>SAN JOAQUIN RESERVOIR IMPROVEMENT- FLOATING COVER</p> <p>SAN JOAQUIN RESERVOIR IMPROVEMENTS</p>

TABLE 1 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS	
Description	
<i>Conveyance and Aqueduct Facilities (continued)</i>	
SAN JOAQUIN RESERVOIR IMPROVEMENTS STUDY	
SAND TRAP CLEANING EQUIPMENT AND TRAVELING CRANE STUDY	
SANTA ANA RIVER BRIDGE SEISMIC RETROFIT	
SANTIAGO TOWER ACCESS ROAD UPGRADE	
SANTIAGO TOWER PATROL ROAD REPAIR	
SDS REPAIR	
SECOND LOWER FEEDER CARBON FIBER REPAIRS	
SECURITY FENCING AT OC-88 PUMPING PLANT	
SEISMIC PROGRAM	
SEISMIC UPGRADE OF 11 FACILITIES OF THE CONVEYANCE & DISTRIBUTION SYSTEM	
SERVICE CONNECTION & EDC# #2 METER ACCESS ROAD UPGRADE & BETTERMENT	
SKINNER FILTRATION PLANT - 1P2	
SKINNER FILTRATION PLANT HELIPAD UPGRADE	
SUCTION & DISCHARGE LINES EXPANSION JOINT STUDY	
SWITCHYARDS AND HEAD GATES REHAB	
TEMESCAL HYDRO-ELECTRIC PLANT ACCESS ROAD UPGRADE	
TRANSFORMER OIL & CHEMICAL UNLOADING PAD CONTAINMENT	
U.S. BUREAU OF LAND MANAGEMENT LAND ACQUISITION	
UPPER FEEDER CATHODIC PROTECTION SYSTEM	
UPPER FEEDER LEAKING EXPANSION JOINT REPAIR	
UPPER FEEDER SCHEDULES 2S	
VALLEY BRANCH - PIPELINE CORROSION TEST STATION	
WEST VALLEY FEEDER #2 CATHODIC PROTECTION SYSTEM REHABILITATION	
WEYMOUTH FILTRATION PLANT CHLORINE UNLOADING	
WHITE WATER SIPHON PROTECTION	
WHITEWATER SIPHON PROTECTION STRUCTURE	
<i>Sub-total Conveyance and Aqueduct facilities benefits</i>	\$ 69,847,484

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS	
Description	
<u><i>Distribution Facilities</i></u>	
42" CONICAL PLUG VALVE REPLACEMENT	
ACOUSNIC FLOW METER UPGRADE	
ALAMEDA CORRIDOR PIPELINE	
ALL FACILITIES - WATER DISCHARGE ELIMINATION	
ALL FACILITIES INSPECTION AND REPLACEMENT OF CRITICAL VACUUM VALVES	
ALL PUMPING PLANTS - INSTALL HYPOCHLORINATION STATIONS	
ALLEN MCCOLLOCH PIPELINE INTERCONNECTIONS	
ALLEN MCCOLLOCH PIPELINE LOCAL CONTROL MODIFICATIONS	
ALLEN MCCOLLOCH PIPELINE REPAIR	
ALLEN MCCOLLOCH PIPELINE REPAIR - CARBON FIBER LINING REPAIR	
ALLEN MCCOLLOCH PIPELINE REPAIR - SERVICE CONNECTIONS UPGRADES	
ALLEN MCCOLLOCH PIPELINE REPAIR - STATION 276+53	
ALLEN MCCOLLOCH PIPELINE REPAIR - SURGE SUPPRESSION SYSTEM AT OC88A	
ALLEN MCCOLLOCH PIPELINE REPAIR - VALVE ACTUATOR REPLACEMENTS	
ALLEN MCCOLLOCH PIPELINE REPAIR SERVICE CONNECTIONS SIMPLIFICATION	
ALLEN MCCOLLOCH PIPELINE STRUCTURE - ROOF SLAB REPAIRS	
ALLEN MCCOLLOCH CORROSION INTERFERENCE MITIGATION, STATION 718+84 TO 1178+02	
ALLEN MCCOLLOCH PIPELINE	
ALLEN MCCOLLOCH PIPELINE VALVE AND SERVICE CONNECTION VAULT REPAIRS	
AMP -SERVICE CONNECTIONS UPGRADES	
AMP -VALVE ACTUATOR REPLACEMENTS	
AMP COMPLETION RESOLUTION RIGHT OF WAY ISSUES	
AMR - RTU UPGRADE - PHASE 2	
ANODE WELL REPLACEMENT FOR ORANGE COUNTY AND RIALTO FEEDERS	
ASPHALT REPAIRS TO PERIMETER OF SEPULVEDA PCS	
ASSESS THE CONDITION OF METROPOLITAN'S PRESTRESSED CONCRETE CYLINDER PIPE	
ASSESS THE CONDITIONS OF MET'S	
AULD VALLEY CONTROL STRUCTURE AREA FACILITIES	
AUTOMATED RESERVOIR WATER QUALITY MONITORING	
AUTOMATIC METER READING SYSTEM - RTU UPGRADE PHASE 2	
AUTOMATIC METER READING SYSTEM UPGRADE	
AUTOMATION COMMUNICATION UPGRADE	
AUTOMATION DOCUMENTATION SURVEY F/A	
BAR 87- ENHANCED AREA VEHICLE TESTING	
BATTERY MONITORING SYSTEM FOR AUTOMATIC METER READING SYSTEM	
BLACK METAL MOUNTAIN ELECTRICAL TRANSFORMER	
BOX SPRINGS FEEDER BROKEN BACK REPAIR	
BOX SPRINGS FEEDER BROKEN BACK REPAIR PHASE I	
BOX SPRINGS FEEDER REPAIR - PHASE II	
BUDGET ADJUSTMENT	
C&D CRANE INSTALLATION AT OC-88 PUMPING PLANT	
CALABASAS FEEDER CARBON FIBER /BROKEN BACK REPAIR	
CALABASAS FEEDER INTERFERENCE MITIGATION	
CAPITAL PROGRAM FOR PROJECTS COSTING LESS THAN \$250,000 FOR FY 2010/11	
CAPITAL PROJECTS COSTING LESS THAN \$250,000 FOR FY2008-09	
CASA LOMA AND SAN DIEGO CANAL LINING STUDY - PART 2	
CATHODIC PROTECTION SYSTEM UPGRADES	
CCP-PHASE 2 CONSTRUCTION	
CDSRP - DISCHARGE ELIMINATION	
CDSRP - ENTRAINED AIR IN UPPER FEEDER PIPELINE STUDY	
CDSRP - SEPULVEDA FEEDER REPAIRS	
CDSRP - SEPULVEDA TANKS RECOATING	

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
<p>Description</p> <p><i>Distribution Facilities (continued)</i></p> <p>CENTRAL POOL AUGMENTATION - TUNNEL AND PIPELINE & RIGHT-OF-WAY ACQUISITION</p> <p>CENTRAL POOL AUGMENTATION AND WATER QUALITY PROJECT (CPAWQP)</p> <p>CHEMICAL INVENTORY AND USAGE REWRITE AND ELECTRICAL SYSTEM LOG</p> <p>CHEMICAL UNLOADING FACILITY RETROFIT</p> <p>CHEVALIER FALCON MILLING MACHINE</p> <p>COASTAL JUNCTION REVERSE FLOW BYPASS</p> <p>COMMUNICATIONS STRUCTURE ALARM MONITORING</p> <p>COMPREHENSIVE INFORMATION SECURITY ASSESSMENT PHASE II</p> <p>CONSTRUCTION PHASE 2</p> <p>CONTRACT & LITIGATION TASKS - CONTRACT # 1386</p> <p>CONTROL SYSTEM DATA STORAGE AND REPORTING</p> <p>CONTROL SYSTEM DRAWING & DOCUMENTATION UPDATE</p> <p>CONTROL SYSTEM ENHANCEMENT PROGRAM (CSEP) - DIGITAL SUBNET STANDARDIZATION</p> <p>CONTROL SYSTEMS AUTOMATION COMMUNICATION UPGRADE</p> <p>CONTROLS COMMUNICATIONS FRAME RELAY CONVERSION - APPROPRIATED</p> <p>CONVERSION OF DEFORMATION SURVEY MONITORING AT GENE WASH, COPPER BASIN, AND DIEMER BASIN</p> <p>CONVEYANCE AND DISTRIBUTION SYSTEM REHABILITATION PROGRAM (CDSRP) - CURRENT DRAIN STATIONS</p> <p>COPPER BASIN ICS</p> <p>COPPER BASIN SEWER SYSTEM</p> <p>CORROSION MATERIALS TESTING FACILITY SCADA UPGRADE</p> <p>COVINA PRESSURE CONTROL FACILITY</p> <p>COYOTE CREEK NORTHERN PERIMETER LANDSCAPING</p> <p>CPA PIPELINE & TUNNEL ALIGNMENT</p> <p>CPA PIPELINE & TUNNEL ALIGNMENT - NON FUNDED PORTION</p> <p>CPA PIPELINE & TUNNEL ALIGNMENT - STUDY</p> <p>CPA WATER TREATMENT PLANT - NON FUNDED PORTION</p> <p>CPA WATER TREATMENT PLANT - RIGHT OF WAY - PHASE 2</p> <p>CPA WATER TREATMENT PLANT - STUDY</p> <p>CPAWQP - PHASE 2</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - CONTINGENCY</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - PIPELINE & TUNNEL ALIGNMENT - STUDY</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - RIGHT-OF-WAY ACQUISITION</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - WATER TREATMENT PLANT - RIGHT OF WAY - PHASE 2</p> <p>CPAWQP - STUDY AND LAND ACQUISITION - WATER TREATMENT PLANT - STUDY</p> <p>CRA CABAZON & POTRERO SHAFT COVERS</p> <p>CRA CONTROL INTEGRATION</p> <p>CSEP - ELECTRONIC SYSTEM LOG (ESL)</p> <p>CSEP - ENERGY MANAGEMENT SYSTEM PHASE II</p> <p>CSEP - ENHANCED DISTRIBUTION SYSTEM CONTROL PROJECT</p> <p>CSEP - IMPLEMENTATION</p> <p>CSEP - OPERATIONS & BUSINESS DATA INTEGRATION PILOT</p> <p>CSEP - PLANT INFLUENT REDUNDANT FLOW METERING AND SPLITTING</p> <p>CSEP - PLC PHASE 2 - LIFE-CYCLE REPLACEMENT</p> <p>CSEP - PLC STANDARDIZATION</p> <p>CSEP - PLC STANDARDIZATION PHASE II</p> <p>CSEP - POWER MANAGEMENT SYSTEM</p> <p>CSEP - WATER PLANNING APPLICATION</p> <p>CSEP IMPLEMENTATION</p> <p>CSEP - SMART OPS (FORMERLY REAL TIME OPERATIONS SIMULATION)</p> <p>CURRENT DRAIN STATIONS</p> <p>DAM REHABILITATION & SAFETY IMPROVEMENTS ST. JOHN'S CANYON CHANNEL EROSION MITIGATION</p>

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS	
Description	<p><i>Distribution Facilities (continued)</i></p> <p>DANBY TOWER FOUNDATION INVESTIGATION AND SHORT TERM MITIGATION</p> <p>DEODERA PCS PAVEMENT UPGRADE & BETTERMENT</p> <p>DESERT BRANCH PUMP PLANT AUXILIARY (STATION SERVICE)</p> <p>DESERT BRANCH, PURCHASE & INSTALL 5 PORT VIDEO CONFERENCING</p> <p>DESERT FACILITIES DOMESTIC WATER GAC SYSTEM INSTALLATION</p> <p>DESERT HIGH VOLTAGE TRANSMISSION TOWERS - REPLACE COPPER GROUND WIRES ON</p> <p>DETAIL SEISMIC EVALUATION OF WATER STORAGE TANK</p> <p>DPP - ELIMINATE BACKUP GENERATOR TIE-BUS & INSTALL MANUAL TRANSFER SWITCH FOR CHLORINE SCRUBBER</p> <p>DIEMER AREA & PLANT - REPLACEMENT OF AREA CONTROL SYSTEMS</p> <p>DIEMER FILTRATION PLANT - AIR COMPRESSORS REPLACEMENT</p> <p>DIEMER FILTRATION PLANT - ASPHALT</p> <p>DIEMER FILTRATION PLANT - ASPHALT ROAD REPAIRS</p> <p>DIEMER FILTRATION PLANT - EMERGENCY POWER FEED</p> <p>DIEMER FILTRATION PLANT - NORTH STORM DRAIN REPLACEMENT</p> <p>DIEMER FILTRATION PLANT - ON-LINE TURBIDITY</p> <p>DIEMER FILTRATION PLANT - SLOPE REPAIR</p> <p>DIEMER FILTRATION PLANT - SLUDGE DEWATERING/DISPOSAL STUDY</p> <p>DIEMER FILTRATION PLANT - SLUDGE LINE & STORM</p> <p>DIEMER FILTRATION PLANT - USED WASHWATER RETURN PUMP CHECK VALVES UPGRADE</p> <p>DIEMER FILTRATION PLANT - WASTE WATER DISCHARGE SYSTEM</p> <p>DISCHARGE ELIMINATION</p> <p>DISTRIBUTION SYSTEM - STANDPIPE STRENGTHENING PROGRAM</p> <p>DISTRIBUTION SYSTEM - STATIONARY CORROSION REFERENCE</p> <p>DISTRIBUTION SYSTEM CONTROL & EQUIP UPGRADE - ENHANCED DISTRIB. SYSTEM AUTOMATION PHASE I</p> <p>DISTRIBUTION SYSTEM EQUIPMENT & INSTRUMENTATION UPGRADES</p> <p>DISTRIBUTION SYSTEM REHABILITATION PROGRAM - ASSESS THE STATE OF MWD'S DISTRIBUTION SYSTEM</p> <p>DISTRIBUTION SYSTEM REPLACEMENT OF AREA CONTROL SYSTEMS - WILLOWGLEN RTUS ADMINISTRATION</p> <p>DISTRIBUTION SYSTEM REPLACEMENT OF AREA CONTROL SYSTEMS (DSRACS)</p> <p>DISTRICT WIDE - ENHANCED VAPOR RECOVERY PHASE 2 GASOLINE DISPENSING</p> <p>DSRACS - OPERATIONS CONTROL CENTER - CONTRACT #1396</p> <p>DSRACS - SKINNER AREA</p> <p>DSRACS - SOFTWARE DEVELOPMENT COST</p> <p>DSRACS - WEYMOUTH</p> <p>DVL & CONTROL SYSTEM REPLACEMENT INVESTIGATION & PREPARATION FOR PRELIMINARY DESIGN</p> <p>EAGLE EQUIPMENT WASH AREA UPGRADE</p> <p>EAGLE ROCK - ASPHALT REHABILITATION</p> <p>EAGLE ROCK - FIRE PROTECTION AT THE WESTERN AREA OF THE EAGLE ROCK CONTROL CENTER PERIMETER GROUNDS</p> <p>EAGLE ROCK LATERAL INTERCONNECTION REPAIR</p> <p>EAGLE ROCK MAIN BUILDING ROOF REPLACEMENT - STUDY</p> <p>EAGLE ROCK OCC - REHAB CONTROL ROOM</p> <p>EAGLE ROCK OPERATIONS CONTROL CENTER</p> <p>EAGLE ROCK RESIDENCE CONVERSION</p> <p>EAGLE ROCK TOWER SLIDEGATE REHABILITATION</p> <p>EAST INFLUENT CHANNEL REPAIR PROJECT</p> <p>EAST ORANGE COUNTY FEEDER #2 REPAIR</p> <p>EASTERN AND DESERT REGIONS PLUMBING RETROFIT</p> <p>E-DISCOVERY STORAGE MANAGEMENT SYSTEM UPGRADE</p> <p>ELECTRONIC SYSTEM LOG (ESL)</p> <p>ENERGY MANAGEMENT SYSTEM - PHASE 2</p> <p>ENHANCED DISTRIBUTION SYSTEM AUTOMATION PHASE I</p> <p>ENHANCED DISTRIBUTION SYSTEM AUTOMATION PHASE II</p> <p>EQUIPMENT UPGRADE AT THE NORTH PORTAL OF THE HOLLYWOOD TUNNEL</p>

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
<p>Description</p> <p><i>Distribution Facilities (continued)</i></p> <p>ETIWANDA / RIALTO PIPELINE INTER-TIE CATHODIC PROTECTION</p> <p>ETIWANDA CAVITATION TEST FACILITY COMMUNICATION AND CONTROL SYSTEM REPLACEMENT</p> <p>ETIWANDA HEP NEEDLE VALVE OPERATORS</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - RIGHT OF WAY</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - AS BUILTS</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - CATHODIC PROTECTION</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - EMERGENCY DISCHARGE CONDUITS</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - LANDSCAPING AND IRRIGATION</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - RESIDENCES</p> <p>ETIWANDA PIPELINE AND CONTROL FACILITY - RIALTO FEEDER TO UPPER PIPELINE</p> <p>ETIWANDA RESERVOIR - EXTEND OUTLET STRUCTURE</p> <p>FACILITY AND PROCESS RELIABILITY ASSESSMENT</p> <p>FILTER ISOLATION GATE AND BACKWASH CONTROL WEIR COVERS MODULES 1- 8</p> <p>FLOWMETER MODIFICATION - LAKE SKINNER INLET, ETIWANDA EFFLUENT & WADSWORTH CROSS CHANNEL</p> <p>FOOTHILL FEEDER ADEN AVE, REHABILITATION</p> <p>FOOTHILL FEEDER CARBON FIBER REPAIR</p> <p>FOOTHILL FEEDER CATHODIC PROTECTION</p> <p>FOOTHILL FEEDER POWER PLANT EXPANSION</p> <p>FOOTHILL FEEDER REPAIR @ SANTA CLARITA RIVER</p> <p>FOOTHILL HYDROELECTRIC RUNNER REPLACEMENT</p> <p>FOOTHILL PCS - UNINTERRUPTIBLE POWER SOURCE SYSTEMS INSTALLATION</p> <p>FOOTHILL PCS FLOOD PUMP INSTALLATION DESIGN DOCUMENTATION</p> <p>FOOTHILL PCS INTERNAL VALVE LINERS UPGRADE</p> <p>FUTURE SYSTEM RELIABILITY PROGRAM</p> <p>GARVEY RESERVOIR - HYPOCHLORITE FEED SYSTEM</p> <p>GARVEY RESERVOIR - INSTALL HYPOCHLORINATION STATIONS</p> <p>GARVEY RESERVOIR - LOWER ACCESS PAVING ROAD & DRAINS</p> <p>GARVEY RESERVOIR HYPOCHLORITE FEED SYSTEM</p> <p>GENE & IRON POOLS</p> <p>GENE AIR CONDITIONING SYSTEM REPLACEMENT</p> <p>GENE MESS HALL AIR CONDITIONING UNIT</p> <p>GENE SPARE PARTS WAREHOUSE IMPROVEMENTS</p> <p>GLENDALE 01 SERVICE CONNECTION REHAB</p> <p>GREG AVE PCS FACILITY REHABILITATION</p> <p>GREG AVENUE CONTROL STRUCTURE VALVE REPLACEMENT</p> <p>GREG AVENUE PCS CONTROL BUILDING INTERIOR REHABILITATION</p> <p>HINDS GARAGE ASBESTOS SHEETING REPLACEMENT</p> <p>HYDROELECTRIC PLANT CARBON DIOXIDE (CO2) FIRE SUPPRESSION SYSTEM MODIFICATIONS</p> <p>IAB PROJECTS - CPA</p> <p>IAB PROJECTS - DVL-SKINNER</p> <p>IAB PROJECTS - MILLS SUPPLY RELIABILITY</p> <p>INLAND PCSUST REMOVAL & AST INSTALLATION</p> <p>INSTALL MOTION SENSORS IN NEW EXPANSION</p> <p>INSTALL TEST LEADS AT FOUR LOCATIONS</p> <p>INSULATION JOINT TEST STATIONS</p> <p>IRON MOUNTAIN - TRANSFORMER OIL TANK RELOCATION</p> <p>JENSEN DISTRIBUTION SYSTEM - REPLACEMENT OF AREA CONTROL SYSTEMS - CONTRACT # 1396</p> <p>JENSEN FILTRATION PLANT - AUTOMATION OF EXISTING WASHWATER/SLUDGE PROCESSING</p> <p>JENSEN FILTRATION PLANT - EJECTOR NOISE ABATEMENT</p>

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
<p>Description</p> <p><u>Distribution Facilities (continued)</u></p> <p>JENSEN FILTRATION PLANT - FIRE SYSTEM FOR MDCI SYSTEM</p> <p>JENSEN FILTRATION PLANT - FIRE WATER LOOP PRESSURE UPGRADE</p> <p>JENSEN FILTRATION PLANT - ICC ASBESTOS ABATEMENT</p> <p>JENSEN FILTRATION PLANT - INSTALL INFLUENT SCUPPER GATES</p> <p>JENSEN FILTRATION PLANT - MODIFICATIONS AT WASHWATER INTERCONNECTION</p> <p>JENSEN FILTRATION PLANT - PRESSURE INDICATION AT COOLING WATER PUMPS</p> <p>JENSEN FILTRATION PLANT - RELOCATE AMMONIA</p> <p>JENSEN FILTRATION PLANT - REPLACE ADMINISTRATION BUILDING AIR CONDITIONING</p> <p>JENSEN FILTRATION PLANT - ROAD RECONSTRUCTION</p> <p>JENSEN FILTRATION PLANT - SANDBLASTING BOOTH PURCHASE & INSTALLATION</p> <p>JENSEN FILTRATION PLANT - TRAVELING BRIDGE RETROFIT MODULE 2 & 3</p> <p>JENSEN FILTRATION PLANT - WTP PROTECTION BOLLARDS</p> <p>LA VERNE FACILITIES - BRIDGEPORT E-2-PATH</p> <p>LA VERNE FACILITIES - ENERGY CONSERVATION ECM1 - 10</p> <p>LA VERNE FACILITIES - EXPANSION OF THE SANITARY SEWER</p> <p>LA VERNE FACILITIES - HAZARDOUS WASTE STORAGE</p> <p>LA VERNE FACILITIES - MAIN TRANSFORMERS REPLACEMENT</p> <p>LA VERNE FACILITIES - MATERIALS TESTING LABORATORY</p> <p>LA VERNE FACILITIES - REPLACEMENT OF FLOCCULATOR STUB SHAFT - BASINS 1 & 2</p> <p>LA VERNE MACHINE SHOP - AIR CONDITIONING UNIT REPLACEMENT</p> <p>LA VERNE MACHINE SHOP - REPAIR HORIZONTAL BORING MILL</p> <p>LA-35 DISCHARGE STRUCTURE REPAIRS</p> <p>LAKE MATHEWS - CONSTRUCTION OF BACKUP COMPUTER FACILITIES</p> <p>LAKE MATHEWS - DIVERSION TUNNEL WALKWAY REPAIR</p> <p>LAKE MATHEWS - FACILITY WIDE EMERGENCY WARNING AND PAGING SYSTEM</p> <p>LAKE MATHEWS - FOREBAY MCC ROOF IMPROVEMENT</p> <p>LAKE MATHEWS - MAIN DAM TOE SEEPAGE COLLECTION</p> <p>LAKE MATHEWS - MULTIPLE SPECIES MANAGER'S OFFICE & RESIDENCE</p> <p>LAKE MATHEWS - RENOVATION OF BLDGS. 8 & 16, GENERAL ASSEMBLY & ADMIN. BLDG. OFFICE AREAS</p> <p>LAKE MATHEWS - RETROFIT LOWER ENTRANCE GATE SWING ARM</p> <p>LAKE MATHEWS FOREBAY MCC ROOF IMPROVEMENT</p> <p>LAKE MATHEWS MAIN DAM TOE SEEPAGE COLLECTION</p> <p>LAKE MATHEWS RETROFIT LOWER ENTRANCE GATE SWING ARM</p> <p>LAKE PERRIS BYPASS PIPELINE EXPLORATION</p> <p>LAKE PERRIS EMERGENCY STANDBY GENERATOR AND TRANSFER SWITCH REPLACEMENT</p> <p>LAKE SKINNER - AERATOR AIR COMPRESSOR REPLACEMENT</p> <p>LAKE SKINNER - OUTLET TOWER VALVE REHABILITATION</p> <p>LAKE SKINNER - REPLACEMENT AERATOR RING</p> <p>LAKE SKINNER AERATOR AIR COMPRESSOR REPLACEMENT</p> <p>LAKE SKINNER EAST BYPASS SCREENING STRUCTURES</p> <p>LAKE SKINNER WEST BYPASS SCREENING STRUCTURE</p> <p>LAKEVIEW PIPELINE - REPLACE VACUUM AIR RELEASE</p> <p>LAKEVIEW PIPELINE CATHODIC PROTECTION SYSTEM</p> <p>LOWER FEEDER - CATHODIC PROTECTION</p> <p>LOWER FEEDER WR 33 - AREA REPAIR AND REMEDIATION</p> <p>MAGAZINE CANYON CANOPY</p> <p>MAGAZINE CANYON ISOLATION GATE JACKING FRAME</p> <p>MAPES LAND ACQUISITION</p> <p>MICROWAVE COMMUNICATION SITE BUILDING UPGRADE</p> <p>MIDDLE CROSS FEEDER CATHODIC PROTECTION</p> <p>MIDDLE FEEDER - CATHODIC PROTECTION SYSTEMS</p> <p>MIDDLE FEEDER - NORTH CATHODIC PROTECTION SYSTEM</p>

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
<p>Description</p> <p><i>Distribution Facilities (continued)</i></p> <p>MIDDLE FEEDER NORTH CATHODIC PROTECTION SYSTEM</p> <p>MILLS COMBINED FILTER EFFLUENT MIXING BAFFLE WALL RETROFIT</p> <p>MILLS FILTRATION PLANT - ADMINISTRATION BUILDING INSTALL</p> <p>MILLS FILTRATION PLANT - CONSTRUCT V DITCH</p> <p>MILLS FILTRATION PLANT - INFLUENT CONTROL STRUCTURE LADDER UPGRADE</p> <p>MILLS FILTRATION PLANT - INVESTIGATION TO RELOCATE ACCESS ROAD</p> <p>MILLS FILTRATION PLANT - MAINTENANCE CENTER BACKUP GENERATOR RELOCATION</p> <p>MILLS FILTRATION PLANT - REPLACEMENT OF AREA CONTROL SYSTEMS</p> <p>MINOR CAR 08/08 PLACEHOLDER</p> <p>MINOR CAPITAL PROJECTS PROGRAM 07/08 - REMAINING FUNDS</p> <p>MWD ROAD GUARDRAIL</p> <p>NITROGEN STORAGE STUDY</p> <p>NORTH PORTAL OF HOLLYWOOD TUNNEL</p> <p>NORTH REACH CONSTRUCTION / INSPECTION / CM</p> <p>NORTH REACH CONSTRUCTION/ASBUILT</p> <p>NORTH REACH ENVIRONMENTAL - CONSTRUCTION</p> <p>NORTH REACH FINAL DESIGN & ADV/INTP</p> <p>NORTH REACH POST DESIGN / ASBUILT</p> <p>NORTH REACH PRDGRAM MANAGEMENT - CONSTRUCTION</p> <p>OAK ST. PCS ROOF REPLACEMENT</p> <p>OO 44 SERVICE CONNECTIONS & EOC#2 METER ACCESS ROAD REHAB</p> <p>OO FEEDER STA 1820+78 BLOWOFF STRUCTURE & RIP-RAP REPAIRS</p> <p>OO-71 FLOW CONTROL FACILITY</p> <p>OC-88 - SECURITY FENCING AT PUMP PLANT</p> <p>OC-88 EMERGENCY STANDBY GENERATOR UPGRADE STUDY</p> <p>OC-88 PUMP PLANT AIR COMPRESSOR UPGRADE</p> <p>OLINDA PRESSURE CONTROL STRUCTURE</p> <p>ON-CALL RESOURCES MANAGEMENT APPLICATION</p> <p>OPERATIONS CONTROL CENTER AT EAGLE ROCK</p> <p>OPERATIONS SCOPING STUDY</p> <p>ORANGE COUNTY - 88 PUMP PLANT AIR COMPRESSOR UPGRADE</p> <p>ORANGE COUNTY - 88 SECURITY FENCING AT PUMP PLANT</p> <p>ORANGE COUNTY FEEDER INSPECTION</p> <p>ORANGE COUNTY FEEDER INTERNAL INSPECTION STUDY</p> <p>ORANGE COUNTY FEEDER PRESSURE CONTROL STRUCTURES</p> <p>ORANGE COUNTY FEEDER SCHEDULE 37SC CATHODIC PROTECTION</p> <p>ORANGE COUNTY FEEDER STA 1920+78 BLOWOFF STRUCTURE & RIP-RAP REPAIRS</p> <p>ORANGE COUNTY RESERVOIR - INSTALL HYPOCHLORINATION STATIONS</p> <p>ORANGE COUNTY RESERVOIR - PIEZOMETERS & SEEPAGE MONITORING AUTOMATION</p> <p>OXIDATION DEMONSTRATION PLANT CONTROL SYSTEM REPLACEMENT</p> <p>PALOS ALTOS FEEDER - 108TH ST,</p> <p>PALOS VERDES FEEDER PCS - VALVE REPLACEMENT</p> <p>PALOS VERDES RESERVOIR - INSTALL HYPOCHLORINATION STATIONS</p> <p>PC-1 EFFLUENT OPEN CHANNEL TRASH RACK</p> <p>PC-1 EFFLUENT OPEN CHANNEL TRASH RACK PROJECT</p> <p>PERIMETER FENCING AT PLACERITA CREEK</p> <p>PERMANENT LEAK DETECTION/PIPELINE MONITORING SYSTEM</p> <p>PERRIS PCS - UNINTERRUPTIBLE POWER SOURCE SYSTEMS INSTALLATION</p> <p>PERRIS PCS ROOF REHAB</p> <p>PERRIS PUMPBACK COVER</p> <p>PERRIS VALLEY PIPELINE - DESIGN-BUILD (EMWD)</p> <p>PERRIS VALLEY PIPELINE - GENERAL</p>

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
Description
<i>Distribution Facilities (continued)</i>
PERRIS VALLEY PIPELINE - NORTH REACH
PERRIS VALLEY PIPELINE - RESERVED FOR STAGE II DESIGN / BUILD
PERRIS VALLEY PIPELINE - SOUTH REACH
PERRIS VALLEY PIPELINE - STUDY
PERRIS VALLEY PIPELINE - TIE-IN (WAWD)
PERRIS VALLEY PIPELINE - VALVES
PERRIS VALLEY PIPELINE DESIGN-BUILD (EMWD)
PERRIS VALLEY PIPELINE NORTH REACH
PERRIS VALLEY PIPELINE SOUTH REACH
PERRIS VALLEY PIPELINE TIE-IN (WAWD)
PERRIS VALLEY PIPELINE VALVES
PLACENTIA RAILROAD LOWERING PROJECT
PLACENTIA CREEK PERIMETER FENCING
PLANT INFLUENT REDUNDANT FLOW METERING AND SPLITTING
PRESTRESSED CONCRETE CYLINDER PIPE - PHASE 2
PRESTRESSED CONCRETE CYLINDER PIPE - PHASE 3
PUDDINGSTONE SPILLWAY CROSS CONNECTION
RED MOUNTAIN HEP FLOOD DAMAGE
RED MTN COMM. TOWER & METER STRUCTURE
RELOCATION OF ORANGE COUNTY FEEDER
RELOCATION OF PORTION OF ORANGE COUNTY FEEDER (MWD'S SHARE)
REMAINING PORTIONS
REPAIRS TO THE LA-35 DISCHARGE STRUCTURE
REPLACE 2 FIRE & DOMESTIC WATER SYSTEM
REPLACE COMMUNICATION LINE TO THE SAN GABRIEL CONTROL TOWER
REPLACE COPPER GROUNDWIRES ON DESERT HIGH VOLTAGE TRANSMISSION TOWERS
REPLACE VALVE POSITION INDICATORS
RIALTO FEEDER BROKEN BACK REPAIR
RIALTO FEEDER VALVE STRUCTURE
RIALTO FEEDER, REPAIRS AT SELECT LOCATIONS, STUDY
RIALTO PIPELINE - CONSTRUCTION PHASE 1
RIALTO PIPELINE - CONSTRUCTION PHASE 2
RIALTO PIPELINE IMPROVEMENTS
RIALTO PIPELINE IMPROVEMENTS - CONSTRUCTION
RIALTO PIPELINE IMPROVEMENTS - CONSTRUCTION PHASE III
RIALTO PIPELINE IMPROVEMENTS - DESIGN PHASE 2
RIALTO PIPELINE IMPROVEMENTS - DESIGN PHASE 3
RIALTO PIPELINE IMPROVEMENTS - FINAL DESIGN
RIALTO PIPELINE IMPROVEMENTS - VALVE PROCUREMENT
RIALTO PIPELINE IMPROVEMENTS PHASE 1 FINAL DESIGN
RIALTO PIPELINE REPAIRS AT STATION 318B+44
ROBERT B. DIEMER FILTRATION PLANT - LAND ACQUISITION
ROOF REPLACEMENT AT SOTO ST. FACILITY
SAN DIEGO CANAL - EAST & WEST BYPASS SCREENING STRUCTURES STUDY
SAN DIEGO CANAL - ELECTRICAL VAULT & CONDUCTOR REPLACEMENT
SAN DIEGO CANAL - FENCING
SAN DIEGO CANAL - INSTALL ACOUSTIC FLOW METER
SAN DIEGO CANAL - PIEZOMETER
SAN DIEGO CANAL - REPLACE SODIUM BISULFATE TANK
SAN DIEGO CANAL - SEEPAGE STUDY

TABLE 5

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description
<i>Distribution Facilities (continued)</i>
SAN DIEGO CANAL SEEPAGE STUDY
SAN DIEGO CANAL WEST BYPASS TRASH RACK
SAN DIEGO PIPELINE #4 VALVE REPLACEMENT
SAN DIEGO PIPELINE 1 BLOW-OFF VALVE REPLACEMENT
SAN DIEGO PIPELINE 8 & LAKE SKINNER OUTLET REPAIR
SAN DIEGO PIPELINE NO. 3 BYPASS
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE BRANCH - ETIWANDA FACILITY/DROP INLET STRUCTURE
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE BRANCH - PLEASANT PEAK COMMUNICATIONS
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL CONSTRUCTION - AS BUILT
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL COST OF RIGHT OF WAY (OPTIONAL PORTAL SITE)
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL ENVIRONMENTAL CONSTRUCTION
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL ENVIRONMENTAL PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL PROGRAM MANAGEMENT
SAN DIEGO PIPELINE NO. 6 - RIVERSIDE TUNNEL RIGHT OF WAY PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - CONTRACT NO.1 SAN DIEGO CANAL TO MOUNT OLYMPUS
SAN DIEGO PIPELINE NO. 6 - CONTRACT NO.2 MOUNT OLYMPUS TUNNEL & PORTALS
SAN DIEGO PIPELINE NO. 6 - NORTH REACH CONSTRUCTION - AS BUILT
SAN DIEGO PIPELINE NO. 6 - NORTH REACH ENVIRONMENTAL - CONSTRUCTION
SAN DIEGO PIPELINE NO. 6 - NORTH REACH ENVIRONMENTAL PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - NORTH REACH FINAL DESIGN & ADV/INTP
SAN DIEGO PIPELINE NO. 6 - NORTH REACH POST DESIGN
SAN DIEGO PIPELINE NO. 6 - NORTH REACH PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - NORTH REACH PROGRAM MANAGEMENT - CONSTRUCTION
SAN DIEGO PIPELINE NO. 6 - NORTH REACH PROGRAM MANAGEMENT - DESIGN
SAN DIEGO PIPELINE NO. 6 - NORTH REACH RIGHT OF WAY FINAL DESIGN
SAN DIEGO PIPELINE NO. 6 - NORTH REACH RIGHT OF WAY PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - NORTHERN PIPELINE COST OF RIGHT OF WAY
SAN DIEGO PIPELINE NO. 6 - NORTHERN REACH ENVIRONMENTAL FINAL DESIGN
SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - DESIGN
SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - ENVIRONMENTAL
SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - PROJECT MANAGEMENT
SAN DIEGO PIPELINE NO. 6 - PIPELINE/TUNNEL STUDY - RIGHT OF WAY
SAN DIEGO PIPELINE NO. 6 - PROJECT MANAGEMENT
SAN DIEGO PIPELINE NO. 6 - RIGHT OF WAY
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH - PROGRAM MANAGEMENT
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH / TUNNEL STUDY
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH CONSTRUCTION / AS BUILT
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH COST OF RIGHT OF WAY
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH ENVIRONMENTAL - CONSTRUCTION
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH ENVIRONMENTAL FINAL DESIGN
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH ENVIRONMENTAL PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH FINAL DESIGN/ADV
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH RIGHT OF WAY FINAL DESIGN
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH RIGHT OF WAY PRELIMINARY DESIGN
SAN DIEGO PIPELINE NO. 6 - SOUTH REACH TUNNEL ALIGNMENT ANALYSIS
SAN DIEGO PIPELINE NO. 6 AREA STUDY
SAN DIEGO PIPELINE NO. 6 ENVIRONMENTAL MITIGATION
SAN DIEGO PIPELINE NO.4 & AULD VALLEY PIPELINE CARBON FIBER REPAIR STUDY
SAN DIEGO PIPELINE NOS. 1 AND 3 - VALVE REPLACEMENT

TABLE 3

CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS

Description

Distribution Facilities (continued)

SAN DIMAS HEP BATTERY BANK AND GENERATOR BREAKER
 SAN DIMAS PCS - UNINTERRUPTIBLE POWER SOURCE SYSTEMS INSTALLATION
 SAN FRANCISQUITO PIPELINE BLOW OFF STRUCTURE, STA 257+70, ACCESS ROAD CONSTRUCTION
 SAN GABRIEL TOWER SLIDE GATE REHABILITATION
 SAN JACINTO #1 AND #2 CASA LOMA FAULT CROSSING STRUCTURE UPGRADE
 SAN JOAQUIN RELIEF STRUCTURE FOR EASTERN ORANGE COUNTY FEEDER #2
 SAN JOAQUIN RELIEF STRUCTURE FOR EASTR OC FOR #2
 SAN JOAQUIN RESERVOIR, INSTALL BULKHEAD
 SANTA ANA RIVER BRIDGE SEISMIC RETROFIT
 SANTA MONICA FEEDER RELOCATION
 SANTA MONICA FEEDER STATION 495+10 REHABILITATION
 SANTIAGO LATERAL REPLACE MOTOR - OPERATED VALVE
 SANTIAGO LATERAL STA 216+40 BUTTERFLY VALVE REPLACEMENT
 SANTIAGO TOWER ACCESS ROAD IMPROVEMENT
 SCADA SYSTEM HARDWARE UPGRADE
 SCADA SYSTEM NT SOFTWARE UPGRADE
 SCADA SYSTEM SUPPORT PROGRAMS
 SD AND CASA LOMA CANALS LINING
 SD CANAL EAST & WEST BYPASS SCREENING STRUCTURES STUDY
 SD CANAL REPLACE SODIUM BISULFITE TANK
 SD PIPELINE 3 CULVERT ROAD REHAB
 SD PIPELINE 3, 4, AND 5 PROTECTIVE COVER
 SD PIPELINE 4 EXPLORATORY EXCAVATION
 SD PIPELINE 5 EXPLORATORY EXCAVATION
 SD PIPELINES 3 AND 6 REMOTE CONTROL BYPASS STRUCTURE GATES AND ISOLATION VALVES
 SECOND LOWER & SEPULVEDA FEEDERS SCI DRAIN STATIONS
 SECOND LOWER CROSS FEEDER - VALVE PROCUREMENT
 SECOND LOWER CROSS FEEDER CONSTRUCTION
 SECOND LOWER CROSS FEEDER FINAL DESIGN
 SECOND LOWER FEEDER - INSTALL LINER
 SECOND LOWER FEEDER CURRENT MITIGATION REFURBISHMENT
 SECOND LOWER FEEDER PCCP REPAIRS
 SELECTED PRESSURE REPLACE VALVE POSITION INDICATORS
 SEPULVEDA FEEDER CORROSION/INTERFERENCE MITIGATION, STATION 950+00 TO 1170+00
 SEPULVEDA FEEDER REPAIRS AT 3 SITES
 SEPULVEDA FEEDER STATION 2002+02 TO 2273+28 STRAY CURRENT INTERFERENCE MITIGATION
 SEPULVEDA FEEDER STRAY CURRENT MITIGATION REFURBISHMENT
 SEPULVEDA PCS - PERIMETER ASPHALT REPAIRS
 SERVICE CONNECTION LV-01 UPGRADES
 SIMULATION AND MODELING APPLICATION FOR REAL TIME OPERATIONS SMART OPS
 SKINNER BRANCH - AIR INJECTION MODIFICATIONS TO RED MOUNTAIN POWER PLANT
 SKINNER BRANCH - CASA LOMA CANAL
 SKINNER BRANCH - CASA LOMA SIPHON BARREL ONE
 SKINNER BRANCH - CATWALK FOR TRAVELING MAINTENANCE BRIDGE FOR
 SKINNER BRANCH - FABRICATE & REPLACE THE STEMS, NUTS & KEYS
 SKINNER BRANCH - REPAIR MODULE 1 AND 2 FLOCCULATORS BRIDGES
 SKINNER DISTRIBUTION SYSTEM - CONTRACT # 1396
 SKINNER FILTRATION PLANT - CHLORINE MASS FLOW METERS
 SKINNER FILTRATION PLANT - EFFLUENT WATER QUALITY BLDG
 SKINNER FILTRATION PLANT - ELEVATED SLAB IN SERVICE BLDG 1

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS
<p>Description</p> <p><u>Distribution Facilities (continued)</u></p> <p>SKINNER FILTRATION PLANT - FERRIC CHLORIDE RETROFIT</p> <p>SKINNER FILTRATION PLANT - INSULATING FLANGES AT PLANT 1 BUTTERFLY VALVES</p> <p>SKINNER FILTRATION PLANT - LOADING RAMPS AT AND PC-1</p> <p>SKINNER FILTRATION PLANT - MODULES 1 & 2 TRAVELING BRIDGES SOLIDS PUMPS</p> <p>SKINNER FILTRATION PLANT - ON-LINE FILTER PROCESS</p> <p>SKINNER FILTRATION PLANT - PERIMETER FENCING</p> <p>SKINNER FILTRATION PLANT - REPLACE AIR COMPRESSOR</p> <p>SKINNER FILTRATION PLANT - REPLACEMENT FOR WETCELL BATTERY AND INVERTER</p> <p>SKINNER FILTRATION PLANT - REPLACEMENT OF AREA CONTROL SYSTEMS</p> <p>SKINNER FILTRATION PLANT - SAMPLE LINE FOR INFLUENT CONDUIT # 2</p> <p>SKINNER FILTRATION PLANT - SCADA SERVERS RELOCATION</p> <p>SKINNER FILTRATION PLANT - THICKENERS PUMPS REPLACEMENT</p> <p>SKINNER FILTRATION PLANT SEISMIC</p> <p>SKINNER INSULATING FLANGES AT PLANT 1 BUTTERFLY VALVES</p> <p>SKINNER REPLACEMENT FOR WETCELL BATTERY AND INVERTER</p> <p>SKINNER SCADA SERVERS RELOCATION</p> <p>SKINNER SOLIDS HANDLING SYSTEM CONVEYOR ACCESS STAIRS</p> <p>SKINNER WTP PERIMETER FENCING</p> <p>SMART-OPS (FORMERLY RTOS)</p> <p>SOTO STREET FACILITY - BUILDING SEISMIC UPGRADE</p> <p>SOTO STREET FACILITY - REPLACE HEATING</p> <p>SOTO STREET FACILITY - ROOF REPLACEMENT</p> <p>SOUTH REACH / TUNNEL STUDY</p> <p>SOUTH REACH CONSTRUCTION/ASBUILT - FUTURE UNAPPROPRIATED</p> <p>SOUTH REACH DESIGN - FUTURE UNAPPROPRIATED</p> <p>SOUTH REACH ENVIRONMENTAL - FUTURE UNAPPROPRIATED</p> <p>SOUTH REACH FEASIBILITY STUDY</p> <p>SOUTH REACH PROJECT MANAGEMENT - FUTURE UNAPPROPRIATED</p> <p>SOUTH REACH RIGHT OF WAY - FUTURE UNAPPROPRIATED</p> <p>SPECIAL SERVICE BRANCH - REPLACE PLATE BENDING</p> <p>ST. JOHN'S CANYON CHANNEL EROSION MITIGATION</p> <p>SYSTEM RELIABILITY PROGRAM</p> <p>TREATED WATER CROSS CONNECTION PREVENTION - FINAL DESIGN & CONSTRUCTION</p> <p>TREATED WATER CROSS CONNECTION PREVENTION - UNFUNDED WORK</p> <p>TWO-WAY RADIO ENHANCEMENT - EMERGENCY SERVICES, FIRE CONTROL, EVACUATION & BLDG. MAINT.</p> <p>TWO-WAY RADIO ENHANCEMENT FOR EMERGENCY SERVICES, FIRE CONTROL, EVACUATION AND BLDG. MAINTENANCE</p> <p>UNDER GROUND STORAGE TANK DISPENSER SPILL CONTAINMENT & REMEDIATION</p> <p>UPGRADE SUNSET GARAGE</p> <p>UPPER FEEDER - SANTA ANA RIVER BRIDGE REPAIRS</p> <p>UPPER FEEDER GATE REHABILITATION</p> <p>UPPER FEEDER SANTA ANA RIVER DISCHARGE PAD</p> <p>UPPER FEEDER SERVICE CONNECTIONS UPGRADES</p> <p>UPS SYSTEMS INSTALLATION AT FOOTHILL PCS</p> <p>UPS SYSTEMS INSTALLATION AT PERRIS CONTROL STRUCTURE</p> <p>UPS SYSTEMS INSTALLATION AT SAN DIMAS PCS</p> <p>UTILITY BUSINESS ARCHITECTURE (OBJECT MAPPING/MODELING)</p> <p>VALLEY & LOS ANGELES DISTRIBUTION VALVE POSITION DISPLAY UPGRADE</p> <p>VALVE PROCUREMENT</p> <p>VIDEO CONFERENCE SYSTEM UPGRADE</p> <p>VIDEOCONFERENCING UPGRADE</p> <p>WADSWORTH PUMPING PLANT CONDUIT REPAIR AND PROTECTION</p> <p>WATER DELIVERY SYSTEM AUTOMATION</p>

TABLE 3 CONVEYANCE AND DISTRIBUTION SYSTEM BENEFITS	
Description	
<i>Distribution Facilities (continued)</i>	
WATER PLANNING APPLICATION	
WATER QUALITY - REMOTE MONITORING	
WATER QUALITY LABORATORY BUILDING EXPANSION	
WATER QUALITY MONITORING AND EVENT DETECTION SYSTEM	
WATER TREATMENT PROCESS OPTIMIZATION	
WEST COAST FEEDER - CATHODIC PROTECTION SYSTEMS	
WEST VALLEY AREA STUDY	
WEST VALLEY FEEDER NO. 1 ACCESS ROADS AND STRUCTURES IMPROVEMENTS	
WEST VALLEY FEEDER NO. 1 VALVE STRUCTURE MODIFICATIONS	
WESTERN REGION PLUMBING RETROFIT	
WEYMOUTH DISTRIBUTION SYSTEM - REPLACEMENT OF AREA CONTROL SYSTEMS - CONTRACT #1398	
WEYMOUTH FILTRATION PLANT - 140" EFFLUENT CONDUIT ROOF REPAIR	
WEYMOUTH FILTRATION PLANT (WFP) - AREA CONTROL SYSTEM REPLACEMENT	
WFP - ASPHALT REHABILITATION	
WFP - BASIN SLUDGE PUMP FLUSHING	
WFP - COMPRESSED AIR SYSTEM IMPROVEMENT	
WFP - DOMESTIC WATER PUMP UPGRADE	
WFP - DRY POLYMER	
WFP - EFFLUENT CHLORINE INJECTION	
WFP - LAND ACQUISITION	
WFP - PURCHASE OF REAL PROPERTY	
WFP - REPAIR TO BLDG # 1	
WFP - REPLACE ACTUATORS/OPERATORS/ MOTORS FOR EFFLUENT VALVE CONVERSION FILTER BEDS 1-24	
WFP - WASHWATER RECLAMATION (WWRP)	
YORBA LINDA FDR STA 924+11 PORTAL ACCESS	
YORBA LINDA FEEDER - STA 924+11 PORTAL ACCESS	
YORBA LINDA FEEDER BYPASS	
<i>Sub-total Distribution facilities benefits</i>	\$ 58,934,557
<i>Total Conveyance and Distribution facilities benefits</i>	\$ 128,782,041

TABLE 4
FISCAL YEAR 2010/11
ESTIMATED READINESS-TO-SERVE CHARGE REVENUE

Member Agency	Rolling Ten-Year Average Firm Deliveries (Acres-Feet) FY1998/99 - FY2007/08	RTS Share	6 months @ \$114 million per year (7/10-12/10)	Rolling Ten-Year Average Firm Deliveries (Acres-Feet) FY1999/00 - FY2008/09	RTS Share	6 months @ \$133 million per year (1/11-6/11)	Total RTS Charge FY 2010/11
Beverly Hills	12,912	0.70%	400,580	12,737	0.67%	446,716	847,298
Calleguas MWD	111,839	6.09%	3,469,592	113,510	5.99%	3,984,449	7,454,135
Compton	3,346	0.18%	103,816	3,146	0.17%	110,341	214,157
Foothill MWD	11,280	0.61%	349,954	11,570	0.61%	405,760	755,724
Glendale	24,721	1.35%	765,931	24,150	1.27%	846,952	1,613,883
Los Virgenes MWD	22,851	1.24%	708,941	23,282	1.23%	816,521	1,525,462
Los Angeles	277,159	15.12%	8,617,237	314,757	16.60%	11,038,892	19,856,129
Pasadena	22,682	1.23%	703,686	23,397	1.23%	820,571	1,524,257
San Fernando	119	0.01%	3,679	119	0.01%	4,159	7,839
Santa Ana	12,711	0.69%	394,344	12,743	0.67%	448,895	841,239
Three Valleys MWD	72,197	3.93%	2,239,847	73,095	3.83%	2,563,537	4,803,384
Upper San Gabriel Valley MWD	15,491	0.84%	480,591	15,631	0.82%	548,198	1,028,789
Western MWD	66,556	3.73%	2,125,892	71,908	3.79%	2,521,840	4,648,732
MWD Total	1,937,201	100.00%	\$ 57,000,000	1,895,143	100.00%	\$ 66,500,000	\$ 123,500,000

Totals may not foot due to rounding

TABLE 5
FISCAL YEAR 2010/11
ESTIMATED STANDBY CHARGE REVENUE

Member Agencies	Total Parcel Charge	Number Of Parcels Or Acres	Gross Revenues (Dollars) ¹
Anahelm	\$ 8.55	69,160	\$ 591,317
Beverly Hills			
Burbank	14.20	29,006	411,884
Calleguas MWD	9.58	256,791	2,460,053
Central Basin MWD	10.44	340,616	3,556,027
Compton	8.92	18,072	161,201
Eastern MWD	6.94	406,562	2,821,538
Foothill MWD	10.28	30,447	312,991
Fullerton	10.71	34,499	369,482
Glendale	12.23	44,704	546,727
Inland Empire Utilities Agency	7.59	248,598	1,886,860
Las Virgenes MWD	8.03	58,193	467,287
Long Beach	12.16	91,825	1,116,597
Los Angeles			
Municipal Water District of Orange County ²	10.09	718,629	7,382,114
Pasadena	11.73	38,636	453,200
San Diego County Water Authority	11.61	1,107,331	12,745,382
San Fernando	7.87	5,083	40,005
San Marino	8.24	4,972	40,969
Santa Ana	7.88	54,182	426,958
Santa Monica			
Three Valleys MWD	12.21	151,585	1,850,855
Torrance	12.23	40,491	495,206
Upper San Gabriel Valley MWD	9.27	211,431	1,959,967
West Basin MWD			
Western MWD	9.23	380,013	3,507,520
MWD Total		4,340,825	\$ 43,604,138
(1) Estimates per FY2009/10 applied amounts			
(2) Adjusted for inclusion of Coastal MWD			
Note: Totals may not foot due to rounding.			

TABLE 6 PARCELS SUBJECT TO ANNEXATION STANDBY CHARGES AS OF JULY 1, 2009			
Annexation	Parcel Number	Acres	Proposed Standby Charge (FY 2009/10)
Riverside County:			
Portions of the 41st Fringe to Western MWD	910-140-040	10.55	97.38
	910-140-058	2.28	21.04
	910-140-059	2.28	21.04
Eastern MWD			
96th Fringe Area	956-090-010	3.33	23.11
	956-090-011	2.17	15.06
	956-090-012	2.98	20.68
	956-090-013	3.95	27.41
	956-090-014	5.25	36.44
	956-090-015	32.60	226.25
	956-090-016	9.48	65.79
100th Fringe Area	910-100-006	17.90	124.23
Ventura County:			
Annexation No. 89	695-0-031-090	57.25	548.46
	695-0-031-150	4.01	38.42
	695-0-031-165	4.32	41.39
	695-0-082-010	0.60	9.58
San Diego County:			
Citrus Heights	576-550-01	16.17	186.12

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
FIXING AND ADOPTING
A CAPACITY CHARGE
EFFECTIVE JANUARY 1, 2011

WHEREAS, the Board of Directors ("Board") of The Metropolitan Water District of Southern California ("Metropolitan"), pursuant to Sections 133, 134 and 134.5 of the Metropolitan Water District Act (the "Act"), is authorized to fix such rate or rates for water as will result in revenue which, together with revenue from any water standby or availability of service charge or assessment, will pay the operating expenses of Metropolitan, provide for repairs and maintenance, provide for payment of the purchase price or other charges for property or services or other rights acquired by Metropolitan, and provide for the payment of the interest and principal of its bonded debt; and

WHEREAS, the capacity charge is a fixed fee imposed (on a dollar per cubic-foot-per-second basis) on member agencies on the amount of capacity used by such member agency and is designed to recover the cost of providing peaking capacity within the distribution system; and

WHEREAS, on January 11, 2010, the General Manager presented to the Business and Finance Committee of Metropolitan's Board his determination of total revenues and of revenues to be derived from water sales and firm revenue sources required during the fiscal year beginning in FY 2010/11, and a detailed report describing each of the rates and charges and the supporting cost of service process, dated December 2009 (the "Report"), that (i) describes the rate structure process and design, (ii) shows the costs of major service functions that Metropolitan provides to its member agencies, (iii) classifies these service functions costs based on the use of the Metropolitan system to create a logical nexus between the revenues required from each of the rates and charges, and (iv) sets forth the rates and charges necessary to defray such costs; and

WHEREAS, on March 8, 2010, the General Manager presented to the Business and Finance Committee options for rates and charges to be imposed and determination of total revenues to be derived from water sales and firm revenue sources required during the fiscal year beginning in FY 2010/11; and

WHEREAS, the Business and Finance Committee of the Board conducted a public hearing at its regular meeting on March 8, 2010, at which interested parties were given the opportunity to present their views regarding the proposed capacity charge; and

WHEREAS, notice of the public hearing was published prior to the hearing in various newspapers of general circulation within Metropolitan's service area; and

WHEREAS, board workshops regarding the proposed budget and future rates and charges were held on January 26, February 16, and March 23, 2010; and

WHEREAS, an updated cost of service report, dated April 2010 and included in the General Manager's recommendation for rates and charges on April 12, 2010, was produced based on the feedback received from the public comments and the board workshops; and

WHEREAS, each of the meetings of the Board were conducted in accordance with the Brown Act (commencing at Section 54950 of the Government Code), for which due notice was provided and at which quorums were present and acting throughout; and

WHEREAS, the amount of revenue to be raised by the capacity charge shall be as determined by the Board and allocation of such charges among member public agencies shall be in accordance with the method established by the Board; and

WHEREAS, the capacity charge is a charge imposed by Metropolitan upon its member agencies, and is not a fee or charge imposed upon real property or upon persons as an incident of property ownership; and

WHEREAS, Metropolitan has legal authority to impose the capacity charge as a water rate pursuant to Sections 133 and 134 of the Metropolitan Water District Act (the "Act"); and

WHEREAS, under authority of Sections 133 and 134 of the Act, the Board has the authority to fix the rate or rates for water as will result in revenue which, together with other revenues, will pay Metropolitan's operating expenses and provide for the payment of other costs, including payment of the interest and principal of Metropolitan's non-tax funded debt; and

WHEREAS, the capacity charge is intended to recover the debt service and other appropriately allocated costs to construct, operate and maintain projects needed to meet peak demands on Metropolitan's distribution system, as shown in the Report; and

WHEREAS, in the alternative under Section 134.5 of the Metropolitan Water District Act, an availability of service charge may be collected from the member public agencies within Metropolitan;

NOW, THEREFORE, the Board of Directors of The Metropolitan Water District of Southern California does hereby resolve, determine and order as follows:

Section 1. That the Board of Directors of Metropolitan hereby fixes and adopts a capacity charge, as described below, to be effective January 1, 2011.

Section 2. That the capacity charge shall be in an amount sufficient to provide for payment of the capital financing costs not paid from *ad valorem* property taxes, as well as operations, maintenance and overhead costs incurred to provide peaking capacity within Metropolitan's distribution system.

Section 3. That such capacity charge effective January 1, 2011 shall be a water rate of \$7,200 per cubic-foot-per-second (set in dollars per cubic-foot-per-second of the peak day capacity) for capacity provided to a member agency.

Section 4. That in the alternative, and without duplication, the capacity charge shall be an availability of service charge pursuant to Section 134.5 of the Act.

Section 5. That on March 8, 2010, the Business and Finance Committee of Metropolitan's Board conducted a public hearing at which interested parties were afforded the opportunity to present their views regarding the capacity charge in accordance with Section 4304(c) of Metropolitan's Administrative Code.

Section 6. That this Board finds and determines that the capacity charge is a reasonable fee for use of capacity of Metropolitan's distribution system.

Section 7. That the capacity charge shall be a fixed charge as shown in the following table and collected from each member agency monthly, quarterly or semiannually as agreed to by Metropolitan and the member agency.

Table 1. Calendar Year 2011 Capacity Charge

AGENCY	Peak Day Demand (cfs)				Calendar Year 2011 Capacity Charge
	(May 1 through September 30)				
	2007	2008	2009	3-Year Peak	
Anahelm	37.9	36.1	40.7	40.7	\$293,040
Beverly Hills	33.9	32.9	31.0	33.9	\$244,080
Burbank	33.7	34.2	21.6	34.2	\$246,240
Calleguas	280.8	250.0	192.8	280.8	\$1,877,760
Central Basin	125.9	102.7	94.7	125.9	\$906,480
Compton	7.1	4.9	5.9	7.1	\$61,120
Eastern	303.0	263.1	227.8	303.0	\$2,181,600
Foothill	25.4	21.5	24.3	25.4	\$182,880
Fullerton	38.9	27.1	37.4	37.4	\$269,280
Glendale	54.6	55.7	56.0	56.0	\$403,200
Inland Empire	176.2	125.8	106.1	176.2	\$1,268,640
Las Virgenes	45.3	45.3	42.7	45.3	\$328,180
Long Beach	61.3	68.1	67.2	68.1	\$490,320
Los Angeles	768.5	821.9	698.2	821.9	\$5,917,680
MWDOC	469.2	453.7	494.5	494.5	\$3,560,400
Pasadena	58.5	55.6	50.2	58.5	\$421,200
San Diego	1,278.4	1,039.9	1,055.3	1,278.4	\$9,204,480
San Fernando	6.5	0.1	0.0	6.5	\$46,800
San Marino	5.2	5.2	3.5	5.2	\$37,440
Santa Ana	29.7	14.5	16.4	29.7	\$213,840
Santa Monica	27.6	26.2	25.0	27.6	\$198,720
Three Valleys	171.4	168.1	132.7	171.4	\$1,234,080
Torrance	41.6	35.5	39.3	41.6	\$299,520
Upper San Gabriel	63.8	36.9	27.6	63.8	\$459,360
West Basin	262.3	243.3	221.3	262.3	\$1,888,560
Western	289.1	271.4	219.9	289.1	\$2,081,520
Total	4,673.8	4,239.7	3,932.1	4,764.5	\$34,304,400

Totals may not foot due to rounding

Section 8. That the capacity charge for each member public agency, the method of its calculation, cost allocations and other data used in its determination are as specified in the Report, which is on file and available for review by interested parties at Metropolitan's headquarters.

Section 9. That the General Manager and the General Counsel are hereby authorized to do all things necessary and desirable to accomplish the purposes of this Resolution, including, without limitation, the commencement or defense of litigation.

Section 10. That this Board finds that the proposed capacity charge is not defined as a Project under the California Environmental Quality Act ("CEQA") since 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 the creation of government funding mechanisms or 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).

Section 11. That the General Manager is hereby authorized and directed to take all necessary action to satisfy relevant statutes requiring notice by publication.

Section 12. That the Board Executive Secretary is hereby directed to transmit a certified copy of this Resolution to the presiding officer of the governing body of each member public agency.

I HEREBY CERTIFY that the foregoing is a full, true and correct copy of a Resolution adopted by the Board of Directors of The Metropolitan Water District of Southern California, at its meeting held on April 13, 2010.

Board Executive Secretary
The Metropolitan Water District
of Southern California

MINUTES

REGULAR MEETING OF THE

BOARD OF DIRECTORS

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

APRIL 13, 2010

48215 The Board of Directors of The Metropolitan Water District of Southern California met in Regular Meeting in the Board Room located in the building at 700 North Alameda Street in the City of Los Angeles, State of California, on Tuesday, April 13, 2010.

Chairman Brick called the Meeting to order at 12:02 p.m.

48216 The Meeting was opened with an invocation by Lawrence R. Gibbs, Unit Manager, Real Property Development and Management Group.

48217 The Pledge of Allegiance to the Flag was given by Director Anthony R. Fellow.

48218 In the absence of Board Secretary Abdo, Chairman Brick designated Director Ted Grandsen as Secretary Pro Tem.

48219 Secretary Pro Tem Grandsen called the roll. Those answering present were: Directors Ackerman, Ballin, Barbre, Blake, Brick, Brown, De Jesus, Dick, Edwards, Evans, Fellow, Fleming, Foley, Friedman, Grandsen, Gray, Griset, Hawkins, Lewinger, Little, Lowenthal, Morris, J. Murray, K. Murray, Peterson, Pocklington, Quiñonez, Record, Santiago, Steiner, Vasquez, and Wright.

Those not answering were: Directors Abdo, Arceneaux, Barrett, Grunfeld, and Wunderlich.

Chairman Brick declared a quorum present.

48220 Chairman Brick invited members of the public to address the Board on matters within the Board's jurisdiction.

Dennis Cushman, Assistant General Manager, San Diego County Water Authority, requested that the letters from the Authority relating to Agenda Items 8-1 and 8-2 regarding the proposed budget for FY 2010/11 and the recommended water rates and charges, respectively, be made a part of Metropolitan's Board Minutes.

48221 There being no objection, Chairman Brick ordered the reading of the Minutes of the Meeting for March 9, 2010, dispensed with, a copy having been mailed to each Director.

Director Blake moved, seconded by Director Wright and carried, approving the foregoing Minutes as mailed.

48222 A written report of meetings attended by Directors at Metropolitan expense during the month of March was distributed.

48223 Chairman Brick announced that he has appointed Board Vice Chair Fern Steiner to be Chair of the Water Planning and Stewardship Committee, replacing Director James Barrett.

48224 Chairman Brick reported on events in which he participated, as follows:

- March 12 - Attended the Alliance for Water Efficiency board meeting in Chicago, Illinois.
- March 13 - Accepted on behalf of Metropolitan from the Water Replenishment District the "WRD's Groundwater Ambassador Award for 2010" at its 3rd annual "Treasure Beneath our Feet" event in Lakewood. The award was presented in recognition of Metropolitan's water conservation and education outreach efforts.
- March 15-18 - Along with Directors Ackerman, Arceneaux, Ballin, Dick, Fleming, K. Murray, J. Murray, Santiago, and Wunderlich and Metropolitan's staff, participated in the Los Angeles Area Chamber of Commerce's annual "ACCESS D.C." meetings with legislators in Washington, D.C.

- March 22 - Along with General Manager Kightlinger, met with U.S. Department of Interior Secretary Ken Salazar; David J. Hayes, Deputy Secretary of Interior; and David Nawi, Senior Advisor to the Secretary of Interior, in Los Angeles.
- April 5 - Met with Congresswoman Napolitano in Pico Rivera.

Chairman Brick commented on the special photo exhibit on "Water - Our Thirsty World" being held at the Annenberg Space for Photography in Century City, from March 27 to June 13. This exhibit is on display in conjunction with the National Geographic special edition on waters, including water conservation.

Chairman Brick announced there will be a Global Water and Technology Forum to be held on May 20, 2010, at the Diamond Valley Lake Visitor Center. This event will feature a lot of new innovation and technology with regard to water.

Chairman Brick reminded the Board of the Chairman's Bike Ride on Saturday, April 17, 2010, at Diamond Valley Lake (DVL) from 8 a.m. to 12 noon, followed by lunch at the DVL Visitor Center. Valley-Wide Recreation and Park District will open its aquatic center for swimming. Free parking will be at the DVL Marina. Chairman Brick stated that more than 100 riders have registered for the event.

Chairman Brick reported on the first meeting of the Blue Ribbon Committee held March 30, 2010, which focused on Metropolitan's history and current and future challenges. Water Resource Management Group Manager Deven Upadhyay gave a background of Metropolitan's planning process for the last 20 years in the development and the emerging challenges of the new water options as Metropolitan moves to the future, with an overview of how Metropolitan intends to move forward with its Integrated Resources Plan. Chairman Brick stated that the Blue Ribbon Committee material is sent to all Directors and the member agency managers, and is also posted on Metropolitan's website.

48225 Regarding Colorado River, Bay-Delta, and CALFED matters, General Manager Kightlinger referred to the activity report for March dated March 31, 2010, which was posted to the Directors' website.

General Manager Kightlinger commented on the series of water forums taking place to provide outreach in education, primarily regarding the upcoming water bond, as well as the water crisis taking place in the Delta, which is being sponsored by ACWA, Department of Water Resources, and the Latino water coalition. Metropolitan has been one of the sponsors for the events held in Southern California.

General Manager Kightlinger reminded the Board of the upcoming Solar Cup event to be held May 14-16, 2010, at Lake Skinner, with 36 schools having signed up to participate.

General Manager Kightlinger referred to two handouts at each Director's desk: (1) A briefing report put out by the California State Senate Republican Caucus of a study done by the National Academy of Sciences regarding the Biological Opinions covering the State Water Project and the Central Valley Project. (2) A letter from the City of Riverside dated April 12, 2010, addressed to the Board regarding mitigation measures required for the Box Springs Feeder Repair Phase 3 Project. General Manager Kightlinger stated that staff would work this matter out with the staff from the City of Riverside.

48226 Regarding Legal Department activities, General Counsel Tachiki referred to the General Counsel's activity report for March dated April 5, 2010, which was posted to the Directors' website.

General Counsel Tachiki had no further report and stated that a full discussion on the important pending items took place earlier today at the Legal and Claims Committee meeting.

48227 General Auditor Risá presented a report of the Audit Department's activities for the month of March, dated March 31, 2010. He stated that during the month five reports were issued: (1) Transit Reimbursement Program Audit Report; (2) Tax Revenue Audit Report; (3) Consulting Agreements on Hayfield Extraction Project Audit Report; (4) F. E. Weymouth Treatment Plant Coagulant Tank Farm Modifications Audit Report; and (5) Remarketing Statement for the Water Revenue Refunding Bonds, 2009 Authorization, Series A-1.

General Auditor Riss gave a brief review of the above-listed audit reports and stated that Audit Reports (1), (2), and (3) received opinions that stated the accounting and administrative controls included those practices usually necessary to provide for a generally satisfactory internal control structure; and that Audit Report (4) received an opinion of having a satisfactory internal control structure.

General Auditor Riss stated that the review on Audit Report (5) consisted of specific procedures required by the Remarketing Statement; and that no exceptions were noted.

48228 Ethics Officer Elliott referred to the activity report for March dated March 31, 2010, which was posted to the Directors' website.

Ethics Officer Elliott reported that over the past month the Ethics office has been mostly busy with educational activities. Dr. Elliott also announced that online programs are in progress, and that the discrimination and harassment prevention training is being vetted by the Legal Department and should be posted on the Directors' website before the end of the fiscal year. Dr. Elliott stated that another online decision process on use and misuse of Metropolitan's property for employees is in its final development and should be posted on the Intranet in the next couple of months.

Director Blake moved seconded by Director Fleming and carried, and the Board approved the Consent Calendar Items, M.I. 48229 through M.I. 48231 as follows:

48229 Adopted the CEQA determinations and (a) appropriated \$1.24 million (Appropriation No. 15438, No. 9, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and authorized (b) preliminary design to rehabilitate Service Connection DW-CV-2T; (c) preliminary design of the Intake Power Line Relocation; (d) final design and equipment procurement to replace the standby generator at Hinds pumping plant; and (e) procurement of four aqueduct isolation gates, as set forth in the letter signed by the General Manager on March 29, 2010.

48230 Adopted the CEQA determinations and (a) appropriated \$890,000 (Appropriation No. 15441, No. 20, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and authorized (b) final design to rehabilitate three service

connections on the Upper Feeder; and (c) a seismic study of the Sepulveda Canyon Control Facility water storage tanks, as set forth in the letter signed by the General Manager on March 26, 2010.

48231 Adopted the CEQA determination and authorized the General Counsel to amend the existing agreement with the Resources Law Group for assistance on state and federal Endangered Species Act issues, including development of the Bay Delta Conservation Plan, to increase the maximum amount payable by \$200,000 to \$850,000, as set forth in the letter signed by the General Counsel on March 25, 2010.

48232 Business and Finance Committee Vice Chairman Lewinger moved, seconded by Director Lowenthal, that the Board approve Option #2 in the letter signed by the General Manager on April 1, 2010, and adopt the CEQA determination and (a) determine that the revenue requirement to be paid from rates and charges is \$1.377 billion; (b) approve water rates effective January 1, 2011; (c) adopt Resolution 9106 to Impose the Readiness-to-Serve Charge; and (d) adopt Resolution 9107 to Impose the Capacity Charge, said Resolutions entitled:

Resolution 9106 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING A READINESS-TO-SERVE CHARGE FOR CALENDAR YEAR 2011

Resolution 9107 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING A CAPACITY CHARGE EFFECTIVE JANUARY 1, 2011

Director Foley moved a substitute motion that the Board approve Option #3 in the letter signed by the General Manager on April 1, 2010, and adopt the CEQA determination and (a) determine that the revenue requirement to be paid from rates and charges is \$1.389 billion for FY 2010/11 (reduced by approximately \$20 million to cover full cost of service) and \$1.517 billion for FY 2011/12; (b) approve water rates effective January 1, 2011, and January 1, 2012; (c) adopt Resolution 9106 to Impose the Readiness-to-Serve Charge; and (d) adopt Resolution 9107 to Impose the Capacity Charge.

Board Vice Chairman J. Murray asked the maker of the substitute motion if he would consider having staff bring forward options to the Board to possibly accelerate the second rate increase to September 1, 2011. Director Foley answered in the affirmative. Board Vice Chairman J. Murray then seconded the substitute motion as amended.

An extensive discussion took place on the various options presented to the Board on the water rate increases, bond ratings, reserves, deduction of additional \$20 million from the budget, Capital Improvement Plan project deferrals, three-year rolling budget, and monies in the PAYGO Fund.

Following the discussion, Director Dick requested that the substitute motion as amended be repeated. General Manager Kightlinger then stated the motion, as follows:

Option #3, as amended:

Adopt the CEQA determination and

- a. Determine that the revenue requirement to be paid from rates and charges is \$1.369 billion for FY 2010/11 and \$1.517 billion for FY 2011/12;
- b. Approve an effective rate increase of 7.5 percent and water rates to be effective January 1, 2011 with a reduction of \$20 million in the budget to meet the cost of service objective for FY 2010/11; and approve a second effective rate increase of 7.5 percent and water rates to be effective January 1, 2012, with staff directed to bring forward options to the Board to possibly accelerate that rate increase to September 1, 2011;
- c. Adopt Resolution to Impose the Readiness-to-Serve Charge at the level provided in Option #3; and
- d. Adopt Resolution to Impose the Capacity Charge.

The Chair then called for a vote on the substitute motion, as amended, offered by Director Foley and seconded by Board Vice Chairman J. Murray.

The following is a record of the vote on the substitute motion, as amended:

Ayes: Anaheim (Dir. K. Murray, 3,425 votes), Burbank (Dir. Brown, 1,818 votes), Calleguas Municipal Water District (Dir. Grandsen, 7,958 votes), Central Basin Municipal Water District (Dirs. Hawkins and Vasquez, 11,033 votes), Long Beach (Dir. Lowenthal, 3,858 votes), Los Angeles (Ayes: Dirs. Fleming, J. Murray, and Quiñonez. Absent: Dir. Grunfeld. 40,418 votes), Municipal Water District of Orange County (Dirs. Ackerman, Barbre, Dick, and Foley, 34,553 votes), San Fernando (Dir. Ballin, 148 votes), Santa Ana (Dir. Griset, 2,027 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow; 7,245 votes), Western Municipal Water District of Riverside County (Dir. Evans, 7,613 votes). Total 120,096 votes.

Noes: Eastern Municipal Water District (Dir. Record, 5,711 votes), Foothill Municipal Water District (Dir. Edwards, 1,278 votes), Fullerton (Dir. Blake, 1,445 votes), Glendale (Dir. Friedman, 2,226 votes), Inland Empire Utilities Agency (Dir. Santiago, 8,149 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,956 votes), San Diego County Water Authority (Noes: Dirs. Lewinger, Pocklington, and Steiner. Absent: Dir. Barrett. 37,176 votes), San Marino (Dir. Morris, 412 votes), Three Valleys Municipal Water District (Dir. De Jesus, 4,942 votes), Torrance (Dir. Wright, 2,242 votes), West Basin Municipal Water District (Dirs. Gray and Little, 13,902 votes). Total 79,439 votes.

Abstain: None.

Not Participating: Pasadena (Dir. Brick, 2,033 votes). Total 2,033 votes.

Absent: Beverly Hills (Dir. Wunderlich, 2,158 votes), Compton (Dir. Arceneaux, 342 votes), Santa Monica (Dir. Abdo, 2,393 votes). Total 4,893 votes.

The Chair declared the substitute motion, as amended, passed by a vote of 120,096 ayes, 79,439 noes, 2,033 not participating, and 4,893 absent.

48233 Chairman Brick announced that Agenda Item 8-1, the proposed 2010/11 fiscal year budget, has been deferred to May.

48234 Real Property and Asset Management Committee Chairman Hawkins moved, seconded by Director Evans and carried, that the Board adopt the CEQA determination and (a) affirm the General Manager's determination that the subject property (Metropolitan's Parcel No. 1006-1-100, Assessor Parcel No. 323-012-14) comprised of 0.170 acre is surplus and carry out disposition of the property in its current condition; and (b) market the property for sale on the open market for its fair market value of \$430,000 in a form approved by the General Counsel, as set forth in the letter signed by the General Manager on March 16, 2010.

Director Fleming withdrew from the Meeting at 1:06 p.m.

48235 Engineering and Operations Committee Chairman Record moved, seconded by Director Wright and carried, that the Board adopt the CEQA determination and (a) appropriate \$1.9 million (Appropriation No. 15377, No. 31, from the Revenue Bonds, Replacement and Refurbishment or General Funds); and (b) authorize final design and pipe fabrication to repair 12 pipe sections on the Box Springs Feeder, as set forth in the letter signed by the General Manager on March 25, 2010.

Director Fleming returned to the Meeting at 1:10 p.m.

48236 Newly appointed Water Planning and Stewardship Committee Chair Steiner moved, seconded by Director Wright and carried, that the Board adopt the CEQA determination and (a) authorize the General Manager to execute a one-year amendment to the agreement with California Department of Water Resources to purchase Yuba County Water Agency Component 4 Water; and (b) appropriate \$7 million for water transfer payments, as set forth in the letter signed by the General Manager on March 30, 2010.

48237 Newly appointed Water Planning and Stewardship Committee Chair Steiner moved, seconded by Director Fleming and carried, that the Board adopt the CEQA determination and (a) adopt Resolution 9108 supporting implementation of the Water Supply Allocation Plan shown as Attachment 1 to the letter signed by the General Manager on March 30, 2010; (b) maintain a water supply "Condition 3 - Water Supply Allocation"; (c) implement the Water Supply Allocation Plan at a Level 2 effective July 1, 2010, through June 30, 2011; and (d) direct

staff to return to the Board in May to update the Board on water supply conditions and recommend changes to the Water Supply Allocation Plan Level if appropriate, said Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA IMPLEMENTING ITS WATER SUPPLY ALLOCATION PLAN FOR 2010 AND ESTABLISHING THE REGIONAL SHORTAGE LEVEL

48238 Legal and Claims Committee Chairman Quiñonez stated that the committee heard a report on the status of *In re Tronox Incorporated, et al.*, Chapter 11, Case No. 09-10156 (ALG) in closed session and that no action was taken.

48239 Legal and Claims Committee Chairman Quiñonez moved, seconded by Director Edwards and carried, that the Board adopt the CEQA determination and authorize an increase of \$1,575,000 to a maximum amount of \$4,825,000 in Morrison & Foerster's contract for representation in the Bay-Delta cases, as set forth in the confidential letter signed by the General Counsel on April 6, 2010.

48240 Communications and Legislation Committee Chairman Griset moved, seconded by Director Wright and carried, that the Board adopt the CEQA determination and oppose AB 1664 (Swanson, D-Oakland): Metropolitan Water District Act, as stated in the letter signed by the General Manager on April 9, 2010.

Director Morris requested to be recorded as voting no.

Directors Blake and Peterson requested to be recorded as abstaining.

48241 The following communication was submitted to the Board for information:

- a. Proposed Water Conservation Plan for fiscal year 2010/11, signed by the General Manager on March 30, 2010.

48242 Referring to the letter from the San Diego County Water Authority delegation, dated April 9, 2010, regarding the taking of a roll call vote for each item, Chairman Brick stated that the Executive Committee would consider this matter.

Minutes

-11-

April 13, 2010

48243 There being no objection, the Chairman adjourned the Meeting at 1:15 p.m.

TED GRANDSEN
SECRETARY PRO TEM

TIMOTHY F. BRICK
CHAIRMAN

Exhibit F



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RECEIVED

AUG 30 2010

GENERAL MANAGER

Office of the General Manager

August 25, 2010

Ms. Maureen A. Stapleton
General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Dear Ms. Stapleton:

Notice of Intent to Initiate Process to Consider
Termination of Incentive Agreements with the Water Authority

The agreements listed below between Metropolitan and the San Diego County Water Authority (Water Authority) contain provisions allowing The Metropolitan Water District of Southern California (Metropolitan) to file a 90-day notice of intent to consider terminating agreements should the Water Authority file litigation challenging Metropolitan's rate structure. In June 2010, the Water Authority initiated litigation challenging Metropolitan's water rates and charges for fiscal year 2010/11. Consequently, Metropolitan's Board of Directors at its August 17, 2010, meeting directed staff to initiate the process outlined in the rate structure integrity provisions.

Incentive Program	Existing Agreement	Number
Conservation	Regional Commercial Program	66654
Conservation	Regional Residential Program	78189
Enhanced Conservation	Landscape Auditor Interns	011-2006
Enhanced Conservation	Smart Landscape Grant Program Expansion	024-2007

This letter is the official 90-day notice of Metropolitan's intent to consider termination of the above listed agreements between Metropolitan and the Water Authority.

Within 30 days of receipt of this notice, the Water Authority has the right to request, in writing, mediation of the dispute by a neutral third party with expertise in finance and rate setting. The request for mediation would serve to stay the 90-day notice of intent to terminate, but for no more than 90 days beyond the filing of the notice of request for mediation. If the termination process advances, Metropolitan's Board of Directors will ultimately make the decision on whether to terminate the agreements. Payment of the incentives for this program will continue pending the decision by the Board following the 90-day notice period.

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Ms. Maureen A. Stapleton

Page 2

August 25, 2010

Metropolitan's Board of Directors also directed staff to defer execution of the following three agreements currently pending with the Water Authority, as termination proceedings would begin immediately upon execution:

Incentive Program	Pending Agreement	Number
Conservation	Agricultural Conservation Program	113401
Innovative Conservation	Flow control valve research project	91694
Seawater Desalination	Carlsbad Seawater Desalination Project	70025

If you have any questions, please contact me at (213) 217-6211 or via email at jkightlinger@mwadh2o.com.

Very truly yours,


Jeffrey Kightlinger
General Manager

WAT:jc

o:\at\at\2010\WAT_SDCWA Agreement Termination_Notice v3.doc

cc: Board of Directors
Executive Secretary

Exhibit G



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RECEIVED

AUG 30 2010

GENERAL MANAGER

Office of the General Manager

August 25, 2010

Mr. Ralph McIntosh
General Manager
Ramona Municipal Water District
105 Earlham Street
Ramona, CA 92065-1599

Dear Mr. McIntosh:

Request Regarding Termination Process of the Local Resources
Program Agreement No. 94278 for San Vicente Water Recycling Project

On August 9, 2009, The Metropolitan Water District of Southern California (Metropolitan) entered into Agreement No. 94278 with the San Diego County Water Authority and Ramona Municipal Water District (Ramona) for the San Vicente Water Recycling Project. Pursuant to Section 7.4 (Rate Structure Integrity) of the subject agreement, Metropolitan may terminate the subject agreement if Water Authority or Ramona file litigation to challenge Metropolitan's existing rate structure. In June 2010, the Water Authority initiated litigation challenging Metropolitan's water rates and charges for fiscal year 2010/11. Consequently, Metropolitan's Board of Directors at its August 17, 2010, meeting directed staff to initiate the termination process outlined in the rate structure integrity provisions of the agreement.

Pursuant to Section 7.7 of the subject agreement, Metropolitan will not terminate the subject agreement if Ramona transmits written documentation to Metropolitan within 30 days of the date of this letter demonstrating that Ramona has not participated directly or indirectly in the filing or prosecution of any litigation or the drafting or advocacy of any legislation to challenge or modify Metropolitan's existing rate structure, and indicates support for Metropolitan's existing rate structure.

This letter is an official notice to Ramona of its opportunity to provide a letter to Metropolitan within 30 days of the date of this letter demonstrating that Ramona has not participated directly or indirectly in the filing or prosecution of any litigation or the drafting or advocacy of any legislation to challenge or modify Metropolitan's existing rate structure, and indicates support for Metropolitan's existing rate structure. If the termination process advances, Metropolitan's Board of Directors will ultimately make the decision on whether to terminate the agreement.

If you have any questions, please contact me at (213) 217-6211 or via email at jkightlinger@mwdh2o.com.

Very truly yours,

A handwritten signature in black ink, appearing to read "Jeff Kightlinger".

Jeffrey Kightlinger
General Manager

WAT:jc

THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Mr. Ralph McIntosh
Page 2
August 25, 2010

cc: Ms. Maureen A. Stapleton
General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Board of Directors
Executive Secretary

Exhibit H



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RECEIVED

JUN 27 2011

GENERAL MANAGER

Office of the General Manager

June 23, 2011

VIA EMAIL

Ms. Maureen Stapleton
General Manager
San Diego County Water Authority
4677 Overland Ave.
San Diego, CA 92123

Dear Ms. Stapleton:

Board action regarding Rate Structure Integrity provisions and termination of agreements

As you know, on June 14, 2011, The Metropolitan Water District of Southern California's (Metropolitan) Board of Directors took action with regard to contracts with San Diego County Water Authority (Water Authority) containing Rate Structure Integrity provisions. The Board adopted Option 3 set forth in Board Letter 8-7 (attached).

The adoption of Option 3 by the Board authorized the following:

1. Continuation of the regional residential and commercial direct rebates for water conserving devices to residents, businesses, and institutions within the Water Authority's service area through the *SoCal WaterSmart* and *Save Water, Save a Buck* programs.
2. Termination of Agreement No. ECP 24-2007 regarding landscape grants.
3. Termination of Agreement No. 94278 regarding The San Vicente Water Recycling Project.
4. Direction to staff to cease approving or providing funding for the Water Authority's member agency administered conservation projects through regional conservation Agreements Nos. 78189 (residential) and 66654 (commercial/industrial /institutional).

The Board's August 2010 direction not to execute pending agreements with the Water Authority absent new Board direction remains in effect.

Pursuant to this Board authorization and direction, please be advised as follows:

1. Metropolitan hereby terminates Agreement No. ECP 24-2007, pursuant to Sections 2.2, 3.2, and 8.4 of the agreement, effective July 25, 2011.
2. Metropolitan hereby terminates Agreement No. 94278, effective August 8, 2011, pursuant to Sections 7 and 10 of the agreement.
3. Metropolitan will issue Addenda to Agreements Nos. 78189 and 66654 to eliminate approval or funding for Water Authority's member agency administered conservation projects, effective July 1, 2011. This change will be made and effective pursuant to Sections 1 and 2.2 of Agreement No. 78189, and Section 5 of Agreement No. 66654.

M. Mureen Stapleton

Page 2

June 23, 2011

4. Pending incentive agreements that have been or may be submitted to Metropolitan will not be executed prior to further action and direction from the Metropolitan Board.

Please feel free to contact me or my staff if you have any questions regarding this matter.

Sincerely,


Jeffrey Kightlinger
General Manager

PVH:vs

o:\a\s\c\2011\PVH_Rate Structure Integrity Term Letter 061611.doc

Enclosure

cc: M. Scully
Interim General Council
The Metropolitan Water District of Southern California



• **Board of Directors**
Legal and Claims Committee

6/14/2011 Board Meeting

8-7

Subject

Review Rate Structure Integrity provisions of conservation and Local Resources Program funding agreements with San Diego County Water Authority; and consider termination of agreements

Description

Background

At its August 17, 2010 meeting, the Board of Directors authorized the General Manager to initiate the process to terminate six local resources and conservation agreements with the San Diego County Water Authority (Water Authority) that include rate structure integrity (RSI) provisions, and to defer execution of three pending agreements.

Since that time, Metropolitan and the Water Authority engaged in mediation as set forth in the dispute resolution terms of the RSI provisions. Formal mediation between Metropolitan and the Water Authority took place on March 9, 2011 for four bilateral agreements and was scheduled for June 6, 2011 for an agreement involving a third party. One agreement has since been paid in full and has terminated by its own terms. The RSI provisions state that if mediation does not result in a mutually acceptable agreement, the matter goes to the Board of Directors for final determination on whether to terminate the agreements.

Rate Structure Integrity provisions

Adopted by the Board in 2004, the RSI provisions define a process through which Metropolitan can terminate conservation or other local resources incentive agreements with a member agency that chooses to pursue legal or legislative challenges to Metropolitan's existing rate structure outside of established public board processes. The objective of this language is to protect revenue sources necessary to fund Metropolitan's water management incentive programs. Subsequent to board adoption in 2004, standardized RSI terms have been included in all local resources, seawater desalination, and conservation program incentive agreements. The full text of the RSI language, including notice and dispute resolution procedures, is included in Attachment 1. The agreements subject to this action are listed in Attachment 2.

Legal Challenge by Water Authority

In June 2010, the Water Authority initiated litigation challenging Metropolitan's water rates and charges adopted April 13, 2010. This act triggered the termination and dispute resolution provisions of the RSI provisions in several existing incentives agreements with the Water Authority.

Notice and Dispute Resolution Proceedings

As set forth in the RSI provisions and after consultation with the Board of Directors, the General Manager sent the Water Authority the required 90-day notices of possible termination for four bilateral agreements, effective August 30, 2010. On September 27, 2010, the Water Authority requested mediation. Metropolitan and the Water Authority met in mediation on March 9, 2011, before retired Justice Howard B. Wiener.

Although both sides made good-faith efforts to find a mutually acceptable solution, no agreement resulted. After the mediation, the Chairman of the Water Authority Board wrote the Chairman of Metropolitan's Board

requesting a continuation of the mediation on a board to board basis. By a letter to Chairman Hogan dated April 14, 2011, Chairman Foley declined the request and effectively concluded the mediation. Metropolitan provided a separate notice of potential termination concerning two agreements involving the Water Authority's retail agencies.

On October 19, 2010, Metropolitan issued a 90-day notice of intent to terminate two agreements with the Water Authority that included Ramona Municipal Water District (Ramona) as a party and Rincon del Diablo Municipal Water District (Rincon) as funding recipient and notified all parties of their ability to request mediation. Neither Ramona nor Rincon responded to the notice or requested mediation. The Water Authority requested mediation on November 17, 2010. In January 2011, the Rincon agreement was fully paid and expired by its own terms. The Water Authority declined Metropolitan's request to include the three-party agreement in the March 9 mediation and took no further steps to pursue it. Staff concluded that the Water Authority had waived its mediation rights.

On May 9, 2011, Metropolitan received written notice from the Water Authority that, in their view, the Water Authority had not waived mediation of the Ramona agreement. As a result of that communication, Metropolitan and the Water Authority scheduled a second mediation for June 6, 2011, also before Justice Wiener and including a representative from Ramona, specifically on the Ramona contract for the San Vicente Water Recycling Project.

Board Action

At its May 10, 2011 meeting, the Legal and Claims Committee considered termination of all remaining agreements. The Committee adopted a resolution approving termination of the open agreements with the Water Authority but maintaining programs that provide direct rebates to consumers through Metropolitan's regional incentives programs. Policy discussion among board members focused on Metropolitan's historic, long-standing support for conservation. The Committee also discussed the ramifications of the new statewide conservation target of a 20 percent reduction in per capita water use by 2020 that was included in legislation sponsored by Metropolitan. The Committee also instructed staff to defer execution of any pending agreements with the Water Authority prior to further direction from the Board. At the board meeting of May 10, 2011, the Board acted to table consideration of the termination of these contracts until its June 14, 2011 meeting, to allow for further discussion of the modified action.

Pending Agreements

The three pending agreements with the Water Authority that would be subject to the Board's direction to defer execution are described below.

On November 10, 2009, the Board authorized entering into a Seawater Desalination Program agreement with the Water Authority and its retail agencies for the Carlsbad Seawater Desalination Project. The authorized agreement includes several sub-agencies of the Water Authority as parties and includes the standard RSI provisions. On July 22, 2010, the Water Authority's board of directors authorized a draft term sheet and directed its staff to prepare a water purchase agreement with Poseidon Resources LLC for direct purchase of product water from the Carlsbad Seawater Desalination Project. If such an agreement is completed, the material terms would be different from the proposed agreement authorized by Metropolitan's Board for the project. In that case, Metropolitan staff will bring the new agreement regarding the Carlsbad Seawater Desalination Project back to the Board for consideration.

The pending Agricultural Conservation Program agreement would provide incentives for professional irrigation audits and installation of water conservation improvements. The pending agreement in the Innovative Conservation Program would fund new research on flow control valves.

Options

Staff has developed four options for board consideration:

Option #1: Under this option, the Board would approve termination of all contracts with Water Authority containing RSI language. This option is consistent with the RSI language that was adopted by the Board and implemented in these contracts.

Option #2: This option is the same as Option #1, but Metropolitan would establish an interest-bearing fund to hold payments that would have been paid under the terminated agreements, to the extent that such amounts can reasonably be calculated and the information for such calculations is provided to Metropolitan by the Water Authority. Upon completion of the pending litigation over Metropolitan's existing rate structure, the Board will determine at its sole discretion whether and on what terms to provide any portion of these funds to the Water Authority.

Option #3: Under this option, the Board would approve termination of all contracts with Water Authority containing RSI language, except for the regional commercial and residential conservation incentive agreements providing payments directly to consumers. Maintaining the conservation agreements would allow residents within the Water Authority service area to continue to receive rebates from Metropolitan's regional programs when they purchase eligible conserving devices. This option reflects the Committee's recommended action of May 10 that was later tabled at the May board meeting.

Option #4: Under this option, no agreements would be terminated. The Board would also instruct staff to execute pending incentive agreements with the Water Authority, as appropriate.

Recommendation

Staff recommends Option #1, to terminate the existing incentive agreements with the Water Authority that contain rate structure integrity language. This option is consistent with the policy set forth by the RSI language. Staff will also continue to defer the approval of any pending agreements with the Water Authority requiring inclusion of the RSI provisions, until authorized by the Board.

Policy

By Minute Item 46045, dated December 14, 2004, effective April 15, 2005, the Board authorized inclusion of rate structure integrity language in all future local resources, seawater desalination, and conservation program incentive agreements.

By Minute Item 48266, dated May 11, 2010, the Board approved the water conservation plan for FY 2010/11 that includes the Agricultural Conservation Program.

By Minute Item 44974, dated August 20, 2002, the Board authorized the Innovative Conservation Program on a biennial basis.

By Minute Item 48084, dated November 10, 2009, the Board authorized entering into a Seawater Desalination Program agreement with the San Diego County Water Authority and its retail agencies for the Carlsbad Seawater Desalination Project.

By Minute Item 48377, dated August 17, 2010, the Board expressed support for the General Manager to initiate the process to terminate six local resources and conservation agreements with the San Diego County Water Authority that include rate structure integrity provisions and to defer execution of pending conservation and LRP agreements with the Water Authority.

California Environmental Quality Act (CEQA)

CEQA determination for Options #1, #2, and #3:

During preliminary environmental review, the lead agency must first determine whether an activity proposed by a public agency is subject to CEQA before preparing and conducting an initial study and environmental checklist. Given the contractual nature of the activity presented in the board letter, the proposed action is not defined as a project under CEQA or the State CEQA Guidelines and is therefore not subject to the provisions of CEQA pursuant to Sections 15060(c)(3), 15061(b)(3), 15378(b)(2), 15378(b)(4), and 15378(b)(5) of the State CEQA Guidelines. The proposed action simply terminates existing agreements for projects whose potential effects were previously addressed in other adopted/certified CEQA documents. Accordingly, no further environmental review is required.

The CEQA determination is: Determine that the proposed action is not subject to the provisions of CEQA pursuant to Sections 15060(c)(3), 15061(b)(3), 15378(b)(2), 15378(b)(4), and 15378(b)(5) of the State CEQA Guidelines.

CEQA determination for Option #4:

None required

Board Options

Option #1

Adopt the CEQA determination and approve termination of five conservation and Local Resources Program funding agreements with San Diego County Water Authority pursuant to the rate structure integrity provisions of those agreements.

Fiscal Impact: Cost savings realized from terminated incentive payments would be factored into Metropolitan's rate projections and future budgets. Financial exposure to local resources and conservation program incentives would be diminished.

Business Analysis: Staff would also review potential reallocation of budgeted FY 2010/11 and FY 2011/12 conservation funds and other incentive-related administrative actions.

Option #2

Adopt the CEQA determination and

- a. Approve termination of five conservation and Local Resources Program funding agreements with San Diego County Water Authority pursuant to the rate structure integrity provisions of those agreements; and
- b. Direct the General Manager to establish a separate interest-bearing fund to hold payments that would be paid under such agreements to the extent that such amounts can reasonably be calculated and the information for such calculations is provided to Metropolitan by the Water Authority. Upon completion of the pending litigation over Metropolitan's existing rate structure, the Board will determine at its sole discretion whether and on what terms to provide any portion of these funds to the Water Authority.

Fiscal Impact: None. Incentive payments factored into Metropolitan's rate projections and future budgets would remain unchanged.

Business Analysis: Staff would need to make judgments on estimated payments and amount to place into separate account.

Option #3

Adopt the CEQA determination and

- a. In order to continue providing Metropolitan's regional residential and commercial direct rebates to citizens within the Water Authority's service area, do not approve termination of the two regional commercial and residential conservation incentives agreements. Instead, direct staff to cease approving or providing funding for Water Authority's member agency administered conservation projects through the regional agreements.
- b. Approve termination of the remaining three conservation and Local Resources Program funding agreements with San Diego County Water Authority pursuant to the rate structure integrity provisions of those agreements.

Fiscal Impact: Cost savings realized from terminated incentive payments would be factored into Metropolitan's rate projections and future budgets. Financial exposure to local resources and conservation program incentives would be diminished.

Business Analysis: Staff would continue to administer the existing regional commercial and residential conservation incentives agreements for residents within the Water Authority service area. Staff would also review potential reallocation of budgeted FY 2010/11 and FY 2011/12 conservation funds and other incentive-related administrative actions.

Option #4

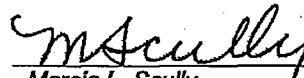
- a. Do not approve termination of existing conservation and Local Resources Program funding agreements with San Diego County Water Authority pursuant to the rate structure integrity provisions of those agreements; and
- b. Direct the General Manager to proceed as appropriate with execution of pending incentive agreements with San Diego County Water Authority.

Fiscal Impact: None. Incentive payments factored into Metropolitan's rate projections and future budgets would remain unchanged.

Business Analysis: Staff would continue to administer existing agreements.


Staff Recommendation

Option #1



 Marcia L. Scully
 Interim General Counsel

6/2/2011
Date



 Jeffrey Kightlinger
 General Manager

6/2/2011
Date

Attachment 1 – Rate Structure Integrity Provisions adopted by Metropolitan on December 14, 2004

Attachment 2 – San Diego County Water Authority Incentive Agreements

Ref# 112612455

Rate Structure Integrity Provisions
adopted by Metropolitan's Board of Directors on December 14, 2004

1. [Recipient] and [Member Agency if different than Recipient] agree and understand that Metropolitan's rate structure as of January 1, 2004 ("Existing Rate Structure") provides the revenue necessary to support the development of new water supplies by local agencies through incentive payments in the Local Resources Program (LRP), Conservation Credits Program (CCP), and the Seawater Desalination Program (SDP). In particular, the Water Stewardship Rate is the component of Existing Rate Structure that provides revenue for the LRP, CCP and SDP. Further, [Recipient] and [Member Agency] acknowledge that Existing Rate Structure and all components within that rate structure were developed with extensive public input and member agency participation, and that the elements of Existing Rate Structure have been properly adopted in accordance with Metropolitan's rules and regulations.
2. (a) [Recipient] and [Member Agency] agree that Metropolitan's rates set under the Existing Rate Structure may be reset throughout the term of this Agreement to account for the cost of service, and that [Recipient] and [Member Agency] will address any and all future issues, concerns and disputes relating to Existing Rate Structure, through administrative opportunities available to them pursuant to Metropolitan's public board process. As such, [Recipient] and [Member Agency] agree if they file or participate in litigation or support legislation to challenge or modify Existing Rate Structure, including changes in overall rates and charges that are consistent with the current cost-of-service methodology, Metropolitan may initiate termination of this agreement consistent with Paragraph 4 below. Metropolitan agrees that any change in Existing Rate Structure, including changes in cost-of-service philosophy or methodology would be enacted only after collaboration and discussion with its member public agencies, and Metropolitan's public board review and approval process.
(b) Notwithstanding the foregoing, [Recipient] and [Member Agency] retain the right to file and/or participate in litigation and/or to support legislation without triggering the termination of this agreement if there are material changes to Existing Rate Structure or changes in cost-of-service methodology used to set rates by future Metropolitan board action. [Recipient] and [Member Agency] also retain the right to file and/or support litigation should Metropolitan, in setting rates under Existing Rate Structure, fail to comply with public notice, open meeting, or other legal requirements associated with the process of setting water rates and related taxes, fees, and charges. [Recipient] and [Member Agency] agree that they will not file or participate in litigation, nor will they support legislation affecting Metropolitan's rate structure after any such change in rate structure or violation of the law regarding rate setting processes until, and unless, they have exhausted all administrative opportunities available to them pursuant to Metropolitan's public board process.
3. [Recipient] and [Member Agency] agree that all users of the Metropolitan conveyance and distribution system should support the LRP, CCP, and SDP, that such projects provide benefits to Metropolitan and the users of the system by making existing distribution and conveyance capacity available for additional delivery, and that under Existing Rate Structure, the Water Stewardship Rate is an element of charges properly adopted by the Metropolitan Board and properly applied to water wheeled through the Metropolitan conveyance and distribution system.

4. Should [Recipient] or [Member Agency] file or support litigation, or sponsor or support legislation, that would challenge or be adverse to Existing Rate Structure, as described in Paragraph (a) of Section 2, Metropolitan's Chief Executive Officer may file a 90-day notice of intent to terminate this Agreement with Metropolitan's Executive Secretary, with copies to all members of Metropolitan's Board of Directors, and contemporaneously provide [Recipient] and [Member Agency] with a copy of the notice. Within 30 days of receipt of such notice, [Recipient] and [Member Agency] shall have the right to request, in writing, mediation of the dispute by a neutral third party with expertise in finance and rate setting. The mediator shall be selected by agreement of the parties, or failing agreement within 60 days of such request for mediation, a mediator shall be selected by the Metropolitan Board of Directors from a list of at least four candidates, one each from [Recipient] and [Member Agency], and two of which will be supplied by Metropolitan's Chief Executive Officer. The cost of the mediation shall be borne equally by the parties. The request for mediation shall also serve to stay the 90-day notice of intent to terminate, but for no more than 90 days beyond the filing of the notice of request for mediation, unless otherwise agreed in writing by the parties. If mediation does not result in an agreement acceptable to each party to this Agreement within the time provided herein, the notice of intent to terminate shall be reinstated. The Metropolitan Board of Directors shall act to approve or disapprove termination of this Agreement, and all of Metropolitan's obligations hereunder shall terminate if approved, on or before the ninetieth day following filing of the notice to terminate or, if mediation has been requested as described above, the ninetieth day following the request for mediation (or other date agreed in writing by the parties.)

5. Metropolitan and [Recipient] and [Member Agency] agree that should litigation or legislation brought forth or sponsored by third parties result in changes to Existing Rate Structure, this Agreement will continue in effect unless mutually agreed in writing by the parties.

6. Should Metropolitan and its member agencies agree on an alternative rate and revenue structure that obviates the need for this section on Rate Structure Integrity, this section shall be amended or deleted to conform to such action.

7. Notwithstanding the foregoing, Metropolitan shall have no power or authority under this Section to terminate this Agreement, and Metropolitan's Chief Executive Officer shall not file a 90-day notice of intent to terminate this Agreement, if a [Member Agency] (but not the [Recipient]) files or participates in any litigation or supporting legislation to challenge or modify Existing Rate Structure, but the [Recipient] transmits a writing to Metropolitan's Chief Executive Officer within thirty (30) days of request therefore from Metropolitan, stating that [Recipient] has not participated directly or indirectly in the filing or prosecution of any litigation or the drafting or advocacy of any legislation to challenge or modify Existing Rate Structure, and indicates support for Existing Rate Structure.

Note: [Recipient] refers to project owner.

San Diego County Water Authority Incentive Agreements

Subject to termination:

Agreement	Target Yield	Max. Payable* (\$1,000)	Funded (4-30-2011) (\$1,000)	Balance (\$1,000)
1. Enhanced Conservation Program – Landscape water conservation training	2,362 AF	\$143	\$124	\$19
2. Enhanced Conservation Program – Conversion project to climate appropriate landscape	5,829 AF	\$1,125	\$535	\$590
3. Regional Commercial Program – Commercial incentives	TBD	N/A	\$6,500	N/A
4. Regional Residential Program – Residential incentives	TBD	N/A	\$9,000	N/A
5. Local Resources Program – Water Recycling and Groundwater Recovery incentives (Ramona)	340 AFY	\$1,280	\$21	N/A

Subject to deferral:

6. Carlsbad Seawater Desalination Project	56,000 AFY	\$350,000 (est.)	\$0	N/A
7. Agricultural Conservation Program – Agricultural incentives	N/A	N/A	\$0	N/A
8. Innovative Conservation Program – Flow control valve research project	N/A	\$11	\$0	N/A

Exhibit I



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

April 6, 2011

MEMBER AGENCIES

Carlsbad
Municipal Water District
City of Del Mar
City of Escondido
City of National City
City of Oceanside
City of Poway
City of San Diego
Fallbrook
Public Utility District
Helix Water District
Lakeside Water District
Oliverhain
Municipal Water District
Otay Water District
Padre Dam
Municipal Water District
Camp Pendleton
Marine Corps Base
Rainbow
Municipal Water District
Ramona
Municipal Water District
Rincon del Diablo
Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
South Bay Irrigation District
Vallecitos Water District
Valley Center
Municipal Water District
Vista Irrigation District
Yuima
Municipal Water District

OTHER
REPRESENTATIVE
County of San Diego

Jeffrey Kightlinger, General Manager
Marcia Scully, Interim General Counsel
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Demand for Recalculation of Preferential Rights Under Section 135 of the
Metropolitan Water District Act

Dear Mr. ^{Jeff}Kightlinger and Ms. ^{Marcia}Scully:

Section 135 of the Metropolitan Water District Act provides each of Metropolitan's member agencies a preferential right to purchase Metropolitan water based on a ratio of payments described in the statute. Metropolitan calculates the Preferential Rights of its member agencies under section 135 and provides a summary of that calculation. The most recent summary is attached for your reference. It has recently come to our attention, that Metropolitan appears to have erroneously excluded from its calculations payments the Water Authority made pursuant to the Amended and Restated Agreement between [Metropolitan] and the [Water Authority] for the Exchange of Water, dated October 10, 2003 ("2003 Exchange Agreement"). Section 135 provides that the calculation of an agency's Preferential Rights shall be based on the payments to Metropolitan "on tax assessments and otherwise, excepting purchase of water, toward the capital cost and operating expenses of the district's works." Payments made by the Water Authority pursuant to the 2003 Exchange Agreement are for transportation of the Water Authority's QSA supplies. For purposes of section 135 these are payments "on tax assessments or otherwise" toward Metropolitan's capital costs and operating expenses, but are not for the "purchase of water" and must be included in the calculation of Preferential Rights.

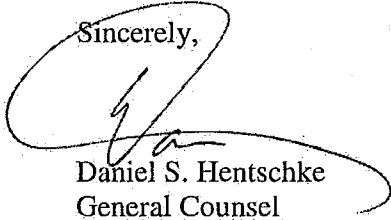
From October 10, 2003 through December 31, 2010, the Water Authority has paid \$155,999,600 to Metropolitan under the 2003 Exchange Agreement. The Water Authority staff has determined that inclusion of Exchange Agreement payments would increase the Water Authority's current Preferential Rights (calculated on a fiscal year basis) from 17.47% to approximately 19.37%, an increase of almost 2%. Metropolitan must recalculate the member agencies' preferential rights to account for the payments made under the 2003 Exchange Agreement and include payments under the 2003 Exchange Agreement in all future calculations.

A public agency providing a safe and reliable water supply to the San Diego region

Jeffrey Kightlinger
Marcia Scully
April 6, 2011
Page 2

Please promptly provide a revised Preferential Rights calculation showing the correct preferential rights of Metropolitan's member agencies. If you require any further information to accommodate this request, please let me know. Thank you for your assistance.

Sincerely,

A handwritten signature in black ink, appearing to read "D. Hentschke", is written over the word "Sincerely,". The signature is stylized and loops around the text below it.

Daniel S. Hentschke
General Counsel

cc: MWD Board of Directors
SDCWA Board of Directors

MWD ACT - Sec. 135 PREFERENTIAL RIGHTS TO PURCHASE WATER - 6/30/10 - Preliminary
(Unaudited)

MEMBER AGENCIES	Tax Collected	Others *	RTS Charges	Capacity Charge	TOTAL	% of Total **
Los Angeles County:						
Beverly Hills	\$ 43,672,712.05	\$ 322,785.59	\$ 9,952,761.02	\$ 1,538,784.00	\$ 55,487,042.66	1.00%
Burbank	36,693,433.98	288,489.05	12,224,440.47	1,894,150.08	51,100,513.58	0.92%
Central Basin MWD	325,170,746.66	3,638,124.61	58,457,278.22	6,547,914.00	393,814,063.49	7.07%
Compton	9,959,593.41	41,174.33	3,237,188.75	486,896.04	13,724,852.53	0.25%
Foothill MWD	29,089,639.37	28,486.12	7,505,116.63	1,268,935.92	37,892,178.04	0.68%
Glendale	47,654,520.77	187,119.15	20,838,909.40	2,792,556.00	71,473,105.32	1.28%
Las Virgenes MWD	28,877,183.66	114,252.68	15,671,229.66	2,136,591.96	46,799,257.96	0.84%
Long Beach	100,485,522.13	397,771.22	32,438,352.95	3,351,210.00	136,672,856.30	2.45%
Los Angeles	941,634,434.17	5,763,164.22	162,851,870.21	32,414,550.00	1,142,664,018.60	20.51%
Pasadena	43,925,362.25	93,572.34	13,310,138.53	3,174,860.04	60,503,933.16	1.09%
San Fernando	4,490,077.46	37,724.63	558,451.09	65,670.00	5,151,923.18	0.09%
San Marino	9,609,611.93	-	1,014,362.75	336,584.04	10,960,558.72	0.20%
Santa Monica	39,756,788.38	33,176.51	6,580,684.15	1,540,092.00	47,910,741.04	0.86%
Three Valleys MWD	86,579,568.56	2,777,372.22	51,632,460.35	9,396,990.00	150,386,391.13	2.70%
Torrance	45,188,643.22	283,944.38	16,727,246.80	2,138,030.00	64,337,864.40	1.15%
Upper-San Gabriel MWD	180,306,550.27	2,017,800.65	12,208,539.06	2,809,250.00	197,342,139.98	3.54%
West Basin MWD	315,248,772.89	1,476,090.28	119,040,471.78	12,691,572.00	448,456,906.95	8.05%
Total - Los Angeles County	2,288,343,161.16	17,501,047.98	544,249,501.82	84,584,636.08	2,934,678,347.04	52.66%
Orange County						
Anaheim	36,988,950.86	96,293.95	15,829,186.80	2,816,670.00	55,731,101.61	1.00%
Fullerton	24,095,510.44	383,207.71	6,759,442.26	1,471,140.00	32,709,300.41	0.59%
MWD of Orange County ***	565,300,517.98	7,598,063.99	179,030,878.43	23,630,034.00	775,559,494.40	13.92%
Santa Ana	30,370,202.97	58,233.58	10,491,135.06	1,551,130.00	42,470,701.61	0.76%
Total - Orange County	656,755,182.25	8,135,799.23	212,110,642.55	29,468,974.00	906,470,598.03	16.27%
Riverside County						
Eastern MWD	117,230,639.50	8,291,322.72	50,982,890.68	11,801,859.97	188,306,712.87	3.38%
Western MWD	140,669,911.93	2,475,176.79	48,641,332.59	12,739,434.08	204,525,855.39	3.67%
Total - Riverside County	257,900,551.43	10,766,499.51	99,624,223.27	24,541,294.05	392,832,568.26	7.05%
Inland Empire Utilities Agency (San Bernardino County)	94,347,776.02	1,926,649.66	35,997,734.16	8,342,880.00	140,615,039.84	2.52%
SDCWA (San Diego County)	561,623,821.54	1,179,386.82	349,443,282.67	61,144,320.00	973,390,811.03	17.47%
Calleguas MWD (Ventura County)	134,381,172.25	1,434,353.86	76,337,023.84	12,242,522.12	224,395,072.07	4.03%
TOTAL WITHIN METROPOLITAN	\$ 3,993,351,664.65	\$ 40,943,737.06	\$ 1,317,762,408.31	\$ 220,324,626.25	\$ 5,572,382,436.27	100.00%

* Includes Service Connections and cash contributions.

** Totals may not foot due to rounding.

*** MWDOC includes preferential rights of former Coastal MWD.

Exhibit J



THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Office of the General Counsel

Via U.S Mail

April 26, 2011

Daniel S. Hentschke
General Counsel
SAN DIEGO COUNTY WATER AUTHORITY
4677 Overland Avenue
San Diego, CA 92123-1233

Re: *Section 135 Preferential Rights*

Dear Mr. ~~Hentschke~~ *DNA*:

We have read your April 6, 2011 letter regarding how San Diego County Water Authority's payments under our Amended and Restated Exchange Agreement should be handled in Metropolitan's "preferential rights" calculation. We disagree with your position that those payments should be credited to the Authority for the purposes of calculating its preferential rights.

The Exchange Agreement was negotiated over a period of years as part of a broader QSA process and provides the rules for Metropolitan's delivery to the Authority of a specified amount of water from Metropolitan's supply from all of its sources. The Exchange Agreement is a unique transaction in which Metropolitan provides a specified amount of water to the Authority on a firm capacity basis. Metropolitan's delivery is not limited to those times when Imperial Irrigation District's conservation program actually conserves water. The water Metropolitan supplies is a mix of its SWP water, Colorado River water and water obtained from other sources such as water transfers. In return for Metropolitan providing the water, the Authority pays a discounted volumetric rate for each acre-foot of water provided. Pursuant to the terms of the Exchange Agreement, the delivery of Metropolitan water to the Authority is treated as a "purchase of water" expressly governed by Chapter 5 of Division IV of Metropolitan's Administrative Code and is therefore not included in the preferential rights calculation under MWD Act Section 135.

During many months of negotiations we do not recall the Authority ever questioning that this transaction is a Metropolitan delivery and Authority "purchase of water" that would not be included in the preferential rights calculation. And, of course, Metropolitan has continued to exclude this purchase from its preferential rights calculation since Metropolitan and the Authority agreed to the Exchange Agreement in 2003, without complaint from the Authority.

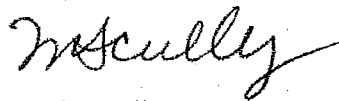
Daniel S. Hentschke

April 26, 2011

Page 2

For these reasons, we will continue to calculate preferential rights consistent with MWD Act Section 135 and must decline the Authority's demand to change the historical calculation.

Sincerely,

A handwritten signature in cursive script, appearing to read "M. Scully".

Marcia Scully
Interim General Counsel

MS:zpa

cc: MWD Board of Directors
SDCWA Board of Directors

Exhibit K



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdowa.org

May 4, 2011

MEMBER AGENCIES

Coronado
Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook
Public Utility District

Helix Water District

Lakeside Water District

Olivewood
Municipal Water District

City Water District

Padre Dam
Municipal Water District

Camp Pendleton
Marine Corps Base

Rainbow
Municipal Water District

Rancho
Municipal Water District

Rincon del Diabolo
Municipal Water District

San Diego Water District

Santa Fe Irrigation District

South Bay Irrigation District

Vallecitos Water District

Valley Center
Municipal Water District

Yuma Irrigation District

Yuma
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Marcia Scully, General Counsel
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Metropolitan's Response to Water Authority's Demand for Recalculation of
Preferential Rights Under Section 135 of the Metropolitan Water District Act

Dear Ms. Scully:

Metropolitan's April 26, 2011 letter rejecting the Water Authority's April 6, 2011 demand for recalculation of Preferential Rights is not supported by law or fact. Your description of the Water Authority's payments under the 2003 Exchange Agreement as "a discounted volumetric rate for each acre-foot of water provided" is absurd.

The Water Authority does not purchase the Colorado River water at issue from Metropolitan. It purchases some of the water from the Imperial Irrigation District. The rest is conserved water allocated to the Water Authority from the lining of the All American and Coachella Canals. The Exchange Agreement itself plainly states that the water Metropolitan provides is not Metropolitan water, but instead is "characterized for the purposes of all of Metropolitan's ordinance, plans, programs, rules and regulations" as the Water Authority's Local Water. Further, contrary to your assertion, the amount of water delivered by Metropolitan to the Water Authority under the Exchange Agreement is limited to the amount of conserved water provided by the Water Authority to Metropolitan. There is nothing in the Exchange Agreement remotely supporting the assertions in your letter. I have attached a copy of the 2003 Exchange Agreement for your ready reference.

Metropolitan is obliged to follow the law and recalculate preferential rights to include the Water Authority's payments under the 2003 Exchange Agreement. The Water Authority reiterates its demand as stated in the April 6, 2011 letter. I have also attached a copy of that letter for your reference.

A public agency providing a safe and reliable water supply to the San Diego region

Marcia Scully

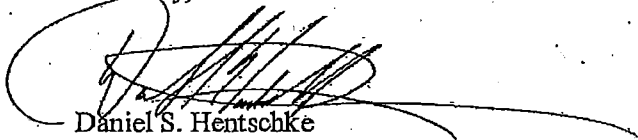
May 4, 2011

Re: Reply to Metropolitan's Letter Regarding Recalculation of Preferential Rights

Page 2

Please indicate in writing no later than May 16, 2011 whether Metropolitan will correct the calculation of the preferential rights of its member agencies to properly account for the payments the Water Authority has made and will make under the Exchange Agreement

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel S. Hentschke", with a large, sweeping flourish extending to the right.

Daniel S. Hentschke
General Counsel

cc: Metropolitan Board of Directors (w/o attachments)
Water Authority Board of Directors (w/o attachments)