

SOUTH COAST



WATER DISTRICT

September 16, 2009

The Honorable Kim Dunning
Presiding Judge of the Superior Court
700 Civic Center Drive West
Santa Ana, CA 92701

SUBJECT: GRAND JURY RESPONSE
WATER DISTRICTS: "PAPER WATER" – DOES ORANGE COUNTY
HAVE A RELIABLE FUTURE?

Dear Honorable Kim Dunning:

In response to the request from the Grand Jury dated June 15, 2009, South Coast Water District (SCWD) submits the following information:

Response to Findings

F.1 There is inadequate coordination between local land-use planning agencies and local water supply agencies

F.1(a) Water agencies have tended to avoid interfering with or participating in growth-management decisions

F.1(b) Cities and the County have tended to not critically evaluate the limitations of the water agencies' supply projections

Disagree. Water agencies are not land planning agencies – by design. Historically and today, water communities have had the responsibility of providing water for the approved land use. Planning being performed at the local, regional and state levels is aimed at using our existing water supplies more efficiently and developing new supplies and systems to accommodate the current and future needs of our residents and businesses and to improve supply reliability where necessary.

In addition, SCWD believes that it has excellent local coordination regarding projects developed within the City of Dana Point, the City of Laguna Beach and the City of San Clemente. The District projects water supply availability via the Urban Water Management Plan (UWMP), adopted most recently in 2005. The UWMP is submitted to and reviewed by the Cities served by the SCWD, the District's wholesale water supplier, MWDOC, and the State of California Department of Water Resources (DWR). The District also adopted in 2009 a 10-Year Infrastructure Master Plan, which covers the potable water supply, storage and distribution systems. Both plans are available on the

District's web-site at scwd.org and discuss the District's water supply planning projections.

The SCWD has done planning as well as educated the local jurisdictions regarding future potential reductions in water supply via presentations to the City Councils and local stakeholder groups. The District adopted in 2009 a comprehensive Water Conservation Ordinance and through the process of public education and enforcement efforts is gaining compliance of the local community. This Ordinance was adopted in coordination and with full review and comment by the local cities serviced by the District. The local cities are aware that in the event of a decrease of more than 40% in delivered imported water, no new water services will be provided and will-serve letters will not be issued.

F.2 California's looming water supply crises receives very little expressed concern from the public

F.2(a) Orange County's citizens and interest groups do not appear to grasp the seriousness of the water supply situation

F.2(b) Several recent, substantial water supply awareness efforts show promise but appear to targeted to audiences that are already informed

Disagree. SCWD believes many citizens in its community have an interest in and understand water supply concerns. Evidence of citizen involvement: (i) Two major civic associations are active in SCWD service area: the South Laguna Civic Association and Dana Point Civic Association. They are quite actively involved in water supply issues. This is demonstrated through these organizations participating in public comments at SCWD Board meetings, which frequently support local water conservation efforts, water supply development projects (such as the ocean desalination feasibility study effort and Aliso Creek Urban Runoff Recovery, Reuse and Conservation project), and development of additional infrastructure to distribute recycled water. (ii) Individual citizens provide frequent comment to the SCWD Board and staff regarding water supply. (iii) In addition, SCWD representatives speak at local civic group meetings (including the Chamber of Commerce, HOA meetings, Dana Point Coffee Klatch) regarding water supply and conservation matters. (iv) Numerous columns and letters to the editor appear regarding the water supply and conservation issues in our area, for example and most recently "Will the Cistern be Dry on Saturday Night" written by a local citizen. (v) The Dana Point Times has provided a monthly column for the SCWD and the City of Dana Point to address water supply, conservation, and water quality issues. (vi) More recently, the District assigned specific watering days in the Level 1 Water Shortage announcement (limits to 3 days per week). This generated a higher volume of customer calls than received at any time in recent past (in comparison to rate related communications following the District's recent rate changes). (vii) During the 2008 elections, the local civic associations held "candidate forums" to which water director incumbents and new candidates were invited to answer community concerns. These forums are covered in the local press and reported on in our area. (viii) Additionally, numerous articles have been published addressing the views of directors and staff on water issues.

With regard to informing audiences, the District has provided substantial and continuing public information, including: (i) regular discussion of conservation issues as part of the

SCWD Board meetings broadcast over local COX channels and live via web-cast, (ii) free water conservation programs, including (a) landscape irrigation assessments, (b) professional landscape irrigation workshops, (c) landscape water budget certification (d) HOA water forums, (e) water efficient gardening workshops, (f) distribution of numerous free water saving devices (sprinkler improving devices, water controls, and aerators), (iii) participation in 6-8 annual community events reaching thousands of citizens with water supply and conservation information (beginning in 2001), (iv) sponsoring water supply and conservation school assemblies reaching over 1,000 students per year (beginning in 2004); (v) conducting community events and tours at the District's newly constructed brackish groundwater treatment facility, (vi) extensive newspaper coverage of District efforts.

F.3 LAFCO is conducting a governance study of MWDOC

F.3(a) There are a number of points of governance disagreement between MWDOC and several of its member agencies

F.3(b) The current disagreement is a distraction

F.3(c) The stakeholders in LAFCO's study failed to meet their 3/11/09 deadline

SCWD agrees in part and disagrees in part. Please see the attached letter from SCWD to OC LAFCO dated August 10, 2009 expressing the views of the District on the MWDOC governance issues. SCWD does not believe that "continuing delays are unacceptable" from the standpoint that additional discussion will be necessary to resolve open issues. SCWD believes that MWDOC and other parties should continue in good faith discussions and, in the intervening period, there is no reason that MWDOC cannot continue to work effectively on behalf of its constituents. These issues concerning the governance study of MWDOC have not affected SCWD's ability to provide its customers effective water supply management.

F.4 Orange County has a vast, high-quality, well-managed groundwater basin serving its north geographical area. In its south reaches, it has an equally large high-growth area with virtually no available groundwater resources

F.4(a) The difference in groundwater availability creates a "haves vs have-nots"

F.4(b) The difference provides opportunities for responsible participants to develop and construct long-term solutions

SCWD agrees in part and disagrees in part. The SCWD is not in a high growth area (please see Urban Water Management Plan on SCWD website, scwd.org). SCWD has invested in local groundwater recovery now providing 10% of local water with plans to expand production to 20% of potable water supply needs. The District is active in the study and understanding of the San Juan Groundwater Basin for the purpose of full utilization of that resource. Further, the District's 10-Year Master Plan contains proposed improvements for the use of the existing Advanced Wastewater Treatment Plant to expand the delivery of recycled water. The District is presently working to permit through the State Water Resources Control Board a project to utilize abandoned urban runoff now flowing to the ocean through Aliso Creek (plans are to treat this water and add it to the recycled water supply).

Importantly, SCWD, along with other regional project participants, is working with MWDOC in the feasibility study of ocean desalination, which has the potential to produce up to 30% of the District's water supply needs within 10 years. This important project will be dependent upon federally supported financing and the support of Metropolitan Water District.

Recommendations

R.1 Each Orange County municipal planning agency, in cooperation with its respective water supply agency, should prepare for adoption a dedicated Water Element

This recommendation has been implemented in part and further implementation would require additional analysis as to the usefulness of the recommended effort.

As noted in earlier responses, SCWD has prepared and distributed an Urban Water Management Plan (renewed every 5 years) and engaged in development and approval of a 10-Year Master Plan (addressing water supply and storage). In addition Metropolitan Water District engages in an Integrated Resources Planning effort (currently underway) to address long term supply projections and responsive planning. For new development (greater than 500 units), a water supply assessment must be completed through the planning jurisdiction under existing law. As the SCWD service area is largely built-out, it is unlikely that a large, 500+ unit development would occur any time in the foreseeable future. This may negate the need for a detailed additional local Water Element.

As stated in response to findings F.4, F.4(a) and F.4(b) above, the District is engaging in the development of water supply from groundwater and potential ocean desalination and projects a future with 20% of supply coming from groundwater, 15% supplied through recycling, 30% desalination and 35% imported. It is too early in the planning stages to conclusively establish that project feasibility will be established and funding will be provided at the federal level for ocean desalination.

Planning for emergency water supply may be useful on a local level, but to a great extent, through the auspices of the Water Emergency Response of Orange County (WEROC), MWDOC has integrated emergency planning to coordinate the resources and resource needs of water agencies into the County Emergency Planning process.

R.2 Each Orange County retail and wholesale water agency should affirm its responsibility to develop new additional, innovative public outreach programs

The recommendation has already been implemented, but more innovative types of communication will always be considered.

In 2008, WEROC (and the District under its direction) participated in the Statewide "Golden Guardian" exercise along with 20 of the County's water and wastewater agencies. This exercise simulated a complete and sudden break in the imported water supplies. SCWD will continue through participation in WEROC to join in regionally planned exercises to simulate supply interruption emergencies.

At the local level, SCWD has prepared emergency response plans, including emergency public notification plans. All District employees have participated in emergency management training. The District has carried out table top response exercises.

The District has the availability of auto-dial messaging and is working to update its phone and e-mail contact listings in the event of the need for urgent customer notification.

R.3 Each MWDOC member agency should reaffirm to LAFCO that it will assign the resources necessary to expediently resolve regional governance issues

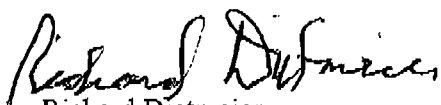
The recommendation has already been implemented as referenced in the response to Finding F.3, above.

R.4 Each Orange County retail and wholesale water agency should affirm its commitment to a fair-share financial responsibility in completing the emergency water supply network for the entire county

This recommendation is already being implemented. The WEROC has been established to conduct emergency planning, preparedness and response to disaster events that impact the water agencies within the County. As a participant in WEROC, SCWD supports training through regional and statewide forums as well. SCWD intends to participate as necessary to complete the emergency water supply network serving Orange County. To that end, SCWD would attend all scheduled meetings set through WEROC.

Sincerely,

SOUTH COAST WATER DISTRICT



Richard Dietmeier
President, Board of Directors

RD:rb
enclosure

cc: James R. Perez, Foreman, 2008-2009 OC Grand Jury
SCWD Board of Directors

SOUTH COAST



WATER DISTRICT

August 10, 2009

Ms. Joyce Crosthwaite
Executive Officer
Orange County Local Agency Commission
12 Civic Center Plaza, Room 235
Santa Ana, CA 92701

RE: MWDOC Governance Study – Final Stakeholder Discussion of August 10, 2009

Dear Ms. Crosthwaite

The South Coast Water District has been pleased to be a part of the continuing discussion and study surrounding the Governance of MWDOC. To date, the District has provided representatives to various LAFCO and stakeholder meetings, reviewed the Draft Technical Reports (No. 1, 2 and 3), reviewed the resulting Final Governance Study, and undertaken discussions with its own Board regarding the numerous issues presented. On July 7, 2009, the South Coast Water District Board met to consider the Governance Study and the recently circulated "White Paper" requesting support for an application to LAFCO to form a South Agency County Water Authority.

At the July 7, 2009 meeting, a clear Board majority of opinion did not exist for either of the extremes: (i) a vote supporting the change to a County Water Authority (CWA) structure at this time, or (ii) a vote against forming a CWA (rejecting the "Whitepaper" in favor of the existing MWDOC structure). Rather, the South Coast Water District Board was unanimously of the opinion that additional information, discussion and negotiation of the issues facing retail agencies within the existing MWDOC structure should take place. Additionally, many questions regarding the benefits and burdens of a possible County Water Authority are, in the opinion of the South Coast Water District Board, unanswered.

The South Coast Water District Board Members recognize the clear importance of neighboring water agencies to South Coast's retail supply reliability, transmission and distribution systems. South Coast Water District partners on many storage, pipeline and supply agreements with adjacent South County water agencies. Additionally, its neighbors, such as Irvine Ranch Water District have shared water in times of supply curtailment, as well as provided input and assistance with new projects such as the South Coast Water District Groundwater Recovery Facility. South Coast Water District shares reservoirs, interconnections and supply systems with Moulton Niguel Water

District and views its friendship and support as key to the optimal operations of boundary areas between systems.

The MWDOC Board and Staff are viewed positively by the South Coast Water District. The South Coast Water District Board also recognizes the many benefits of MWDOC with the District participating directly in service aspects of MWDOC (apart from MWDOC's core functions of wholesale water accounting and MET representation).

South Coast Water District supports and is funding MWDOC efforts to study the feasibility of an Ocean Desalination Project. Many of the MWDOC developed educational and outreach programs for Water Conservation and Education are accessed and used for the benefit of South Coast Water District customers. The joint County emergency planning efforts conducted by WEROC are valuable to South Coast Water District customers, among other MWDOC supported programs.

The South Coast Water District Board Members expressed a strong preference for continuing understanding, discussion and negotiation of some of the traditional areas of concerns among member agencies. Some of these concerns were discussed as long ago as December 2006, when MWDOC issued the staff report on the MWDOC/LAFCO stakeholder program, Changes to Improve Member Relations (Appendix B of the Draft Governance Study). Areas of unaddressed member agencies concerns (as detailed in Appendix B) should be revisited and reopened for additional dialogue. All parties should join that effort with renewed commitment to understanding, cooperation and a negotiated solution.


Specific areas for discussion important to South Coast Water District Board Members include: (i) greater input to policies introduced or adopted at MET, (ii) improved approach to verification of MWDOC service needs for member agencies, (iii) improved approach to MWDOC driven cost increases, (iv) streamlining and consistency of messages across member agencies in areas such as conservation and water allocation based rates, (v) concern that any governance changes should result in substantial cost savings, (vi) clear understanding of the methodology of applying Tier 2 rates if a CWA is formed (given that South County growth may place a CWA in a Tier 2 purchase position for a portion of its water), (vii) additional definition of a CWA, from voting structure, to control, administration, cost and core versus ancillary services, and of key importance (viii) support of CWA member agencies for continuing work on ocean desalination options.

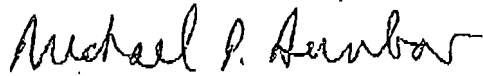
South Coast Water District remains interested in a menu driven service structure, but questions whether a CWA structure can legally offer true member control for participant driven projects because, like MWDOC, a CWA will have the same constraints in delegating spending authority, acquiring project financing, and exercising control over projects that are common to all agencies with the exception of a true JPA (where control/liability and indemnity can be accepted by subgroups of the whole).

As noted, the South Coast Water District urges continuing work and a cooperative dialogue toward resolution of the issues surrounding wholesale water deliver to the South County areas.

Very truly yours,

SOUTH COAST WATER DISTRICT


Richard Dietmeier
President of the Board



Michael P. Dunbar
General Manger

MPD:jb