

THE MAIN CANAL

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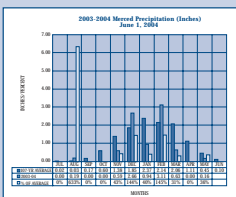


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*From the
General Manager's Desk
By Garith Krause*

"We have excellent staff throughout the District to support you and work to achieve these objectives."

As the new General Manager, I am pleased to follow in the footsteps of General Manager Ross Rogers who retired on May 1, 2004. Ross retired leaving the District in excellent condition, which gives us an opportunity to continue to work on major District objectives:

- To develop and maintain excellent customer service throughout our organization
- To preserve and protect the District's agricultural water heritage
- To continue to develop the Electric Services Department
- To prepare for relicensing of the New Exchequer Hydroelectric Project
- To continue to educate our community about the District's role in sustaining the economic viability of Eastern Merced County through our support to growers, retail electric services, parks and recreation activities, water supply issues, storm drainage and Merced River issues

While we need to focus on long-term objectives, we cannot ignore more immediate concerns. We are now in the sixth consecutive year of less-than-normal rainfall and snowmelt, which is affecting reservoir levels. We have been providing normal water supplies to our grower-members over these past years, but if the trend continues, we may see some water availability issues appearing in 2005 or 2006.

The state budget crisis is impacting the District as the state passes along regulatory costs as new user fees. The District is now required to pay increased dam safety inspection fees and a new annual water rights license fee. In addition, other state fee and cost increases are in the works, including possible new fees for water quality matters such as the District's participation in the Ag Waiver Program. Furthermore, the state will be collecting as much as \$400,000 annually of the District's property tax revenue for a two-year period. The full extent of these changes is not known at this time, but they almost certainly will have an impact on the District's budget planning for 2005.

El Nido Consolidation

After almost 14 years, the consolidation of the El Nido Irrigation District (ENID) with the Merced Irrigation District (District) is nearly complete. On December 17, 1991, the District's Board of Directors voted unanimously to approve the process, terms and conditions of the consolidation. Earlier, on December 11, 1991, the ENID Board of Directors took a similar action. Then in 1993, the Merced County LAFCO conditionally approved the consolidation. That same year, the District filed a Petition with the State Water Resources Control Board (SWRCB) to add the ENID to the District's place of use per a water right requirement of the consolidation. Unfortunately, several protests against the consolidation were filed with the SWRCB. The SWRCB was only recently able to approve the addition of the ENID to the District's place of use after settlements were negotiated with the protestants.

In February 2004, the ENID published a Notice of Election, consistent with the provisions of Proposition 218, to approve assessments of ENID parcel owners, which would complete the financial terms of the

consolidation. The landowners voted in person and by absentee ballot. The votes were counted at a noticed Public Hearing on April 14, 2004, and an overwhelming majority approved the consolidation and assessments.

As of May 1, 2004, the District assumed management of the ENID under the supervision of the District's Board of Directors. The ENID's water operations and billing have also been transferred to the District. The water charge to ENID water users for water delivered after May 1, 2004, is the same as what District water users pay.

The District will soon be billing 2004 standby fees to ENID parcel owners, in accordance with the election-approved assessment. In addition, ENID parcel owners paid over \$740,000 in May 2004 as half of the amount due as a buy-in fee. ENID parcel owners will continue to pay off the balance annually in prorated amounts over the next 10 years. The final step of the consolidation will be the District's acceptance of clean title to the ENID's assets.

General Manager's Desk

continued from pg. 1

The District is working in the electric legislative and regulatory arenas to protect its interests in the continuing development of its retail electric system.

We have excellent staff throughout the District to support you and work to achieve these objectives. Our job is to ensure that your interests and investments in the District and its operations are protected, that we provide you the best possible service and that our efforts today perpetuate the value of the District far into the future. I look forward to my time as General Manager to serve you and ensure that we continue to meet our short and long-term challenges.

Keeping Water Safe

The Merced Irrigation District (District) asks growers not to place any type of tank containing agricultural fertilizers, chemicals or fuel on District canal banks. If the tanks were to leak into the District's irrigation system, it would be a violation of the Federal Clean Water Act and would result in a possibly expensive and time-consuming cleanup. Furthermore, such leakage could cause downstream crop damage. Tanks placed on canal banks also hinder District personnel's ability to maintain the facilities. Please call your Distribution System Operator if you need to operate near District facilities so we can coordinate with you. Thank you for your cooperation.



MID Promotes Dig Safely Program

Always mindful of its customers and the Eastern Merced community in general, the District is promoting USA North's Dig Safely Program. Incorporated as a Non Profit Mutual Benefit Corporation in 1986, USA North provides this free Damage Prevention Service to protect citizens, communities, the environment, essential public services and underground facilities in Central/Northern California, Nevada and Hawaii.

On June 16, 2004, the President of USA North, Don Heyer, met with key District personnel to update them on the Dig Safely Program processes and tools. The updating detailed how utilities and contractors, using special line-locator devices and a color-coded marking system, can help prevent dangerous line-break hazards and utility service disruptions.

Here's how it works: Before digging begins, a contractor goes to the site that is to be excavated and marks it with white paint. The

contractor then calls USA North who coordinates communications between the contractor and the utilities involved regarding the location of electric power lines, water pipelines, telephone lines and the like. The utilities then go to the site and mark the lines appropriately; i.e., electric lines are marked in red. The contractor can now see where potential hazards lie underneath the excavation site's surface.

Steve Dunn, Assistant General Manager, Energy Resources, Engineering and Operations, is heading up the District's Dig Safely Team and sees this as an opportunity for the District to further enhance its service, "The USA North underground locating system allows the contractor to work more safely and avoid damaging our water and electric distribution systems so we can maintain uninterrupted service to our customers."

For more information on the Dig Safely Program, please visit www.digsafely.com.



Key personnel practice using the special line-locator device.

Audit Reveals Strong Numbers for District

On May 4, 2004, representatives from Richardson & Company, the District's independent auditor, presented the results of the District's 2003 financial operations audit to the Board of Directors.

The District had a solid year of operations and a productive year of capital expansion. The Water Utility operation spent \$498,035 on numerous facilities projects. This was done to

reduce future repair costs and improve the overall effectiveness of the delivery system. In addition, several conservation projects were completed, which also increased effectiveness and efficiency. The Electric Utility continued to add customers and expand the system.

Last year, 2003, was the 13th consecutive year of positive results. Water Utility operations showed strong financial performance, which

included a positive cash flow of \$660,363. Another significant event for the District was a successful bond offering of \$15,000,000 and a warrant offering of \$4,460,000 by the Electric Utility. The bond offering received a Moody's investment grade rating of Baa3. The District is working hard to have similar success in 2004.

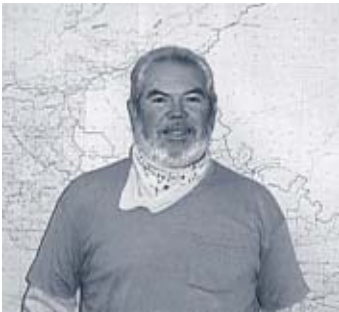
Employees of the Quarter



Linda Davidson

Linda joined the Water Utility Billing Department in 2002. Since then, she has acquired excellent knowledge of the billing program. Often, Linda is the first person a customer speaks with regarding their bill, and as such, her friendly, professional manner helps customers have a pleasant and productive experience with the District. Linda is a model employee as she exhibits good work ethics, lots of patience and the ability to simplify projects so they are easily understood. The District greatly benefits from her positive attitude and business skills.

Linda was actually given this honor last quarter, but her story was accidentally left out of the newsletter. Linda, we apologize. Please keep up the great work!



Jim Favier

Jim has been with the District since 1992. His efforts as a Distribution System Operator in the Fairfield Area have greatly contributed to the professionalism and stability of service to the area. He has a great rapport with the farmers and is extremely conscientious about water conservation and reducing operational discharges. Jim has also been instrumental in the training of new employees and takes pride in teaching them. He designed the current measuring sheet used in the Fairfield Area, which has become a valuable tool. Thanks, Jim, for the great work!

Canal Safety Art Contest

To help promote canal safety this summer, the District is holding a special art contest. Teachers, have your fourth, fifth and sixth graders create individual art posters focusing on some aspect of canal safety. Each poster should be no larger than 11" x 14" with the student's name and school listed on the back.

The top three posters from each grade will be displayed on the District's website and in our offices. The overall top three winners will each receive a \$50 savings bond. All entries are due by July 31, 2004. Please send or deliver posters to:

Canal Safety Art Contest
Merced Irrigation District
744 W. 20th Street
Merced, CA 95340

Teachers, the District's website has an entire section devoted to canal safety. Visit www.mercedid.org, click on the Canal Safety button and then click "For Kids" to download posters, a coloring book and even a class exercise.



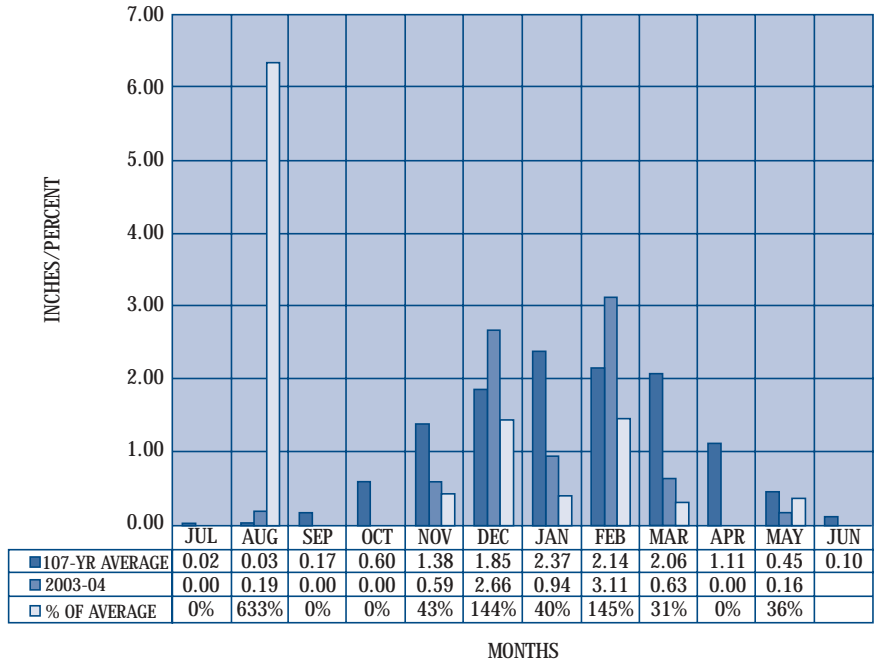
Water Supply Update

By Ted Selb
Deputy General Manager

Note of Interest

Because of the intense water distribution that will occur this summer and fall, Old Exchequer Dam will once again be visible. Old Exchequer Dam, a concrete gravity arch dam built by the District in 1926, has been submerged beneath Lake McClure's surface since November of 2002.

2003-2004 Merced Precipitation (Inches)
June 1, 2004



This year, the Merced Irrigation District's (District) water sales are up even though the surface water supply is down. Total water sales to date exceed those of the 2002 and 2003 irrigation seasons due in part to early irrigation demands as a result of the abnormally hot and dry spring. These same weather conditions have led to very early and below average snowmelt. Peak inflow to Lake McClure was observed on May 4, 2004, a month-and-a-half early, at only 3,949 cubic feet per second. Consequently, maximum Lake McClure storage for 2004 was also reached over a month early on May 6, 2004, at 581,900 acre-feet, or 57 percent of capacity. With dry weather and above normal temperatures forecasted for the summer and fall this year, Lake McClure will be drawn down to as low as 240,000 acre-feet by the end of October, or 53 percent of average and 23 percent of reservoir capacity.

Unfortunately, due to the early snowmelt, surface water deliveries to Sphere-of-Influence

(SOI) growers located outside the District boundary will be cut off earlier than normal. But the District's foresight in making over \$10 million worth of system efficiency improvements since 1995 will benefit its grower-members. Because of these improvements, growers within the District boundary will receive full water supplies this year despite the dry conditions.

This year's local rainfall chart tells the story (see chart). If it weren't for a wet December 2003 (144 percent of average) and February 2004 (145 percent of average), surface water curtailments within the District would have been considered along with greatly increased groundwater pumping to ensure acceptable carryover storage entering the 2005 water year. Last year, it was the "Awesome April" rainfall that alleviated much of the District's water-supply concerns. And the 2001 and 2002 water years were no exception. Hopefully, we will see a lot of rain this winter.

District Board of Directors

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MID Goes to Automated Meter Reading

The District Electric Services is a rapidly growing utility. Its electric system expands by 100 meters a month. The District couldn't be happier with this success, but it knows that the existing manual processes for data collection and issuance of monthly customer bills are now inefficient and no longer cost-effective. The solution: Automated Meter Reading (AMR).

The problems with the manual processes are numerous: Supervisory oversight is difficult to maintain. At the current rate of service growth, additional personnel will be required by 2005 to read the meters and bill appropriately. Additionally, manual reading results in increased labor costs due to meter rereads and estimated bills because of inaccessible meters (i.e., dogs, locked fences and doors). Plus, the District can't detect meter theft, tampering or outages. It is estimated that the current manual system will cost the District \$548,973 through the year 2007.

The District's research shows that AMR is the best solution and will produce a total cost savings of \$1,172,109 through 2007. The District's AMR system of choice is the G5 Handheld Computer (G5) accompanied with the MV-RS meter reading software, both by Itron, Inc. The G5 uses the latest technology to read radio

signals from meters to accurately record data from up to a quarter mile away. The MV-RS is an easy-to-use software solution that will cut down on the manpower needed for data entry. The MV-RS even operates in an unattended mode, where all system functions are automated – freeing District personnel to handle other duties, such as customer service. Both the G5 and MV-RS are designed to be compatible with future technologies.

Jem Brown, Assistant General Manager, Energy Resources, Business and Resource Planning stated, "The new AMR system will help the District increase efficiency and save money, which benefits its customers with improved service and competitive rates."



The new AMR system will help increase the District's efficiency.

Visit the District's website: www.mercedid.org

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