

- **Board of Directors**

October 16, 2001 Board Meeting

9-6

Subject

Approve Rate Structure Proposal

Description

Background

On September 10, 2001, the Subcommittee on Rate Structure Implementation (Subcommittee) considered a proposal by several member agency managers (Calleguas Municipal Water District, Eastern Municipal Water District, the City of Los Angeles, Central Basin Municipal Water District and West Basin Municipal Water District) to implement Metropolitan's new rate structure in a manner consistent with the Rate Structure Action Plan that was adopted by the Board in December 2000. This proposal addressed many of the concerns raised by Board members during the past nine months as the Subcommittee reviewed the December Action Plan, including the use of property taxes, financial impacts, the relative burden of financial risk, financial commitment and water resource management. The details of the Member Agency Managers' Proposal (Proposal) is included in [Attachment 1](#).

The Subcommittee then reviewed staff's evaluation of the Proposal at the Subcommittee's September 18, 2001 meeting. On September 25, 2001, the Board held a Board Workshop on the Proposal. At that meeting, the Board considered a number of questions raised by the Subcommittee (see [Attachment 2](#)), as well as the Board, and directed staff to agendize the Proposal for Board action at the October 16, 2001, Board meeting.

The proposed rate structure is consistent with the Board's Strategic Plan Policy Principles, which were adopted in December 1999. The Proposal furthers Metropolitan'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. An analysis of the Proposal and its consistency with the Board's Principles from December 1999 is shown in [Attachment 3](#).

Summary of Proposal

Tiered Rate Structure. The Proposal retains the two-tiered pricing structure included in the Rate Structure Implementation Plan from December 2000. Such a pricing structure encourages efficient water resource management and conservation. The amount of water supply that a member agency may purchase in any one year at the lower Tier 1 rate is determined by two factors – the amount of firm water (basic and shift) purchased since fiscal year 1989/90 and the member agency's election to submit a voluntary purchase order for a ten-year supply of water.

A base level of consumption will be established for each member agency equal to the member agency's highest fiscal year firm demand since 1989/90. Member agencies will be able to submit a voluntary purchase order to purchase a minimum amount of water over the next ten years equal to 60 percent of this base times 10. The member agency has ten years to purchase this minimum quantity and can vary its purchase amounts from year to year. But, the member agency would be obligated to pay for the full purchase order, even if it did not use the full amount at the end of the ten-year period. In exchange for this minimum commitment, the member agency will be able to purchase an amount of water supply equal to ninety-percent of the base in any given year at the lower Tier 1 rate. Agencies that determined that a purchase order was not in their interest would be able to purchase up to 60 percent of their base at the lower Tier 1 rate.

Unbundled Rates and Charges. As described in the December Action Plan, rates and charges would be unbundled to reflect the different services provided by Metropolitan. Specifically, the following rate elements would be part of the Proposal:

- a. **Tier 2 supply rate.** The Tier 2 Supply Rate would be charged on a dollar per acre-foot basis for system supply delivered in excess of 90 percent of a member agency's base for member agencies with purchase orders. The Tier 2 Supply Rate would be charged for system supply delivered in excess of 60 percent of a member agency's base for member agencies without purchase orders. The Tier 2 Supply Rate would be set at a level that reflects Metropolitan's cost of acquiring new supplies.
- b. **Tier 1 supply rate.** The Tier 1 Supply Rate would be charged on a dollar per acre-foot basis for system supply delivered to meet firm demands that are less than 90 percent of a member agency's base for member agencies with purchase orders. The Tier 1 Supply Rate would be charged to system supply deliveries that are less than 60 percent of a member agency's base for member agencies without purchase orders. The Tier 1 Supply Rate would be set to recover all of Metropolitan's supply costs, except those paid through the Tier 2 Supply Rate and a portion of the long-term storage and agricultural water sales.
- c. **System Access Rate.** The System Access Rate would be charged on a dollar per acre-foot basis and collect the costs associated with the conveyance and distribution system, including capital, operating and maintenance costs. The System Access Rate would be charged for every acre-foot of water conveyed by Metropolitan. All users (including member agencies and third-party wheeling entities) of the Metropolitan system would pay the same rate for conveyance).
- d. **Water Stewardship Rate.** A Water Stewardship Rate would be charged on a dollar per acre-foot basis to collect revenues in support of Metropolitan's financial commitment to conservation, water recycling, groundwater recovery and other water management programs approved by the Board. The Water Stewardship Rate would be charged for every acre-foot of water conveyed by Metropolitan.
- e. **System Power Rate.** The System Power Rate would be charged on a dollar per acre-foot basis to recover the cost of power necessary to pump water from the State Water Project and Colorado River through the conveyance and distribution system for Metropolitan's member agencies. The System Power Rate will be charged for all Metropolitan supplies. Entities wheeling water would continue to pay the actual cost of power to wheel water on the State Water Project, the Colorado River Aqueduct or the Metropolitan distribution system, whichever is applicable.
- f. **Treatment Rate.** Metropolitan would continue to charge a treatment rate on a dollar per acre-foot basis for treated deliveries. The treatment rate would be set to recover the cost of providing treated water service, including capital and operating cost.
- g. **Capacity Reservation Charge and Peaking Surcharge.** Member agencies would pay a Capacity Reservation Charge (set in dollars per cubic feet per second of the peak day capacity they reserved). The Capacity Reservation Charge is a fixed charge levied on an amount of capacity reserved by the member agency. The Capacity Reservation Charge recovers the cost of providing peak capacity within the distribution system. Peak-day deliveries in excess of the reserved amount of capacity chosen by the member agency would be assessed a Peaking Surcharge. Peaking Surcharge revenue collected by Metropolitan for the three fiscal years ending on June 30, 2005, would be refunded to that member agency to implement specific capital projects and programs to avoid peaking charges in the future. The Capacity Reservation Charge and Peaking Surcharge are designed to encourage member agencies to continue to shift monthly demands into the winter months and avoid placing large daily peaks on the Metropolitan system. Daily flow measured between May 1 and September 30 for purposes of billing the Capacity Reservation Charge and Peaking Surcharge will include all deliveries made by Metropolitan to a member agency or member agency customer including water transfers and agricultural deliveries.
- h. **Readiness-to-Serve Charge.** Metropolitan's Readiness-to-Serve Charge would recover costs associated with standby and peak conveyance capacity and system emergency storage capacity. The Readiness-to-Serve Charge would be allocated among the member agencies on the basis of each agency's ten-year rolling average

of firm demands (including water transfers wheeled through system capacity). This allocation would be revised each year. At the request of the member agency, revenues equal to the amount of Standby Charges would continue to be credited against the member agency's Readiness-to-Serve Charge obligation.

- i. **Long-term storage service program.** The current long-term storage service program used by the member agencies for storage replenishment purposes would continue as is. The long-term storage rate would also remain a bundled rate. The long-term rate would be reviewed annually by the Board as part of the regular rate cycle. Although the Proposal recommends that the long-term storage service program remain in place for at least the next ten years, the Board retains the ability to reexamine this program as needed.
- j. **Agricultural water program.** The current surplus water agricultural service program used by the member agencies for agricultural purposes would remain in place. The agricultural rate would also remain a bundled rate. The agricultural rate will be reviewed annually by the Board as part of the regular rate cycle. Although the Proposal recommends that the current agricultural program remain in place for at least the next ten years, the Board retains the ability to reexamine this program as needed.

Addressing New Demands. The Proposal addresses the impact of new demands on the cost of water supply through the tiered rate structure. Agencies that have increasing demands on Metropolitan would pay more, since they would purchase a greater share of the water sold at the higher Tier 2 rate. In addition, the Proposal provides that a mechanism to recover costs for Metropolitan's infrastructure associated with increasing system demands will be developed and in place by 2006.

Financial Impact

Financial Impact to Member Agencies. While the Proposal includes a number of changes to Metropolitan's existing structure, the initial financial impacts as a result of the change are estimated to be less than three percent (plus or minus), on any one member agency when compared to the existing rate structure. These impacts are estimated in fiscal year 2002/03 and assume normal demand conditions. Over time, it is expected that agencies using more Metropolitan supplies will purchase a greater share of water at the higher Tier 2 rate and would pay more.

Financial Impact to Metropolitan. The total amount of revenue generated under the Proposal would be the same as that under the proposed structure. The introduction of the purchase order helps to provide additional certainty regarding Metropolitan's base supply. But, the purchase order is flexible enough that member agencies do not take on undue financial risk. In addition, the Capacity Reservation Charge adds to fixed revenues.

Impact on Water Transfers. The Proposal provides clear price signals that reflect Metropolitan's costs (both to develop new supplies and to transport water). As such, cost-effective water transfers by Metropolitan and others would be facilitated by this rate structure.

Implementation Plan

If the Board approves the Proposal, a report would be prepared describing each of the above rate design elements in detail, including the cost of service used to develop the rates and charges. The Chief Executive Officer would recommend the rates and charges to the Board in January of 2002. A public hearing on the rates and charges implementing the Proposal would be held at the February 2002 Board meeting. The Board would take action to adopt the rates and charges in March of 2002. The rates and charges as described in the report and recommended by the Chief Executive Officer would be effective January 1, 2003. A Resolution to Adopt the Rate Structure Proposal is provided as [Attachment 4](#).

Policy

The Proposal is consistent with the Board's Strategic Plan Policy Principles and addresses concerns raised by the Board regarding the December 2000 Rate Structure Action Plan.

CEQA

The proposed action, i.e., approval of the Proposal, is not defined as a project under the California Environmental Quality Act (CEQA), because it involves continuing administrative activities, such as general policy and procedure making (Section 15378(b)(2) of the State CEQA Guidelines). In addition, the proposed action is not subject to CEQA because it involves 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 action is not subject to CEQA per Sections 15378(b)(2) and 15378(b)(4) of the State CEQA Guidelines.

Board Options/Fiscal Impacts

Option #1

Adopt the CEQA determination and Resolution approving the Proposal and direct staff to take the necessary steps to implement rates and charges as defined by the Proposal to be effective January 1, 2003.

Fiscal Impact: Increased fixed revenue and financial commitment from member agencies. Total amount of revenue recovered from the member agencies will be the same.

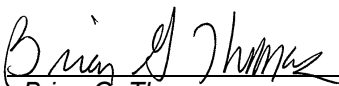
Option #2

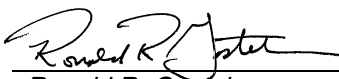
Defer consideration of the Proposal until further discussion by the Board.

Fiscal Impact: None

Staff Recommendation

Option #1

	10/9/2001
_____ Brian G. Thomas Chief Financial Officer	Date

	10/9/2001
_____ Ronald R. Gastelum Chief Executive Officer	Date

Attachment 1 - Member Agency Managers' Proposal MWD Rate Structure

Attachment 2 - Subcommittee on Rate Structure Implementation Responses to Subcommittee Questions

Attachment 3 - Comparison between Member Agency Managers' Rate Structure Proposal and Metropolitan's Board Principles

Attachment 4 - Resolution to Adopt Rate Structure Proposal

**MEMBER AGENCY MANAGERS' PROPOSAL
MWD RATE STRUCTURE
(PROPOSAL)**

(AS SUBMITTED TO THE BOARD SEPTEMBER 25, 2001)

OVERVIEW

Objectives

The proposed rate structure is a pricing mechanism to achieve the following objectives:

- Maintain MWD as the regional provider of imported water – MWD, working collaboratively with its member agencies, will secure necessary water supplies and build appropriate infrastructure to meet current and future needs of its member agencies.
- Support cost-effective local resources development and water conservation – MWD will continue to help fund cost-effective water recycling, groundwater recovery, and water conservation.
- Accommodate a water market – By unbundling its water rate, MWD will accommodate a water market.

Proposed Rate Structure

In order to support MWD's strategic vision, member agencies have developed a rate structure proposal, which is consistent with MWD's Board's December 2000 action plan. This rate structure has the following components:

1. Unbundles water rate into five separate commodity rates: (1) supply; (2) system access, for conveyance and distribution; (3) water stewardship; (4) power; and (5) treatment.
2. Supply rate has two tiers.
3. Two fixed charges: (1) Readiness to Serve Charge (RTS), to help pay for emergency storage and standby for conveyance; and (2) Capacity Reservation Charge, to help pay for peaking for distribution.
4. Voluntary Purchase Order requests for firm water deliveries.
5. Surplus water, when available, for local long-term storage replenishment and agricultural deliveries.

Benefits of Rate Structure

The proposed rate structure offers the following benefits:

- ***Unbundled rates charge all users for system access on same basis.*** Separating supply costs enables MWD to treat everyone on equal basis (member agencies, retail providers, third parties), and is the first step in accommodating a water market.
- ***Tiered supply rates provides pricing signals for water users with increasing demands and incentives to maintain existing local supplies.*** Tiered water supply rates: (1) reflect higher costs of new MWD supply development; (2) signals users when local resources development and conservation might be more cost-effective; and (3) passes appropriate costs of new supply development to those member agencies that rely on MWD for growing demands.
- ***Voluntary Purchase Orders provide for commitment while protecting regional reliability to all.*** Purchase Orders are: (1) voluntary; (2) offer price incentives to member agencies by allowing more water deliveries to be purchased in lower-priced supply tier rate; (3) offer an additional level of financial

commitment to MWD; and (4) are not tied to reliability (i.e., supply reliability for all member agencies is the same).

- ***Framework for future water management while avoiding significant cost impacts in the near term.***
The proposed rate structure offers a framework for future water management of imported and local water supplies without creating significant cost impacts to member agencies in the near-term.

Implementation

- The proposed rate structure will be implemented on January 1, 2003.
- The rate structure is a pricing mechanism designed to support a continued collaborative planning effort between MWD and member agencies used to determine MWD's future water supply and infrastructure needs.

DETAILS

General Overview

- Proposed rate structure is consistent with: (1) MWD Board Strategic Plan Policy Principles (adopted in December 1999); and (2) the intent and elements of MWD Board Action Plan for the rate structure (adopted in December 2000).
- Supply reliability is the same for all member agencies, i.e., not tied to contracts.
- Rates and charges unbundled, allowing for choice in services and providing the basis for a wheeling rate.
- Areas with increasing demands on MWD will pay proportionately more for their water through second tier of the water supply rate.
- Member agencies may request Purchase Orders for firm water supplies, offering pricing benefits for member agencies and more financial security for MWD.

Specific Elements

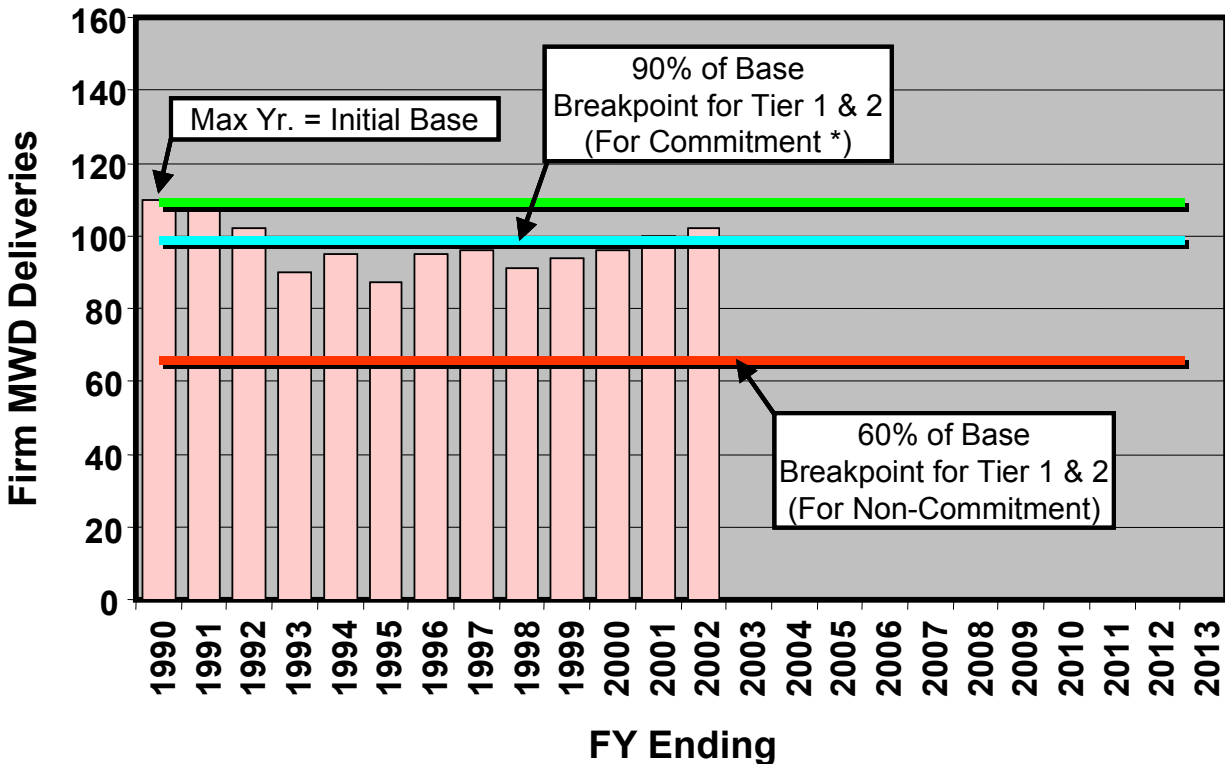
Unbundled Commodity Rates

- A. Current commodity rate for water will be unbundled into five separate commodity rates:
 - Supply Rate – two tiers, and recovers costs associated with water supply (discussed in more detail in following section)
 - System Access Rate – recovers costs associated with system capacity for conveyance and distribution
 - Water Stewardship Rate – is used to help fund local water recycling, groundwater, and conservation programs
 - Power Rate – recovers MWD's melded power cost for pumping SWP and Colorado River supplies
 - Water Treatment Rate – recovers costs for treatment.

Water Supply Rate

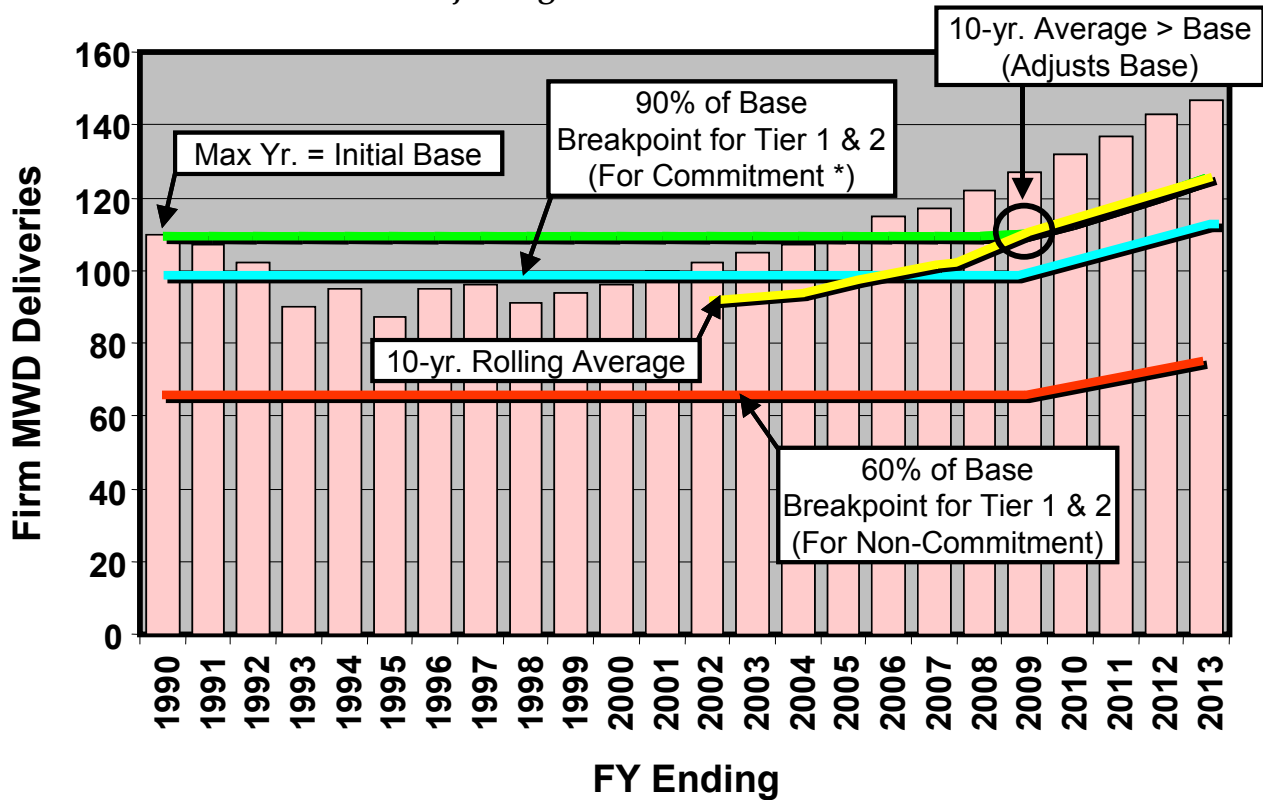
- A. The water supply rate will have two tiers, which reflect MWD’s existing and future costs for acquiring and storing supplies.
- B. Tier 2 rate will be set by MWD’s Board each year, to reflect MWD’s incremental cost of providing water supply to its member agencies. Tier 1 rate will be set to recover remaining supply costs.
- C. Tier 2 rate is currently estimated to be about \$100 to \$125/AF greater than the Tier 1 rate. Tier 2 rate will provide a pricing signal for local water management and water marketing.
- D. A two-tier water supply rate will also address increasing demands placed on MWD.
- E. An initial base (Base) for each member agency is established using that agency’s highest firm water delivery from MWD from FY 1990 to FY 2002 (see Figure 1).
- F. If a member agency chooses not to submit a Purchase Order request, then the Tier 1 rate would apply to firm water deliveries up to 60 percent of the Base, and the Tier 2 rate would apply to firm water deliveries above 60 percent of the Base, on an annual basis (see Figure 1).
- G. If a member agency chooses to submit a Purchase Order request, then that agency agrees to purchase a minimum of 60 percent of its Base times 10, over the ten-year period.
- H. Upon execution of the Purchase Order, the member agency is eligible to purchase up to 90 percent of its Base at the Tier 1 rate, and the Tier 2 rate would apply to firm deliveries above 90 percent of its Base, on an annual basis (see Figure 1).
- I. In the future, the Base will be the greater of a member agency’s historical maximum firm delivery from FY 1990 to FY 2002, or the ten year rolling average of firm deliveries (Figure 2).

**Figure 1.
Two-Tiered Water Supply Rate:
Establishing the Initial Base**



* Member agency agrees to purchase at least 60% of Initial Base times 10, over next ten years.

Figure 2.
Two-Tiered Water Supply Rate:
Adjusting Base in the Future



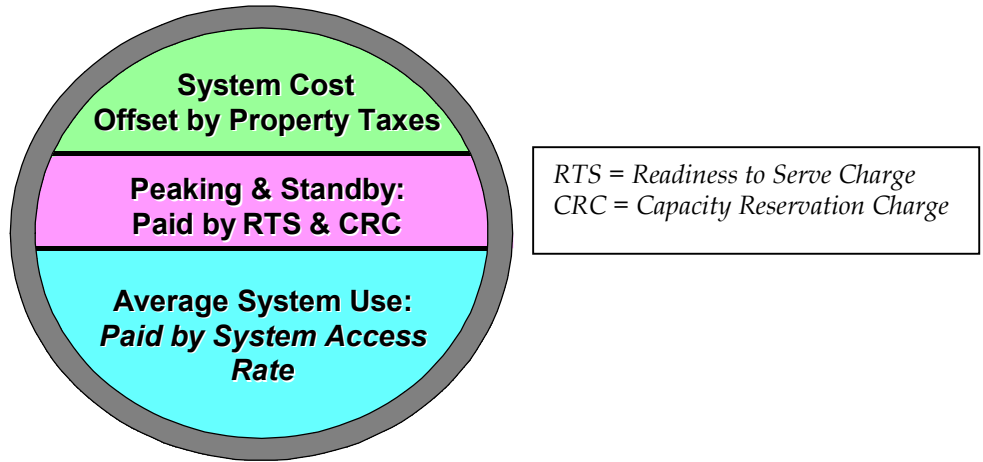
* Member agency agrees to purchase at least 60% of Initial Base times 10, over next ten years.

Fixed Charges

- A. In addition to the commodity rates, member agencies would also pay the following fixed charges:
 - o RTS Charge – covers costs for MWD’s emergency storage and conveyance standby, which is allocated to each member agency based on its 10-year rolling average of firm demands
 - o Capacity Reservation Charge – recovers costs for peak capacity on MWD’s distribution system. Each member agency reserves summer (May through September) peak capacity and pays the charge based on capacity reserved on a cfs basis.
- B. Standby charges, for those member agencies that elect to have MWD continue to assess the MWD Standby charge, will be deducted from member agencies’ allocated RTS charges—as is currently done.
- C. Property taxes will be used to offset capital costs for conveyance on the SWP and MWD’s distribution system—as is currently done.

Figure 3 illustrates how the property taxes, fixed charges, and the System Access Rate will be used to recover costs for conveyance and distribution.

**Figure 3.
MWD System Cost Allocation and Recovery**



Local Storage Replenishment and Agricultural Deliveries

- A. Surplus water supply, when available, can be purchased for long-term local storage replenishment and agricultural deliveries.
- B. The current operating rules for surplus water purchases under the long-term seasonal storage and interim agricultural programs will continue.

Wheeling Services

Wheeling pays the following commodity charges:

- o System Access Rate
- o Water Stewardship Rate
- o Power at actual (not melder) cost
- o Water Treatment Rate (if necessary)
- o Appropriate member agency costs

Implementation

This rate structure, with the elements described above, will be implemented on January 1, 2003. The rate structure is a pricing mechanism designed to support good water management and continued collaborative planning efforts between MWD and member agencies.

Addressing New Demands

- A. The rate structure addresses the water supply portion of new demands on MWD, by including these costs in the Tier 2 Water Supply Rate.
- B. MWD will utilize year 2005 Urban Water Management Plans from the member agencies and retail providers to identify MWD's new supply and infrastructure needs.
- C. A mechanism to recover costs for MWD's infrastructure associated with increasing system demands will be developed and in place by 2006.

**Subcommittee on Rate Structure Implementation
Responses to Subcommittee Questions**

On September 18, 2001 staff presented the Member Agency Managers' rate structure proposal (Proposal) to the Subcommittee on Rate Structure Implementation (Subcommittee). The Subcommittee had several questions and asked staff, in consultation with the member agency managers, to respond prior to the September 25, 2001 Board workshop on the rate structure.

Question 1: What is the impact of reducing the maximum amount of Tier 1 water that a member agency with a purchase order can buy from 90 percent of its Base down to 80 percent of its Base?

Response: The 90 percent limit on supply purchases at the lower Tier 1 rate was chosen to minimize the initial financial impact and risk to all member agencies resulting from the Proposal and to encourage conservation and investments in local resources. If the limit on the amount of supply that can be purchased at the lower Tier 1 Supply Rate is reduced from 90 percent to 80 percent of a member agency's Base, more member agencies will immediately purchase a greater amount of their supply at the higher Tier 2 Supply Rate. This is particularly true during dry years when member agencies need more supply from the system. Lowering the amount of supply that can be purchased at the lower Tier 1 supply rate from 90 to 80 percent of a member agency's Base will result in substantial impacts during dry years and higher degrees of volatility in the average rate paid by the member agencies. Figure 1 illustrates the difference in the total amount of supply sold at the higher Tier 2 Supply Rate if 80 rather than 90 percent is used to define the amount of supply sold at the lower Tier 1 Supply Rate. The increase in the number of member agencies that would purchase supply at the higher rate is shown in Figure 2.

Figure 1. Total Amount of Supply Purchased At Higher Tier 2 Rate

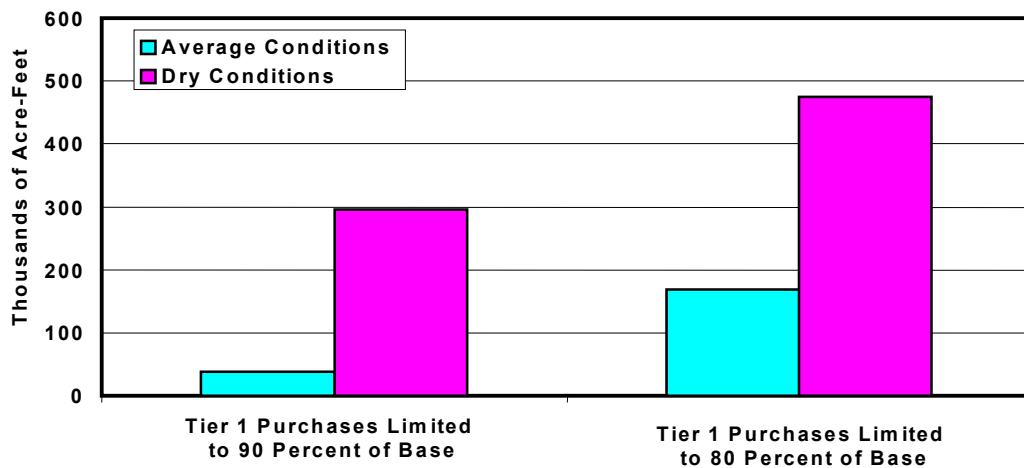
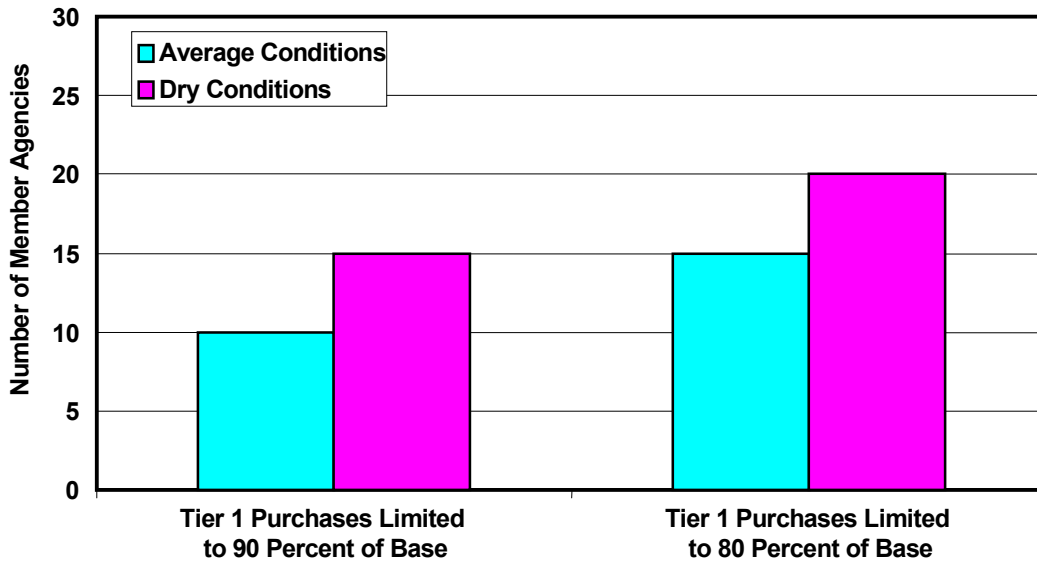


Figure 2. Number of Member Agencies that Purchase Supply At Higher Tier 2 Rate



Question 2: What is the impact of a cap on the differential between the Tier 1 and Tier 2 supply rates?

Response: The purpose of the Tier 2 Supply Rate is to reflect Metropolitan's cost of acquiring additional supply and encourage water conservation and investments in local resources. A cap on the differential between the Tier 1 and Tier 2 Supply Rates may result in a cap on the Tier 2 Supply Rate and potentially distort the price signal and its desired outcomes. However, each year as part of the annual rate setting process, the Board will review the supply conditions and the cost to set the Tier 1 and Tier 2 Supply Rates.

Question 3: Assuming that surplus water is available, how long will the current Long-term Seasonal Storage Service Program and Interim Agricultural Water Program be continued?

Response: The Proposal retains these programs to mitigate the initial financial impacts to the member agencies and their customers due to the change in the Metropolitan rate structure. The Proposal contemplates these programs would remain in place for the next ten years. As is the case today, the Board would set the rates for the Long-term Storage Service Program and Interim Agricultural Water Program.

Question 4: If a member agency increases its use of local supplies and decreases its use of Metropolitan system water, is its Base reduced?

Response: Under the Proposal, a member agency's Base would not be adjusted downward in order to avoid exposure to purchasing additional supplies at the higher rate. If the Base were adjusted downward member agencies that implemented conservation and more efficiently managed local resources would be penalized because they may have to purchase more water at the higher Tier 2 rate in the future.

Question 5: Does a member agency that unexpectedly loses local supply (e.g., groundwater contamination) have to pay the higher Tier 2 supply rate?

Response: A member agency that loses local supply production due to a system outage or a regulatory event may have to purchase supply at the higher Tier 2 rate. Over time, if the member agency is not able to reclaim its local supply and its use of Metropolitan supplies continues to increase, its Base will eventually increase as its ten-year rolling average of firm demand increases. As a result, the member agency would not continue to purchase more supply at the higher Tier 2 rate.

Question 6: How is the SDCWA/IID Transfer accounted for in the Base calculated for the San Diego County Water Authority?

Response: The initial Base used for purposes of determining the annual limit on Tier 1 purchases is defined as the maximum annual purchase since fiscal year 1990 and does not include the SDCWA/IID transfer. Under the Proposal, the calculation of the ten-year rolling average used to reset the Base in the future does not include the SDCWA/IID Transfer because the supply cost for this water would be paid by SDCWA. The SDCWA/IID Transfer is expected to begin in fiscal year 2003 at 20,000 acre-feet and increase by 20,000 acre-feet per year until reaching 200,000 acre-feet in 2012.

Question 7: Should there be a discounted rate (similar to the long-term replenishment rate) for deliveries used for seawater barrier purposes?

Response: Deliveries used for seawater barrier purposes cannot be interrupted during a drought or for any other reason. Metropolitan charges the full service rate for seawater barrier deliveries. Under the Proposal this practice would continue.

Question 8: If a member agency that has used less than its purchase order commitment requests more water from Metropolitan in the final year of the purchase order that Metropolitan cannot supply, is the member agency still obligated to pay for the entire purchase order commitment?

Response: The member agencies are obligated to pay for the entire purchase order commitment.

Question 9: What happens if not all of the supply available to the member agencies at the lower Tier 1 supply rate is purchased in a single year?

Response: The purchase order is a pricing tool only. If all of the supply that may be purchased at the lower Tier 1 rate is not used in a given year then that supply may be sold at the higher Tier 2 supply rate, available as surplus, stored for future use, or lost from the system.

Question 10: Can member agencies pool their purchase orders together or sell their purchase order to another member agency that wants to avoid the higher Tier 2 supply rate?

Response: The purchase order is a pricing tool. It does not confer a contractual right to system supply to a member agency. The Proposal does not accommodate the exchange or sale of purchase order quantities between member agencies.

Question 11: Can a member agency enter into a purchase order at any time?

Response: Under the Proposal, all member agency purchase orders would extend over the same ten-year period. Member agencies would execute purchase orders so that they would be effective January 1, 2003.

Question 12: What are the rules and formulas used to calculate the rates and charges?

Response: In January 2002, as part of the annual rate cycle and prior to adopting any rates and charges associated with the Proposal, the Board will receive a report on the Proposal. The report will include a detailed cost of service study, which will discuss the cost of service process.

An industry standard embedded cost of service process has been used to identify Metropolitan's revenue requirements by the various service functions (e.g. supply, conveyance, distribution, etc.) and to determine how much cost should be classified as being for peak, average and standby purposes. The classified service function costs are

then allocated to the rate design elements. The following provides a brief description of each of the rate design elements.

- Tier 2 Supply Rate (\$/af) - cost of acquiring additional supply.
- Tier 1 Supply Rate (\$/af)- total supply revenue requirement less Tier 2 supply rate revenues and other revenue offsets, divided by projected Tier 1 deliveries.
- System Access Rate (\$/af) - capital costs incurred to meet average demands and operations maintenance and overhead costs for the conveyance and distribution service functions divided by projected total deliveries.
- System Power Rate (\$/af) - power costs for pumping on the State Water Project and Colorado River Aqueduct divided by the projected Metropolitan deliveries in acre-feet.
- Water Stewardship Rate (\$/af) - Local Resources Program and Conservation Credits Program costs as well as other water management costs as determined by the Board divided by projected total deliveries.
- Treatment Rate (\$/af) - cost of providing treated water service divided by projected treated water deliveries.
- Readiness-to-Serve Charge (RTS) - system emergency storage and conveyance and distribution standby costs not paid by property taxes. The RTS is allocated among the member agencies based on a ten-year rolling average of firm demands.
- Capacity Reservation Charge (CRC) (\$/cfs)- distribution capital costs incurred to meet peak day demands divided by the total amount of capacity requested by the member agencies in cubic feet per second (cfs).

Question 13: Can Metropolitan implement the alternative rate structure in July of 2002?

Response: At the request of many of its member agencies, Metropolitan's rates currently become effective in January of each year. The January effective date provides enough time for the member agencies and their customers that typically budget on a July - June fiscal year basis to set their own rates and charges and prepare their own budgets. Even though the new rates and charges in the Proposal would not be effective until January of 2003, consistent with Metropolitan's current rate cycle, the Board would consider the new rates and charges recommended by the Chief Executive Officer in January of 2002, hold a public hearing on these rates and charges in February and then adopt the rates and charges in March of 2002.

A January effective date provides sufficient time for the member agencies and their customers to deal with implementation issues, including how to pass the Tier 1 and Tier 2 pricing on to their customers.

**Comparison Between Member Agency Managers Rate Structure Proposal
and Metropolitan’s Board Principles
(Prepared by Metropolitan Staff)**

Board Principles	Member Agency Managers Rate Structure Alternative
Strategic Plan Policy Principles (Adopted in December 1999)	
<p>Regional Provider Metropolitan is a regional provider of water for its service area. In this capacity, Metropolitan is the steward of regional infrastructure and the regional planner responsible for drought management and the coordination of supply and facility investments. Regional water services should be provided to meet the needs of the member agencies. Accordingly, the equitable allocation of water supplies during droughts will be based on water needs and adhere to the principles established by the Water Surplus and Drought Management Plan.</p>	<p>Supports the Regional Provider Principle</p> <ul style="list-style-type: none"> • Metropolitan, working collaboratively with its member agencies, will secure necessary water supplies and build appropriate infrastructure to meet existing and future needs of its member agencies. • There would be no difference in reliability for firm supplies purchased at Tier 1 and Tier 2 rates.
<p>Financial Integrity The Metropolitan Water District Board will take all necessary steps to assure the financial integrity of the agency in all aspects of operations.</p>	<p>Supports the Financial Integrity Principle</p> <ul style="list-style-type: none"> • Through voluntary purchase orders, Metropolitan could have an assured level of firm water purchases up to 1.2 mafy (60% of maximum annual firm water sales) over ten years. • Through voluntary purchase orders, Metropolitan provides a pricing incentive for member agencies to purchase up to 1.7 mafy of firm water in 2003 (90% of maximum annual firm water sales). <p>Compared to the current rate structure, fixed revenue is estimated to increase.</p>
<p>Local Resources Development Metropolitan supports local resources development in partnership with its member agencies and by providing its member agencies with financial incentives for conservation and local projects.</p>	<p>Supports the Local Resources Development Principle</p> <ul style="list-style-type: none"> • Financial incentives for conservation and local projects are provided in two ways: (1) Tier 2 price is set at Metropolitan’s cost of securing new supply and sends a price signal for alternative supply development and (2) water stewardship charge is established to help fund existing and future local water recycling, groundwater, desalination, and conservation programs.

**Comparison Between Member Agency Managers Rate Structure Proposal
and Metropolitan’s Board Principles
(Prepared by Metropolitan Staff)**

Board Principles	Member Agency Managers Rate Structure Alternative
Strategic Plan Policy Principles - Continued	
<p>Imported Water Service Metropolitan is responsible for providing the region with imported water, meeting the committed demands of its member agencies.</p>	<p>Clarifies the Imported Water Service Principle</p> <ul style="list-style-type: none"> Based on collaborative planning with member agencies, Metropolitan would secure and deliver imported water to meet existing and future supply needs.
<p>Choice and Competition Beyond the committed demands, the member agencies may choose the most cost-effective additional supplies from either Metropolitan, local resources development and/or market transfers. These additional supplies can be developed through a collaborative process between Metropolitan and the member agencies, effectively balancing local, imported, and market opportunities with affordability.</p>	<p>Supports the Choice and Competition Principle</p> <ul style="list-style-type: none"> Member agencies may choose the most cost-effective additional supplies from among Metropolitan, local resources development and/or market transfers. In addition, the unbundling of rates and charges allows choice in services.
<p>Responsibility for Water Quality Metropolitan is responsible for advocating source water quality and implementing in-basin water quality for imported supplies provided by Metropolitan to assure full compliance with existing and future primary drinking water standards and to meet the water quality requirements for water recycling and groundwater replenishment.</p>	<p>Supports the Water Quality Principle</p> <ul style="list-style-type: none"> Metropolitan’s responsibilities for source quality and in-basin water quality for imported supplies are unchanged. The cost of source quality is recovered through the tiered supply rates. The cost for in-basin water quality is recovered through the treatment surcharge, which is the same as status quo.

**Comparison Between Member Agency Managers Rate Structure Proposal
and Metropolitan’s Board Principles
(Prepared by Metropolitan Staff)**

Board Principles	Member Agency Managers Rate Structure Alternative
<p>Cost Allocation and Rate Structure The fair allocation of costs and financial commitments for Metropolitan’s current and future investments in supplies and infrastructure may not be reflected in status quo conditions and will be addressed in a revised rate structure:</p> <p>(a) The committed demand, met by Metropolitan’s imported supply and local resources program, has yet to be determined.</p> <p>(b) The framework for a revised rate structure will be established to address allocation of costs, financial commitment, unbundling of services, and fair compensation for services including wheeling, peaking, growth, and others.</p>	<p>Supports the Cost Allocation and Rate Structure Principle</p> <ul style="list-style-type: none"> • Committed demand by member agencies is established by voluntary purchase orders. • The allocation of cost and unbundling of services are based on standard cost-of-service methodology. • The existing full service rate is unbundled into: <ul style="list-style-type: none"> ➢ Tiered supply rates (reflecting Metropolitan’s existing and future costs of supplies), ➢ System access rate (wheeling), ➢ Capacity reservation charge (peaking), ➢ RTS (standby), ➢ Water stewardship rate (local resources management), ➢ System power rate, and ➢ Treatment surcharge.
<p>Steering Committee Guidelines (Approved in January 2000)</p>	
<p>“Needs-Based” Allocation</p> <ul style="list-style-type: none"> • Dry-year allocation should be based on need 	<p>Supports the guideline</p> <ul style="list-style-type: none"> • There would be no difference in reliability for firm supplies purchased at Tier 1 and Tier 2 rates.

**Comparison Between Member Agency Managers Rate Structure Proposal
and Metropolitan’s Board Principles
(Prepared by Metropolitan Staff)**

Board Principles	Member Agency Managers Rate Structure Alternative
<p>No Significant Disadvantage and Fair</p> <ul style="list-style-type: none"> • Rate structure should not place any class of people in the position of significant disadvantage. • Rate Structure should be fair. 	<p>Supports the guidelines</p> <ul style="list-style-type: none"> • Member agencies are treated equally. • All supplies would be allocated during droughts based on the water needs of member agencies. • Financial impacts to the member agencies in year 2003 are estimated to be minimal. The financial impacts henceforth are dependent on the collaborative planning between Metropolitan and member agencies and the ability of member agencies to develop cost-effective alternative supplies and manage peak deliveries.
<p>Simple</p> <ul style="list-style-type: none"> • Rate structure should be reasonably simple and easy to understand. 	<p>Meets the guideline</p> <ul style="list-style-type: none"> • The proposal is easy to understand and is based on uniform rates and charges that recover costs of services.
<p>Metropolitan Revenue Stability</p> <ul style="list-style-type: none"> • Rate structure should be based on stability of Metropolitan’s revenue and coverage of costs. 	<p>Supports the guideline</p> <ul style="list-style-type: none"> • Compared to status quo, fixed revenue is estimated to increase by 50%. Fixed revenues are collected through property taxes, voluntary purchase orders, capacity reservation charge, and readiness-to-serve charge.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RESOLUTION _____

**RESOLUTION OF THE BOARD OF DIRECTORS
OF THE METROPOLITAN WATER DISTRICT OF
SOUTHERN CALIFORNIA
TO APPROVE RATE STRUCTURE PROPOSAL AND TO DIRECT
FURTHER ACTIONS IN CONNECTION THEREWITH**

WHEREAS, the Board of Directors (“Board”) of The Metropolitan Water District of Southern California (“Metropolitan”), pursuant to Sections 133 and 134 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 stand-by or availability 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, in July 1998 the Board commenced a strategic planning process to review the management of its assets, revenues and costs in order to determine whether it could conduct its business in a more efficient manner to better serve residents within its service area; and

WHEREAS, after conducting interviews with its directors, member agencies, business and community leaders, legislators and other interested stakeholders, and having public meetings to solicit public input, the Board developed and adopted Strategic Plan Policy Principles on December 14, 1999 (the “Strategic Plan Policy Principles” which document is on file with the Board Secretary) to guide staff and the member agencies in developing a revised rate structure; and

WHEREAS, the Board has received and reviewed several rate structure proposals developed during the strategic planning process and after thorough deliberation adopted a Composite Rate Structure Framework on April 11, 2000 (the “Rate Structure Framework” which document is on file with the Board Secretary); and

WHEREAS, the Board adopted a Rate Structure Action Plan on December 12, 2000 (the “Action Plan” which document is on file with the Board Secretary) and endorsed in concept a detailed rate design proposal (the “December 2000 Proposal” which document is on file with the Board Secretary) developed from the Rate Structure Framework and directed staff to work with

the Board and member agencies to resolve outstanding issues identified during the implementation of this rate design; and

WHEREAS, on September 10, 2001 an alternative Rate Structure Proposal was originally presented to the Board's Subcommittee on Rate Structure Implementation (the "Subcommittee") for its review and consideration; and

WHEREAS, on September 18, 2001 the Subcommittee evaluated and considered the alternative Rate Structure Proposal (see Attachment 1 to Board Letter 9-6, dated the date hereof and hereinafter referred to as the "Proposal"), together with staff analysis of the Proposal and other information and comments received from member agencies; and

WHEREAS, on September 25, 2001, the Proposal, together with a staff review thereof, was further discussed and considered by the Board of Directors; and

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

WHEREAS, the Proposal is consistent with the Board's Strategic Plan Policy Principles, supports efficient water resources management, encourages water conservation and facilitates a water transfer market;

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

1. The Board finds that the Proposal is consistent with the Board's Strategic Plan Policy Principles, addresses the issues raised during the consideration of the December 2000 Proposal, furthers Metropolitan's strategic objectives to ensure the region's long term water supply reliability, supports and encourages sound and efficient water resources management, supports and encourages water conservation, facilitates a water transfer market and enhances the fiscal stability of Metropolitan.

2. The Board hereby directs the Chief Executive Officer, in consultation with the General Counsel, to take all actions necessary in order to further implement the Proposal in accordance with the terms set forth in this Resolution.

3. The Board approves the Proposal and directs the Chief Executive Officer, in consultation with the General Counsel, to (i) prepare a report on the Proposal describing each of the rates and charges and the supporting cost of service process and (ii) utilize the Proposal as the basis for determining Metropolitan's revenue requirements and recommending rates to become effective January 1, 2003, in Metropolitan's annual rate-setting procedure pursuant to Section 4304 of the Administrative Code. Under the procedure set forth under Section 4304, a public hearing on the rates and charges implementing the Proposal shall be held at the February

2002 Board meeting (or such other date as the Board shall determine) and the Board will take final action to adopt the rates and charges in March of 2002 (or such other date as the Board shall determine).

4. The Chief Executive Officer, the Chief Financial Officer 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.

5. This Board finds that approval of the Proposal as provided in this Resolution is not defined as a Project under the California Environmental Quality Act (CEQA), because the proposed action involves the creation of government funding mechanisms or other government fiscal activities which do not involve commitment to any specific project which may result in a potentially significant physical impact on the environment (Section 15378(b)(4) of the CEQA Guidelines).

6. If any provision of this is held invalid, that invalidity shall not affect other provisions 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.

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 October 16, 2001.

Executive Secretary
The Metropolitan Water District
of Southern California

**MWD MEETING
AGENDA****Adjourned Regular Board Meeting****October 16, 2001****11:00 a.m. -- Board Room**

Tuesday, October 16, 2001 Meeting Schedule		
8-8:30 a.m.	Rm. 2-413	Dir's. Computer Training
9:00 a.m.	Board Room	Energy Workshop
11:00 a.m.	Board Room	Board Meeting
12:00 p.m.	Rm. 1-102	R&E
1:00 p.m.	Board Room	Executive

MWD Headquarters Building• **700 N. Alameda Street**• **Los Angeles, CA 90012**

1. Call to Order

- (a) Invocation: Guest
- (b) Pledge of Allegiance: Director Thom Coughran

2. Roll Call**3. Determination of a Quorum**

PUBLIC HEARING

Comments on the proposed standby charge for Annexation No. 75 to Calleguas Municipal Water District

4. Additions to Agenda (As required by Gov. Code, § 54954.2(b))**5. Opportunity for members of the public to address the Board on matters within the Board's jurisdiction.** (As required by Gov. Code, § 54954.3(a))

Presentation to Metropolitan from Future City Competition

6. OTHER MATTERS

- A. Approval of the Minutes of the Meeting for September 11, 2001. (A copy has been mailed to each Director)
Any additions, corrections, or omissions
- B. Induction of new Director, George I. Loveland, from San Diego County Water Authority
 - (a) Receive credentials
 - (b) Report on credentials by General Counsel
 - (c) File credentials
 - (d) Administer Oath of Office
 - (e) File Oath
- C. Reappointment of Director Bill D. Wright, representing City of Torrance
- D. Committee appointments. (Exec.)
- E. Chairman's Monthly Activity Report
- F. Report from the Subcommittee on Rate Structure Implementation Workshop
- G. Chief Executive Officer's Reports:
 - a. Oral report on Colorado River matters. (LC&P)
 - b. Oral report on Bay-Delta and State Water Project matters. (LC&P, WPQ&R)
 - c. Chief Executive Officer's summary of Metropolitan's activities for the month of September. **(Written report to be sent separately)**
- H. General Counsel's summary of Legal Department activities for the month of September. **(Written report to be sent separately)**

7. ORAL REPORTS OF STANDING COMMITTEES

- 7-1 Executive Committee (Phillip J. Pace, Chair)
- 7-2 Audit, Budget and Finance (Wesley M. Bannister, Chair)
- 7-3 Engineering, Operations and Real Property (Henry S. Barbosa, Chair)
- 7-4 Legal, Claims and Personnel (Gary A. Morse, Chair)
- 7-5 Communications, Outreach and Legislation (Helen Z. Hansen, Chair)
- 7-6 Water Planning, Quality and Resources (Langdon W. Owen, Chair)

8. CONSENT CALENDAR ITEMS (Action)

- 8-1 Authorize \$4.135 million to fund seven Capital Investment Plan projects for the Distribution System Rehabilitation Program (Appn. 15377). (EO&RP)

Recommendation:

Option #1:

Adopt the CEQA determination for all seven projects, appropriate \$4.135 million, and authorize the Chief Executive Officer to have all work performed, including the authority to award competitively bid contracts over \$250,000, for seven Distribution System Rehabilitation Program projects as described in the letter:

- **Design/valve procurement for the repairs and upgrades to the 5.5-mile leased portion of the West Valley Feeder No. 1 valve structures.**
- **Perform studies and prepare preliminary design and environmental documentation necessary to construct access roads and improvements to blowoff and air release/vacuum valve structures on the 2.4-mile unleased portion of the West Valley Feeder No. 1.**
- **Design rehabilitation of the Eagle Rock tower slide gates.**
- **Design/construction of the replacement of anode wells and rectifiers on the Orange County and Rialto Feeders.**
- **Perform seepage studies and a test repair to a portion of the San Diego Canal; perform preliminary design; and prepare environmental documentation necessary to perform leakage repairs to the canal.**
- **Perform preliminary design and prepare environmental documentation necessary to make repairs to the Orange County Feeder Access Road and blow-off structure.**
- **Perform preliminary design and prepare environmental documentation necessary to the Yorba Linda Feeder Portal Access Road.**
- **Conduct studies and evaluations to identify additional projects to be implemented over the next five years.**

- 8-2** Authorize \$3.3 million for design and construction of four Capital Investment Plan projects from the Allen-McColloch Pipeline Repair Program (Appn. 15352). (EO&RP)

Recommendation:

Adopt the CEQA determination and

- a. Appropriate \$3.3 million; and**
- b. Authorize the Chief Executive Officer to have all work performed, including the award of competitively bid contracts greater than \$250,000, as required to complete the four identified projects under the AMP Repair Program.**

- 8-3** Adopt resolution providing for changes in Metropolitan's contributions to medical plans maintained by Public Employees' Retirement System for the calendar year 2002. (LC&P)

Recommendation:

Adopt the CEQA determination and in accordance with the negotiated labor agreements with Metropolitan's four bargaining units, adopt the resolution increasing Metropolitan's contributions to the medical plans maintained by PERS for employees and annuitants in classifications represented by these units, said changes to be effective January 1, 2002 through December 31, 2002.

- 8-4** Adopt resolution to rename the current authorized agents to accept federal and state funding for federal- and state-declared disasters, and to sign official correspondence for disaster assistance. (Exec. 9/18)

Recommendation:

Option #1:

Adopt the CEQA determination and change the Designation of Applicant's Agent Resolution to reflect the Authorized Agents' correct titles. Such changes will allow Metropolitan's Authorized Agents to sign official applications/correspondence for financial assistance related to the above-mentioned and future disasters.

- 8-5** Approve funding for operational membership dues for fiscal year 2001/02 for new memberships and memberships that increased by more than 10 percent or \$3,000 of previous annual dues. (Exec. 9/18)

Recommendation:

Option #1:

Adopt the CEQA determination and authorize the Chief Executive Officer to pay the above-listed expected membership dues/assessments for calendar year 2002, to be paid in fiscal year 2001/02.

- 8-6** Adopt final resolutions for annexation and to impose water standby charges for Annexation Nos. 72 and 74 to Calleguas Municipal Water District and Metropolitan. (Exec. 9/18)

Recommendation:

Option #1:

Adopt the CEQA determination and

- a. Adopt a resolution granting Calleguas' request for approval of Annexation No. 72 concurrently to Metropolitan and Calleguas, conditioned upon approval of the annexation by the Ventura Local Agency Formation Commission (LAFCO), by establishing Metropolitan's terms and conditions for this annexation;**
- b. Adopt a resolution to impose water standby charges at a rate of \$9.58 per acre or per parcel of less than one acre within Annexation No. 72;**
- c. Adopt a resolution granting Calleguas' request for approval of Annexation No. 74 concurrently to Metropolitan and Calleguas, conditioned upon approval of the annexation by LAFCO, by establishing Metropolitan's terms and conditions for this annexation; and**
- d. Adopt a resolution to impose water standby charges at a rate of \$9.58 per acre or per parcel of less than one acre within Annexation No. 74.**

- 8-7** Adopt final resolutions for annexation and to impose water standby charge for the 71st Fringe Area to Eastern Municipal Water District and Metropolitan. (Exec. 9/18)

Recommendation:

Option #1:

Adopt the CEQA determination and

- a. Adopt a resolution granting Eastern's request for approval of 71st Fringe Area annexation concurrently to Metropolitan and Eastern and establishing Metropolitan's terms and conditions for this annexation; and**
- b. Adopt a resolution to impose water standby charges at a rate of \$6.94 per acre or per parcel of less than one acre within the proposed annexation.**

- 8-8** Authorize the execution of a Memorandum of Understanding with the Kings River Water Association. (WPQ&R)

Recommendation:

Option #1:

Adopt the CEQA determination and authorize the Chief Executive Officer to execute a MOU with the Association in form approved by the General Counsel based on the principles in Attachment 1 to the letter.

- 8-9** Approve development and implementation of Seawater Desalination Research Program. (WPQ&R)

Recommendation:

Option #1:

Adopt the CEQA determination, approve development and implementation of the Seawater Desalination Research Program, and delegate authority to the Chief Executive Officer to award consultant contracts within his power to commence the initial research effort.

- 8-10** Adopt resolution creating the Foundation for the Southern California Water Education Center, a 501(c)(3) corporation to support Metropolitan's Water Education Center and Museum; and approve nominees for the foundation's board of directors. (Museum 7/24)

Recommendation:

Option #1:

Adopt the CEQA determination and resolution creating an independent entity to support Metropolitan's Water Education Center and Museum through fund-raising and other support functions.

(END OF CONSENT CALENDAR)

9. OTHER BOARD ITEMS (Action)

- 9-1** Approve use of funds in the Water Rate Stabilization Fund. (AB&F)

Recommendation:

Staff concurs that the Subcommittee's recommendation to use these available funds to defer and reduce debt is a fiscally responsible use of the Water Rate Stabilization Funds. In addition, the use of these funds to encourage and finance conjunctive use, conservation and one-time security measures is consistent with Metropolitan's mission and role as regional provider. Therefore, staff recommends the Board approve either Option #3 or Option #4.

- 9-2** Adopt resolution to approve notice of potential discontinuance of service of surplus water from October 1, 2002 through September 30, 2003. (WPQ&R) **(Two-thirds vote required)**

Recommendation:

Option #1:

Adopt the CEQA determination and the Resolution of the Board of Directors giving notice of potential discontinuance of service of Interim Agricultural Water Program water in 2002.

- 9-3 Oral report on boating policy for Diamond Valley Lake and Lake Skinner.

- 9-4** Authorize entering into professional service agreement(s) for the design, project management support, construction inspection, and environmental services for the Coachella Canal Lining Project in the counties of Riverside and Imperial. (EO&RP)

Recommendation:

Option #1:

Adopt the CEQA determination and authorize the Chief Executive Officer to enter into one or more professional services agreements not to exceed \$9 million to provide for design, inspection, project management support, and environmental services necessary to facilitate the lining of unlined reaches of the Coachella Canal.

- 9-5 Oral report on *Metropolitan Water District of Southern California v. Campus Crusade for Christ*, San Bernardino County Superior Court Case No. SCV35498. (LC&P)

[Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code § 54956.9(a)]

- 9-6 Approve rate structure proposal. **(To be mailed separately)**

- 9-7 Authorize (a) entering into a cost-sharing agreement for consultant work for the completion of environmental documentation to facilitate the proposed Quantification Settlement Agreement and analysis and coordination with Salton Sea reclamation efforts; and (b) funding to Imperial Irrigation District in amounts not to exceed \$816,633. (WPQ&R) **(To be mailed separately)**

10. BOARD INFORMATION ITEMS

- 10-1 Status report for the Inland Feeder Project for the month ending August 2001. (EO&RP)
[Any discussion of potential litigation to be heard in closed session. Conference with legal counsel – significant exposure to litigation (two matters); to be heard in closed session pursuant to Gov. Code § 54956.9(b)]
- 10-2 Semiannual report on diversity. (LC&P)
- 10-3 Review of workplan for Integrated Resources Plan update. (WPQ&R)
- 10-4 Report on mediation regarding the *Planning and Conservation League, et al. v. Department of Water Resources, et al.*, Sacramento County Superior Court Case No. 95CS03216. (WPQ&R) **(To be distributed at meeting)**
[Conference with legal counsel—existing litigation; to be heard in closed session pursuant to Gov. Code § 54956.9(a)]

11. REPORTS OF SPECIAL COMMITTEES

12. FUTURE AGENDA ITEMS

13. ADJOURNMENT

NOTE: At the discretion of the Board, all items appearing on this agenda and all committee agendas, whether or not expressly listed for action, may be deliberated and may be subject to action by the Board.

Each agenda item with a committee designation will be considered and a recommendation may be made by one or more committees prior to consideration and final action by the full Board of Directors. The committee designation appears in parenthesis at the end of the description of the agenda item e.g. (EO&RP, AB&F). Committee agendas may be obtained from the Executive Secretary.

MINUTES
ADJOURNED REGULAR MEETING OF THE
BOARD OF DIRECTORS
THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
OCTOBER 16, 2001

44628 The Board of Directors of The Metropolitan Water District of Southern California met in Adjourned 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, October 16, 2001.

The Meeting was called to order by Chairman Pace at 11:10 a.m.

44629 The Meeting was opened with an invocation by Doctor John W. Blackwell, Associate Minister, First United Methodist Church of San Diego.

44630 The Pledge of Allegiance to the Flag was given, led by Board Secretary Thom Coughran.

44631 Secretary Coughran called the roll. Those answering present were: Directors Abdo, Ashley, Ball, Bannister, Barbosa, Blake, Brick, Castro, Coughran, Edwards, Fellow, Foley, Grandsen, Harris, Hansen, Herman, Lewis, Loveland, Mejia, Morse, Murph, Mylne, Owen, Pace, Parker, Peterson, Rez, Stanton, Swan, Troxel, Wein, and Wright.

Those not answering were: Directors Battey, Kwan, Luddy, Morris, and Murray (entered 11:24 a.m.)

The Chair declared a quorum present.

44632 At 11:15 a.m., the Chair called a public hearing to receive comments on the proposed standby charge for Annexation No. 75 to Calleguas Municipal Water District.

No members of the public responded; and after tabulation of the ballots was completed, and with no protests filed, the Chair closed the public hearing at 11:16 a.m.

44633 Chairman Pace inquired if there were any additions to the agenda. There being none, the Chair declared only those matters listed on the agenda would be considered.

44634 Opoku Acheampong, Gerald Blackburn, and Theodore Mayeshiba, representatives from National Engineers Week, Future City Competition, presented an award to Chairman Pace in recognition of Metropolitan's support of the Future City Competition for the last five years where middle and high school students from throughout Southern California are invited to develop a future city model. Metropolitan presents the award for "Best Design-Efficient Water Use."

44635 Chairman Pace invited members of the public to address the Board on matters within the Board's jurisdiction.

Helen C. Wagenvoord representing the coalition for environmental and public interest organizations spoke in opposition to the Cadiz Groundwater Storage and Dry-Year Supply Program. With the release of the Final EIS, she expressed concern about the environmental and economic problems that the project poses. She requested an opportunity for a technical expert to present the findings of economic and environmental risks of the project at least a month in advance before the Board takes a vote on the financial agreement with Cadiz. She urged the Board to look at other options that are less expensive and more viable and with less environmental risks.

Director Murray took his seat at 11:24 a.m.

Courtney Cuff, Pacific regional director of the National Parks Conservation Association, also spoke in opposition to the Cadiz water project. She echoed many of the concerns that Ms. Wagenvoord raised, and stated that

about twenty environmental groups sent a letter to Governor Davis expressing concern regarding this project.

Conner Evert of the Southern California Watershed Alliance expressed his continuing support for water conservation, and his preference for Option #4 in Agenda Item 9-1, the use of funds in the Water Rate Stabilization Fund.

Fred Lantz, assistant general manager, city of Burbank Water Department, commented on Agenda Item 9-1 and requested the Board approve Option #1 in the Chief Executive Officer's letter and reject Option #4.

Richard A. Harter, executive director, The Los Angeles & San Gabriel Rivers Watershed Council, spoke in favor of Option #4 in Agenda Item 9-1.

Bob Campbell of San Diego County Water Authority commented on Agenda Item 9-6, the rate structure proposal, and expressed concern regarding the proposal crafted by four of the member agencies that may not promote sound water management in two areas—the elimination of the seasonal shift program and the lack of promoting wheeling. He also would like to see preferential rights addressed in the proposal. Mr. Campbell requested the Board defer this item.

Bud Pocklington of Sweetwater Authority commented on Agenda Item 9-6 and requested the Board retain the seasonal shift storage program.

Ed Means, representing the California Avocado Commission, Southern California Agricultural Water Team, expressed his support for Agenda Item 9-6. He stated the commission appreciated Metropolitan's support of agriculture and that they are committed to work with staff and the Board in implementing the process and structure.

44636 To accommodate the visitors from the different areas of Southern California, Chairman Pace announced that he would now take up Agenda Item 9-3, the boating policy for Diamond

Valley Lake and Lake Skinner. He then called upon members of the public to receive their comments.

Comments in support of allowing all types of boating, to include gasoline-powered boats, on Diamond Valley Lake were heard from the following:

Patrick Williams, mayor, city of San Jacinto
Terry Foreman, senior fisheries biologist, Department of Fish and Game
Lori Van Arsdale, councilmember, city of Hemet
Vern Sewell, representative for Assemblyman Russ Bogh
Randy Record, board member, Eastern Municipal Water District
Barbara Voigt, director, San Geronio Pass Water Agency
Gisela Gosch, president, Hemet-San Jacinto Action Group
Sam Goepp, general manager, Valley-Wide Park and Recreation District
Harry Monahan, Southern California Marine Association
James M. Thompson, San Diego Bass Council
Gary Bradford, California Bass Chapter Federation
Pat Melvin, Valley Economic Development Corporation
David Whitefield, president, Hemet-San Jacinto Valley Chamber of Commerce
Jimmy Wilson, professional bass fisherman
Jose Torres, Valley-Wide Kayak Club
Steve Temple, city manager, city of Hemet
Richard Masyczek, planning director, city of Hemet
Robert McCubbin, Southern California Bass Council
George Buchanan, Habitat for Humanity
Bob Duisteymars, planning commissioner, city of Hemet
Al Grout, businessman, city of Redlands

Gary Crane of Duffy Electric Board spoke in favor of electric-powered boats on the lake, and opposed the use of gasoline-powered boats.

A letter from Assemblyman Dennis Hollingsworth, dated October 15, 2001, was entered into the record in support of gasoline-powered recreational vehicles on Diamond Valley Lake and Lake Skinner.

Director Mylne thanked the speakers who spoke on the recreational benefits and the protection of the quality of the water in Diamond Valley Lake. After hearing the concerns, Director Mylne offered a new Attachment 1, Alternate 1b to the boating policy letter, with a copy at each Director's table. In the new attachment, revisions have been made with certain items removed from the direct policy, to be put under the purview of a committee upon adoption of this new policy. It was also noted that the committee would also review consideration of noise levels. Director Mylne urged the Board to adopt the boating policy as set forth in the new Attachment 1, Alternate 1b.

Chairman Pace announced he would form a special committee to consider the boating operations on Diamond Valley Lake.

Director Ashley commented on the water quality and recreational aspects at Diamond Valley Lake. He also urged the Board not to vote for a policy contrary to the staff's recommendation made in September and to the policy the Board approved in 1999. Director Ashley therefore moved, seconded by Director Mylne, that the Board approve the boating policy for Diamond Valley Lake and Lake Skinner as set forth in the new Attachment 1, Alternate 1b, replacing the old Attachment 1 to the letter signed by the Chief Executive Officer on October 9, 2001.

Director Herman withdrew from the Meeting at 1:05 p.m.

Following a lengthy discussion on the various options stated in the Chief Executive Officer's letter, water quality, noise levels, speed limits, and other related points, Director Edwards moved a substitute motion, seconded by Director Castro, that the Board table this item for further consideration at the meeting of the special committee on boating regulations.

The Chair called for a vote on the substitute motion.

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

Ayes: Anaheim (Dir. Stanton, 2,159 votes), Beverly Hills (Dir. Harris, 1,183 votes), Compton (Dir. Murph, 193

votes), Foothill Municipal Water District (Dir. Edwards, 728 votes), Fullerton (Dir. Blake, 822 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,101 votes), Long Beach (Dir. Hansen, 2,045 votes), Los Angeles (Ayes: Dirs. Castro and Wein. Absent: Dirs. Herman and Luddy. 22,777 votes), Municipal Water District of Orange County (Dirs. Bannister, Foley, Owen, and Swan, 19,827 votes), San Diego County Water Authority (Dir. Lewis, 4,940.25 votes), San Fernando (Dir. Mejia, 88 votes), Santa Ana (Dir. Coughran, 1,291 votes), Santa Monica (Dir. Abdo, 1,344 votes). Total 58,498.25 votes.

Noes: Calleguas Municipal Water District (Dir. Grandsen, 4,611 votes), Central Basin Municipal Water District (Dir. Morse, 3,402.50 votes), Eastern Municipal Water District (Dir. Ashley, 2,314 votes), Glendale (Dir. Rez, 1,353 votes), Inland Empire Utilities Agency (Dir. Troxel, 4,056 votes), Pasadena (Dir. Brick, 1,098 votes), San Diego County Water Authority (Dirs. Ball, Loveland, and Parker, 14,820.75 votes), Three Valleys Municipal Water District (Dir. Barbosa, 3,024 votes), Torrance (Dir. Wright, 1,407 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 4,296 votes), West Basin Municipal Water District (No: Dir. Murray. Absent: Dir. Kwan. 8,086 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 3,627 votes). Total 52,095.25 votes.

Abstains: Central Basin Municipal Water District (Dir. Pace, 3,402.50 votes). Total 3,402.50 votes.

Absent: Burbank (Dir. Battey, 1,061 votes), San Marino (Dir. Morris, 250 votes). Total 1,311 votes.

The Chair declared the substitute motion carried by a vote of 58,498.25 ayes, 52,095.25 noes, 3,402.50 abstains, and 1,311 absent.

44637 At 1:18 p.m., the Chair recessed the Meeting for a break.

Directors Ashley and Lewis withdrew from the Meeting at 1:18 p.m.

At 1:43 p.m., the Chair called the Meeting into session.

44638 There being no objection, the Chair ordered the reading of the Minutes of the Meeting of September 11, 2001, dispensed with, a copy having been mailed to each Director.

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

44639 The General Counsel's letter signed October 11, 2001, was presented, transmitting the credentials evidencing the appointment by San Diego County Water Authority of George I. Loveland as one of its representatives on Metropolitan's Board for an indefinite term, replacing Francesca M. Krauel.

General Counsel Walston reported the credentials had been examined and found legally sufficient, and that the Oath of Office was administered to Director Loveland on October 15, 2001. The Chair ordered the credentials, together with the General Counsel's letter, received and filed.

Following an introduction by Director Parker, Director Loveland took his seat as a Director representing San Diego County Water Authority.

44640 The General Counsel's letter signed October 1, 2001, was presented, transmitting the credentials evidencing the reappointment by the city of Torrance of Director Bill Wright as its representative on Metropolitan's Board for a term ending December 31, 2004.

General Counsel Walston reported the credentials had been examined and found legally sufficient, and that the Oath of Office was administered to Director Wright on October 15, 2001. The Chair ordered the credentials, together with the General Counsel's letter, received and filed.

44641 Director Blake moved, seconded by Director Hansen and carried, approving the Chair's appointment of Director Loveland to the Water Planning, Quality and Resources Committee and the Legal, Claims and Personnel Committee.

44642 Chief Executive Officer Gastelum presented to Board Executive Officer Ivey a 30-year service pin. The Board congratulated Mr. Ivey on his accomplishments at Metropolitan.

44643 Chairman Pace reported on events in which he participated on behalf of Metropolitan, as follows: On October 5 the Chair, Chief Executive Officer Gastelum, and Board Executive Officer Ivey attended the Arroyo Seco Watershed Restoration event in Pasadena. Also in attendance were California Secretary of Resources Mary Nichols; Chair of the State Water Resources Control Board Art Baggett; Director Tim Brick, representing the Arroyo Seco Foundation and Metropolitan, and representatives of Northeast Trees. The Resources Agency and the Water Resources Control Board recognized the Arroyo Seco for the collaborative process that has been used to undertake watershed planning and management.

The Chair announced that on October 25, at the Southern California Water Committee's meeting, Director Owen will be honored with a 2001 Lifetime Achievement Award.

44644 Subcommittee on Rate Structure Implementation Chair Brick stated he was pleased to report that the subcommittee and the Board have reached a milestone that really began in 1997 at the beginning of the Strategic Plan process. The implementation of the rate structure is an outgrowth of that work and development of the rate structure action plan that the Board approved last December. Director Brick reported that four of the member agencies came up with a lot of key issues that the subcommittee and the member agencies have been grappling with and enabled us to make progress. After the meetings on September 18 and 25, a motion was made to present the recommendations based on the proposal of the four member agencies.

Director Ashley returned to the Meeting at 1:58 p.m.

Subcommittee Chairman Brick moved, seconded by Board Secretary Coughran, that the Board adopt the CEQA determination and **Resolution 8774** approving the Member Agency Managers' Proposal and direct staff to take the necessary steps to implement rates and charges as defined by the Proposal to be effective January 1, 2003, as set forth in the letter of the

Chief Executive Officer signed on October 9, 2001, said Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA TO APPROVE RATE STRUCTURE PROPOSAL AND TO DIRECT FURTHER ACTIONS IN CONNECTION THEREWITH

Metropolitan's staff responded to each of the points raised by San Diego County Water Authority including the rationale and support for the current proposal.

Following a question-and-answer session and a lengthy discussion on the rate structure proposal, Director Owen commented on the growth charge and therefore moved, seconded by Director Stanton, to modify the language in the proposal to put a growth charge in place by the year 2006 if found necessary, and consistent with state law.

Director Abdo requested the maker of the original motion to incorporate language that would reassure all agencies that there would be an opportunity to come back to the Board for a change in case of unexpected events (such as a loss of local wells due to changes in regulations) that may arise.

Director Brick then requested separate votes on all motions.

The Chair called for a vote on the main motion made by Director Brick.

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

Ayes: Calleguas Municipal Water District (Dir. Grandsen, 4,611 votes), Central Basin Municipal Water District (Dir. Morse, 3,402.50 votes), Compton (Dir. Murph, 193 votes), Eastern Municipal Water District (Dir. Ashley, 2,314 votes), Fullerton (Dir. Blake, 822 votes), Glendale (Dir. Rez, 1,353 votes), Inland Empire Utilities Agency (Dir. Troxel, 4,056 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,101 votes), Long Beach (Dir. Hansen, 2,045 votes), Los Angeles (Ayes: Dirs. Castro and Wein. Absent: Dirs. Herman and Luddy. 22,777 votes), Pasadena (Dir. Brick, 1,098 votes), San Fernando

(Dir. Mejia, 88 votes), Santa Ana (Dir. Coughran, 1,291 votes), Santa Monica (Dir. Abdo, 1,344 votes), Three Valleys Municipal Water District (Dir. Barbosa, 3,024 votes), Torrance (Dir. Wright, 1,407 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 4,296 votes), West Basin Municipal Water District (Aye: Dir. Murray. Absent: Dir. Kwan. 8,086 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 3,627 votes). Total 66,935.50 votes.

Noes: Anaheim (Dir. Stanton, 2,159 votes), Beverly Hills (Dir. Harris, 1,183 votes), Foothill Municipal Water District (Dir. Edwards, 728 votes), Municipal Water District of Orange County (Dirs. Bannister, Foley, Owen, and Swan, 19,827 votes), San Diego County Water Authority (Noes: Dirs. Ball, Loveland, and Parker. Absent: Dir. Lewis. 19,761 votes). Total 43,658 votes.

Abstains: Central Basin Municipal Water District (Dir. Pace, 3,402.50 votes). Total 3,402.50 votes.

Absent: Burbank (Dir. Battey, 1,061 votes), San Marino (Dir. Morris, 250 votes). Total 1,311 votes.

The Chair declared the motion carried by a vote of 66,935.50 ayes, 43,658 noes, 3,402.50 abstains, and 1,311 absent.

Director Blake withdrew from the Meeting at 2:30 p.m.

The Chair then called for a vote on the motion made by Director Owen.

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

Ayes: Anaheim (Dir. Stanton, 2,159 votes), Beverly Hills (Dir. Harris, 1,183 votes), Foothill Municipal Water District (Dir. Edwards, 728 votes), Municipal Water District of Orange County (Dirs. Bannister, Foley, Owen, and Swan, 19,827 votes), San Diego County Water Authority (Ayes: Dirs. Ball, Loveland, and Parker. Absent: Dir. Lewis. 19,761 votes), San Fernando (Dir. Mejia, 88 votes), Santa Ana (Dir. Coughran, 1,291 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 3,627 votes). Total 48,664 votes.

Noes: Calleguas Municipal Water District (Dir. Grandsen, 4,611 votes), Central Basin Municipal Water District (Dir. Morse, 3,402.50 votes), Compton (Dir. Murph, 193 votes), Eastern Municipal Water District (Dir. Ashley, 2,314 votes), Glendale (Dir. Rez, 1,353 votes), Inland Empire Utilities Agency (Dir. Troxel, 4,056 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,101 votes), Long Beach (Dir. Hansen, 2,045 votes), Los Angeles (Noes: Dirs. Castro and Wein. Absent: Dirs. Herman and Luddy. 22,777 votes), Pasadena (Dir. Brick, 1,098 votes), Santa Monica (Dir. Abdo, 1,344 votes), Three Valleys Municipal Water District (Dir. Barbosa, 3,024 votes), Torrance (Dir. Wright, 1,407 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 4,296 votes), West Basin Municipal Water District (No: Dir. Murray. Absent: Dir. Kwan. 8,086 votes). Total 61,107.50 votes.

Abstains: Central Basin Municipal Water District (Dir. Pace, 3,402.50 votes). Total 3,402.50 votes.

Absent: Burbank (Dir. Battey, 1,061 votes), Fullerton (Dir. Blake, 822 votes), San Marino (Dir. Morris, 250 votes). Total 2,133 votes.

The Chair declared the motion failed by a vote of 48,664 ayes, 61,107.50 noes, 3,402.50 abstains, and 2,133 absent.

Director Abdo withdrew her comments regarding a change in case of unexpected events.

Director Blake returned to the Meeting at 2:40 p.m.

Director Barbosa withdrew from the Meeting at 2:40 p.m.

Director Wright stated he would like a vote on the comments made by Director Abdo, and therefore moved, seconded by Director Abdo, that language be incorporated in the proposal that would reassure all agencies that there would be an opportunity to come back to the Board for a change in case of unexpected events that may arise.

The Chair called for a vote on the motion made by Director Wright.

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

Ayes: Beverly Hills (Dir. Harris, 1,183 votes), Calleguas Municipal Water District (Dir. Grandsen, 4,611 votes), Compton (Dir. Murph, 193 votes), Eastern Municipal Water District (Dir. Ashley, 2,314 votes), Foothill Municipal Water District (Dir. Edwards, 728 votes), Glendale (Dir. Rez, 1,353 votes), Inland Empire Utilities Agency (Dir. Troxel, 4,056 votes), Municipal Water District of Orange County (Dirs. Bannister, Foley, and Swan, 14,870.25 votes), Pasadena (Dir. Brick, 1,098 votes), San Diego County Water Authority (Ayes: Dirs. Ball, Loveland, and Parker. Absent: Dir. Lewis. 19,761 votes), San Fernando (Dir. Mejia, 88 votes), Santa Monica (Dir. Abdo, 1,344 votes), Torrance (Dir. Wright, 1,407 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 3,627 votes). Total 56,633.25 votes.

Noes: Anaheim (Dir. Stanton, 2,159 votes), Central Basin Municipal Water District (Dir. Morse, 3,402.50 votes), Fullerton (Dir. Blake, 822 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,101 votes), Long Beach (Dir. Hansen, 2,045 votes), Los Angeles (Noes: Dirs. Castro and Wein. Absent: Dirs. Herman and Luddy. 22,777 votes), Municipal Water District of Orange County (Dir. Owen, 4,956.75 votes), Santa Ana (Dir. Coughran, 1,291 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 4,296 votes), West Basin Municipal Water District (No: Dir. Murray. Absent: Dir. Kwan. 8,086 votes). Total 50,9367.25 votes.

Abstains: Central Basin Municipal Water District (Dir. Pace, 3,402.50 votes). Total 3,402.50 votes.

Absent: Burbank (Dir. Battey, 1,061 votes), San Marino (Dir. Morris, 250 votes), Three Valleys Municipal Water District (Dir. Barbosa, 3,024 votes). Total 4,335 votes.

The Chair declared the motion failed as the aye votes represented 49.12 percent of the total votes of the Board.

Director Abdo requested the Minutes reflect the essence that the member agencies always have the ability to seek relief in the event of unavoidable circumstances.

44645 Regarding the Colorado River, Bay-Delta and CALFED matters, and the summary of District activities, Chief Executive Officer Gastelum referred to his Fiscal Year 2001/02 Business Plan--First Quarter Update signed October 5, 2001. Mr. Gastelum reported that Metropolitan was the successful bidder to buy lands in the Palo Verde Valley from Sempra Energy.

Director Barbosa returned to the Meeting at 2:45 p.m.

Director Stanton withdrew from the Meeting at 2:45 p.m.

44646 Regarding the Legal Department activities, General Counsel Walston referred to his activity report dated September 28, 2001. Mr. Walston reported that in the San Diego County Water Authority's case on preferential rights, San Diego filed an answer to Metropolitan's demurrer, and argument would be held before the Superior Court on November 19, 2001.

Director Rez withdrew from the Meeting at 2:48 p.m.

44647 The reports of the Standing Committees are as follows:

On behalf of the Executive Committee, Chairman Pace reported at its meeting of September 18, the committee approved Consent Calendar Items 8-4 through 8-7, and heard reports from Director Edwards on the Subcommittee on Rules and Ethics; Director Foley on the activities of the Colorado River Board; and Director Brick on the activities of the Subcommittee on Rate Structure Implementation.

Chief Executive Officer Gastelum gave a monthly report on the activities of his department and an update on security at Metropolitan's facilities following the September 11 terrorist action. Chairman Pace announced that all third party events at Metropolitan's public facilities would be cancelled indefinitely. The Chair then called on Communications, Outreach and Legislation Committee Chair Hansen for an inspection trip update.

Communications, Outreach and Legislation Committee Chair Hansen reported that in response to the suspension of all regularly scheduled inspection trips through December 31, she has appointed a subcommittee to meet next Tuesday to address the issues. The subcommittee will review how to work in the trips for those Directors who have already had their trips cancelled once the trips resume after a firm date has been set. Also, some trips may be scheduled to facilities that are not labeled "secured" under the current climate. Some adult-focused informational trips will be scheduled that would be acceptable to Directors as options, and not requirements. The normal inspection trips will continue at some point in time in just the manner in which the Directors request.

Director Hansen announced that Metropolitan is going to sponsor a special reception on November 20 honoring Assemblywoman Lynn Daucher for her leadership in water issues, in particular for AB 901, the Metropolitan-sponsored bill on water quality that requires Urban Water Management Plans to include, when available, information about the source quality of water.

Audit, Budget and Finance Committee Chairman Bannister reported the committee, after a lengthy discussion, tabled Agenda Item 9-1 and requested that the Board take it up for consideration and action.

Engineering, Operations and Real Property Committee Chairman Barbosa reported the committee approved Agenda Items 8-1, 8-2 and 9-4, and requested that Item 9-4 be added to the Consent Calendar.

Legal, Claims and Personnel Committee Chairman Morse reported the committee approved Agenda Item 8-3 and deferred Agenda Item 9-5, the oral report on *Metropolitan v. Campus Crusade for Christ*, to the November meeting.

Water Planning, Quality and Resources Committee Chairman Owen reported the committee approved unanimously Agenda Items 8-8, 8-9, and 9-2, and requested that Item 9-2 be added to the Consent Calendar. Agenda Item 9-7 was approved by a split vote, and Director Owen requested this item be further discussed at the Board Meeting.

Director Murray moved, seconded by Director Foley and carried, and the Board approved the Consent Calendar Items, M.I. 44648 through M.I. 44659, as follows:

44648 Adopted the California Environmental Quality Act (CEQA) determination for all seven projects, and authorized (a) Appropriation No. 15377 in the amount of \$4.135 million from the Construction Funds; and (b) the Chief Executive Officer to have all work performed, including the authority to award competitively bid contracts over \$250,000 for seven Distribution System Rehabilitation Program projects as described in the letter signed by the Chief Executive Officer on September 25, 2001:

- Design/valve procurement for the repairs and upgrades to the 5.5-mile leased portion of the West Valley Feeder No. 1 valve structures.
- Perform studies and prepare preliminary design and environmental documentation necessary to construct access roads and improvements to blow-off and air release/vacuum valve structures on the 2.4-mile unleased portion of the West Valley Feeder No. 1.
- Design/rehabilitation of the Eagle Rock Tower slide gates.
- Design/construction of the replacement of anode wells and rectifiers on the Orange County and Rialto Feeders.
- Perform seepage studies and a test repair to a portion of the San Diego Canal; perform preliminary design; and prepare environmental documentation necessary to perform leakage repairs to the canal.
- Perform preliminary design and prepare environmental documentation necessary to make repairs to the Orange County Feeder Access Road and Blow-off Structure.
- Perform preliminary design and prepare environmental documentation necessary to make repairs to the Yorba Linda Feeder Portal Access Road.
- Conduct studies and evaluations to identify additional projects to be implemented over the next five years.

44649 Adopted the CEQA determination and authorized (a) an increase of \$3.3 million to a total of \$3.8 million in Appropriation No. 15352 (No. 2); and (b) the Chief Executive

Officer to have all work performed, including the award of competitively bid contracts greater than \$250,000, as required to complete the four identified projects under the Allen-McColloch Pipeline Repair Program, as set forth in the letter signed by the Chief Executive Officer on September 27, 2001.

44650 The Board adopted (a) the CEQA determination; and (b) in accordance with the negotiated labor agreements with Metropolitan's four bargaining units, **Resolution 8775** increasing Metropolitan's contributions to the medical plans maintained by Public Employees' Retirement System for employees and annuitants in classifications represented by these units, said changes to be effective January 1, 2002 through December 31, 2002, as set forth in the letter signed by the Chief Executive Officer on September 25, 2001, said Resolution entitled:

RESOLUTION FIXING THE EMPLOYER'S CONTRIBUTION UNDER THE PUBLIC EMPLOYEES' MEDICAL AND HOSPITAL CARE ACT

44651 The Board adopted (a) the CEQA determination; and (b) **Resolution 8776** to change the Designation of Applicant's Agent Resolution to reflect the Authorized Agents' correct titles, as set forth in the letter signed by the Chief Executive Officer on September 24, 2001, said Resolution entitled:

DESIGNATION OF APPLICANT'S AGENT RESOLUTION

44652 Adopted the CEQA determination and authorized the Chief Executive Officer to pay the listed expected membership dues/assessments for calendar year 2002, to be paid in fiscal year 2001/02, as set forth in the letter signed by the Chief Executive Officer on September 13, 2001.

44653 The Board adopted (a) the CEQA documentation; (b) **Resolution 8777**, granting Calleguas Municipal Water District's request for approval of Annexation No. 72 concurrently to Metropolitan and Calleguas, conditioned upon approval of the annexation by the Ventura Local Agency Formation Commission (LAFCO), by establishing Metropolitan's terms and conditions for this annexation; (c) **Resolution 8778**, the resolution to impose water standby charges at a rate of \$9.58 per acre or per parcel of less than one acre within Annexation No. 72; (d) **Resolution 8779** granting Calleguas' request for

approval of Annexation No. 74 concurrently to Metropolitan and Calleguas, conditioned upon approval of the annexation by LAFCO, by establishing Metropolitan's terms and conditions for this annexation; and (e) **Resolution 8780**, the resolution to impose water standby charges at a rate of \$9.58 per acre or per parcel of less than one acre within Annexation No. 74, as set forth in the letter signed by the Chief Executive Officer on September 11, 2001; said Resolutions entitled:

- Resolution 8777** RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA CONSENTING TO CALLEGUAS' ANNEXATION NO. 72 AND FIXING THE TERMS AND CONDITIONS OF SAID ANNEXATION TO THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
- Resolution 8778** RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING WATER STANDBY CHARGE CONTINGENT UPON CALLEGUAS ANNEXATION NO. 72
- Resolution 8779** RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA CONSENTING TO CALLEGUAS' ANNEXATION NO. 74 AND FIXING THE TERMS AND CONDITIONS OF SAID ANNEXATION TO THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA
- Resolution 8780** RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING WATER STANDBY CHARGE CONTINGENT UPON CALLEGUAS ANNEXATION NO. 74

Director Grandsen requested to be recorded as abstaining.

44654 The Board adopted (a) the CEQA documentation; (b) **Resolution 8781**, granting Eastern Municipal Water District's request for approval of 71st Fringe Area annexation concurrently to Metropolitan and Eastern and establishing Metropolitan's terms and conditions for this annexation; and (c) **Resolution 8782**, the resolution to impose water standby charges at a rate of \$6.94 per acre or per parcel of less than one acre within the proposed annexation, as set forth in the letter signed by the Chief Executive Officer on September 7, 2001; said Resolutions entitled:

Resolution 8781 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA CONSENTING TO EASTERN'S 71st FRINGE AREA ANNEXATION AND FIXING THE TERMS AND CONDITIONS OF SAID ANNEXATION TO THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA

Resolution 8782 RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA FIXING AND ADOPTING WATER STANDBY CHARGE CONTINGENT UPON EASTERN 71st FRINGE AREA ANNEXATION

Director Ashley requested to be recorded as abstaining.

44655 Adopted the CEQA determination and authorized the Chief Executive Officer to execute a Memorandum of Understanding with the Kings River Water Association in form approved by the General Counsel based on the principles in Attachment 1 to the letter signed by the Chief Executive Officer on September 25, 2001.

44656 Adopted the CEQA determination, approved development and implementation of the Seawater Desalination Research Program, and delegated authority to the Chief Executive Officer to award consultant contracts within his power to commence the initial research effort, as set forth in the letter signed by the Chief Executive Officer on September 28, 2001.

44657 The Board adopted (a) the CEQA determination; and (b) **Resolution 8783** creating an independent entity to support Metropolitan's Water Education Center and Museum through fund-raising and other support functions, as set forth in the letter signed by the Chairman of the Board on October 2, 2001, said Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA APPROVING THE ESTABLISHMENT OF A NONPROFIT 501(c)(3) FOUNDATION FOR THE SOUTHERN CALIFORNIA WATER EDUCATION CENTER

44658 The Board, by a two-thirds vote, adopted the CEQA determination and **Resolution 8784** of the Board of Directors giving notice of potential discontinuance of service of Interim Agricultural Water Program water in 2002, as set forth in the letter signed by the Chief Executive Officer on September 24, 2001, said Resolution entitled:

RESOLUTION OF THE BOARD OF DIRECTORS OF THE METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA DIRECTING THE GIVING OF NOTICE OF POTENTIAL DISCONTINUANCE OF SERVICE OF SURPLUS WATER IN 2002

44659 Adopted the CEQA determination and authorized the Chief Executive Officer to enter into one or more professional services agreements not to exceed \$9 million to provide for design, inspection, project management support, and environmental services necessary to facilitate the lining of unlined reaches of the Coachella Canal, as set forth in the letter signed by the Chief Executive Officer on October 2, 2001.

44660 Director Barbosa moved, seconded by Director Ashley, that the Board adopt Option #4 as stated in the letter signed by the Chief Executive Officer on September 27, 2001, as follows:

"Adopt the CEQA determination and authorize that \$58 million be designated to help achieve long-term reliability, security, and water quality goals and \$25.5 million be credited on the member agencies' water bills."

Director Castro reported on the discussion by the Subcommittee on Investments and Bond Financing, and moved a

substitute motion that the Board use 60 percent of the funds for capital purposes and defer debt and use 40 percent of the funds to credit member agencies against future water bills. Director Swan seconded the substitute motion.

Director Brick commented on the reserve policy and of the action taken by the Legislature last year in that regard, and said the monies should be returned to the member agencies. He stated his preference for Option #1 to authorize \$83.5 million be deposited into the Member Agency Transition Account, as stated in the Chief Executive Officer's letter.

Following further discussion on the use of funds in the Water Rate Stabilization Fund, Director Troxel offered a friendly amendment to Director Barbosa's motion (1) to give credit to the member agencies on their water bills; (2) to fund such projects for water infrastructure improvements at the local level; (3) direct staff to periodically report to the Board on the specific water infrastructure improvements made; and (4) direct staff to prepare an analysis of the security needs as they have characterized as having a value of approximately \$5 million and provide a recommendation regarding the expenditures at the December Board Meeting.

Director Barbosa again moved, seconded by Director Ashley, that the Board adopt Option #4 to include Director Troxel's amendment.

The Chair called for a vote on the substitute motion made by Director Castro.

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

Ayes: Central Basin Municipal Water District (Dir. Morse, 3,402.50 votes), Foothill Municipal Water District (Dir. Edwards, 728 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,101 votes), Long Beach (Dir. Hansen, 2,045 votes), Los Angeles (Ayes: Dirs. Castro and Wein. Absent: Dirs. Herman and Luddy. 22,777 votes), Municipal Water District of Orange County (Dirs. Owen and Swan, 9,913.50 votes), San Diego County Water Authority (Ayes: Dirs. Ball, Loveland, and Parker. Absent: Dir. Lewis. 19,761 votes), Santa Ana (Dir. Coughran,

1,291 votes), Torrance (Dir. Wright, 1,407 votes), West Basin Municipal Water District (Aye: Dir. Murray. Absent: Dir. Kwan. 8,086 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 3,627 votes). Total 74,139 votes.

Noes: Beverly Hills (Dir. Harris, 1,183 votes), Calleguas Municipal Water District (Dir. Grandsen, 4,611 votes), Compton (Dir. Murph, 193 votes), Eastern Municipal Water District (Dir. Ashley, 2,314 votes), Fullerton (Dir. Blake, 822 votes), Inland Empire Utilities Agency (Dir. Troxel, 4,056 votes), Municipal Water District of Orange County (Dirs. Bannister and Foley, 9,913.50 votes), Pasadena (Dir. Brick, 1,098 votes), San Fernando (Dir. Mejia, 88 votes), Santa Monica (Dir. Abdo, 1,344 votes), Three Valleys Municipal Water District (Dir. Barbosa, 3,024 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 4,296 votes). Total 32,942.50 votes.

Abstains: Central Basin Municipal Water District (Dir. Pace, 3,402.50 votes). Total 3,402.50 votes.

Absent: Anaheim (Dir. Stanton, 2,159 votes), Burbank (Dir. Battey, 1,061 votes), Glendale (Dir. Rez, 1,353 votes), San Marino (Dir. Morris, 250 votes). Total 4,823 votes.

The Chair declared the motion carried by a vote of 74,139 ayes, 32,942.50 noes, 3,402.50 abstains, and 4,823 absent.

Director Barbosa withdrew from the Meeting at 3:35 p.m.

Director Parker withdrew from the Meeting at 3:39 p.m.

44661 Assistant General Counsel Kightlinger gave a detailed explanation of the cost-sharing agreement for the completion of environmental documentation to facilitate the proposed Quantification Settlement Agreement.

Director Wright moved, seconded by Director Foley, that the Board adopt the CEQA documentation and contingent on resolution of cost sharing for Quantification Settlement Agreement (QSA)-related mitigation, the Board (a) authorize the

Chief Executive Officer to enter into a cost sharing agreement with Imperial Irrigation District (IID), Coachella Valley Water District, and San Diego County Water Authority for completion of environmental documentation facilitating consideration of the QSA; and (b) provide funding to IID in amounts not to exceed \$816,633, as set forth in the letter signed by the Chief Executive Officer on October 11, 2001.

Director Peterson expressed concern that Metropolitan's agreement to share these costs should not commit Metropolitan to either any new obligation under the QSA, or to any future participation in a reclamation of the Salton Sea.

The Chair called for a vote on the motion.

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

Ayes: Calleguas Municipal Water District (Dir. Grandsen, 4,611 votes), Central Basin Municipal Water District (Dir. Morse, 3,402.50 votes), Eastern Municipal Water District (Dir. Ashley, 2,314 votes), Los Angeles (Aye: Dir. Wein. Absent: Dirs. Herman and Luddy. 11,388.50 votes), Municipal Water District of Orange County (Ayes: Dirs. Foley, Owen and Swan, 14,870.25 votes), San Diego County Water Authority (Ayes: Dirs. Ball and Loveland. Absent: Dirs. Lewis and Parker. 19,761 votes), Torrance (Dir. Wright, 1,407 votes). Total 57,754.25 votes.

Noes: Beverly Hills (Dir. Harris, 1,183 votes), Compton (Dir. Murph, 193 votes), Foothill Municipal Water District (Dir. Edwards, 728 votes), Fullerton (Dir. Blake, 822 votes), Inland Empire Utilities Agency (Dir. Troxel, 4,056 votes), Las Virgenes Municipal Water District (Dir. Peterson, 1,101 votes), Long Beach (Dir. Hansen, 2,045 votes), Los Angeles (Dir. Castro, 11,388.50 votes), Municipal Water District of Orange County (Dir. Bannister, 4,956.75 votes), Pasadena (Dir. Brick, 1,098 votes), San Fernando (Dir. Mejia, 88 votes), Santa Monica (Dir. Abdo, 1,344 votes), Upper San Gabriel Valley Municipal Water District (Dir. Fellow, 4,296 votes), West Basin Municipal Water District (No: Dir. Murray. Absent: Dir. Kwan. 8,086 votes), Western Municipal Water District of Riverside County (Dir. Mylne, 3,627 votes). Total 45,012.25 votes.

Abstains: Central Basin Municipal Water District (Dir. Pace, 3,402.50 votes), Santa Ana (Dir. Coughran, 1,291 votes). Total 4,693.50 votes.

Absent: Anaheim (Dir. Stanton, 2,159 votes), Burbank (Dir. Battey, 1,061 votes), Glendale (Dir. Rez, 1,353 votes), San Marino (Dir. Morris, 250 votes), Three Valleys Municipal Water District (Dir. Barbosa, 3,024 votes). Total 7,847 votes.

The Chair declared the motion carried by a vote of 57,754.25 ayes, 45,012.25 noes, 4,693.50 abstains, and 7,847 absent.

44662 The following communications were submitted to the Board for information:

- a. Status report for the Inland Feeder Project for the month ending August 2001, signed by the Chief Executive Officer on September 25, 2001.
- b. Letter of the Chief Executive Officer signed on September 25, 2001, submitting the Semiannual report on diversity.
- c. Letter of the Chief Executive Officer signed on September 27, 2001, submitting the Review of workplan for the Integrated Resources Plan Update.
- d. Confidential letter of the Chief Executive Officer signed on September 27, 2001, reporting on mediation regarding the *Planning and Conservation League, et al. v. Department of Water Resources, et al.*, Sacramento County Superior Court Case No. 95CS03216.

44663 The Chair announced that the meetings of the Subcommittee on Rules and Ethics and the Executive Committee, scheduled to meet after the Board Meeting, have been cancelled and will be held on Tuesday, October 23, 2001. Appropriate notices will be sent out.

44664 There being no objection, the Chair adjourned the Meeting at 3:45 p.m. to Tuesday, November 20, 2001.

THOM COUGHRAN
SECRETARY

PHILLIP J. PACE
CHAIRMAN