



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

June 14, 2011

Metropolitan Water District Board Delegation
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123-1233

Dear Board Members:

Response to June 13, 2011, letter on June Board Item 8-6 – Chino Basin Desalination Program

Thank you for your letter to Chairman Foley on Board Item 8-6: *Authorize entering into a consolidated agreement under the Local Resources Program with the Inland Empire Utilities Agency, Western Municipal Water District, and Chino Basin Desalter Authority for the Chino Basin Desalination Program*. Your letter expresses your delegation's concern with The Metropolitan Water District of Southern California's (Metropolitan) staff's recommendation and I have been asked by the Chairman to respond. As you are aware, this item was approved by the Water Planning and Stewardship Committee meeting on June 13, 2011, and is scheduled to be considered at the Board meeting on June 14, 2011.

Your letter outlines concerns with moving forward with a consolidated agreement in several areas:

No Showing of Regional Benefit – Metropolitan supports the development of water recycling and groundwater recovery projects through the Local Resources Program (LRP). To qualify for LRP funding, a groundwater recovery project must provide regional benefit by increasing local groundwater production. As such, under the consolidated agreement, there are greater regional performance assurances as the local agencies are required to increase groundwater production over an established baseline prior to receiving LRP funding. This provision ensures increased regional water supply reliability and flexibility to meet imported water demands in other parts of the service area which is a regional benefit as defined by the program.

Analysis Depends on Outdated Facts – Since the inception of the Groundwater Recovery Program in 1991, replenishment costs have been included as an eligible cost for consideration. In 2006/07, Metropolitan convened a task force comprised of member and retail agencies to review the LRP. The task force reviewed replenishment cost eligibility and recommended no change to the program established in 1991. These recommendations were affirmed by the Board in April 2007. Staff is reviewing the replenishment program to see what modification may be appropriate to that program in a separate forum.

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Agreement is Inconsistent with Board Policy on Grant Funding – The proposed consolidated agreement accounts for grant funding. The negotiated incentive of \$139 per acre-foot assumes the project will receive about \$28 million in grant funding, equivalent to about 22 percent of the project's capital cost. This approach was based on past federal grants, which are typically capped at 25 percent of the project cost. Metropolitan's incentive payments will not increase if less grant funding is received. Should there be grants that exceed \$28 million, these additional grant funds would be shared equally between Metropolitan and the agencies, which would encourage continued pursuit of grants to help offset capital and operations and maintenance costs.

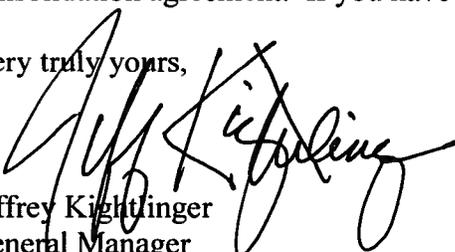
Agreement Violates Board Policy for LRP Agreements – Consistent with Board policy, the appropriate termination provisions will be included in the consolidated agreement. The provisions are consistent with the action cited in your letter.

Metropolitan Should Collect Overpayment and Increase Oversight – The dispute over \$6 million in payments was identified as part of the standard and anticipated reconciliation process performed at the conclusion of FY 2008/09. The proposed consolidation allows Metropolitan to recover this disputed payment and is consistent with past practices to work with member and retail agencies to identify an appropriate reconciliation.

Disqualification Effect on Water Authority Benefits – Metropolitan's Board is scheduled to consider termination of incentive agreements with the Water Authority that contain RSI language at the Legal and Claims Committee meeting and Board meeting on June 14, 2011. SDCWA can propose changes to existing Board policy in that context.

I hope this clarifies some of the questions and concerns you have with the proposed consolidation agreement. If you have any questions, please contact me or my staff.

Very truly yours,


Jeffrey Kightlinger
General Manager

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cc: Board of Directors
Member Agency Managers