



San Diego County Water Authority

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June 13, 2011

Jack Foley, Chairman
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

MEMBER AGENCIES

Carlsbad Municipal Water District
City of Del Mar
City of Escondido
City of National City
City of Oceanside
City of Poway
City of San Diego
Fallbrook Public Utility District
Helix Water District
Lakeside Water District
Olivenhain Municipal Water District
Otay Water District
Padre Dam Municipal Water District
Camp Pendleton Marine Corps Base
Rainbow Municipal Water District
Ramona Municipal Water District
Rincon del Diablo Municipal Water District
San Dieguito Water District
Santa Fe Irrigation District
South Bay Irrigation District
Vallecitos Water District
Valley Center Municipal Water District
Vista Irrigation District
Yuima Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Re: Board Memo 8-6 – Consolidated Agreement for Chino Basin Desalination Program – OPPOSE

Dear Chairman Foley and Members of the Board of Directors,

We have reviewed June Board Item 8-6 regarding the consolidation of local resources program agreements for the Chino Basin Desalination Program and must inform you that we cannot support approval of this item for reasons described below

No Showing of Regional Benefit

While the Chino Basin Desalination program is undoubtedly a wise local water supply project, Board Memo 8-6 fails to establish a regional benefit that would support the payment of MWD subsidies to pay for the project. No regional benefit is established by saying that, under this agreement MWD will pay less than it would pay under a different agreement with MWD – unless that agreement provides a regional benefit. Although the board memo states that MWD would be helping avoid the spread of contamination and the potential loss of additional groundwater resources, MWD does not have any water rights or other interest in the Chino groundwater basin. There is no indication that MWD has acquired any water or storage right or other regional benefit that would support its payment of these local water supply costs. While we strongly support local water supply development, we do not believe that San Diego County's ratepayers may reasonably be required to fund local water supply projects solely for the benefit of other MWD member agencies, especially at a time when MWD's own water sales are already plummeting.

The Analysis is Flawed Because it Depends on Outdated Facts

In addition to the above concerns, there is no rational basis for including a replenishment assessment (RA) as an eligible project cost when calculating MWD's subsidy payments. The inclusion of RA makes clear that this project requires replacement water to sustain the production. The 1991 memorandum that purportedly supports inclusion of these costs is outdated and based on the notion that expanded groundwater use will be helpful during "drought" periods; written at a time when replenishment water continued to be available during non-drought periods. Today's reality is just the opposite – with imported water expected to be available for storage in only three out of every 10 years and with MWD highly dependent on storage of this water to meet water supply demands in dry years. It does not make sense for MWD to subsidize one member agency's purchase of imported water to replenish groundwater basins – for any reason. It is time

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for a complete overhaul of MWD's LRP program to reflect current water supply and financial realities.

Agreement is Inconsistent with Board Policy Accounting for Grant Funding

The board's existing LRP policy is to reduce project costs by 100% of grant funding. This is done to ensure equity and that the recipient agency does not pay less for its subsidized local water supply project than the cost of MWD water. Under the proposed agreement, this protection is arbitrarily reduced by half – the result being that the rest of MWD's member agencies pay more in order for one member agency to pay less.

Agreement Violates Board Policy and Terms for All LRP Funding Agreements

At the time the Water Authority's Carlsbad seawater desalination project came before the board of directors, the following motion was passed by the board of directors:

Adopt the CEQA determination and authorize the General Manager to enter in an SDP agreement with SDCWA and its retail agencies for 56,000 AFY under terms included in this letter provided that the SDP agreement will terminate if **(A)** Metropolitan determines that it will no longer (i) provide incentives or other financial support to its member agencies for seawater desalination, water recycling or groundwater recovery projects through the Local Resources Program, Seawater Desalination Program or similar programs; or (ii) utilize the Water Stewardship Rate, or a similar charge to fund the Local Resources Program, Seawater Desalination Program or other similar programs; or (iii) include the Water Stewardship Rate as a charge for all water conveyed on the system; and **(B)** the member agency included in such SDP agreement or a delegate from that member agency votes in favor of such determination. These provisions would apply only so long as all new agreements contain similar provisions.

In accordance with this board policy, all subsequent LRP funding agreements have included this condition on funding. But the proposed agreement under Board Memo 8-6 violates this board policy by providing a firm financing commitment instead of an agreement that is consistent with board policy and can be terminated by MWD on the conditions noted above. While we agree that a fixed financing commitment improves the project proponent's ability to secure bond funding and other financing, that is exactly the argument that was made by the Water Authority and rejected by the MWD board when it adopted the board policy it is now disregarding. MWD is administering subsidy programs in an inconsistent and arbitrary and capricious manner.

MWD Should Collect the \$6 Million Overpayment to CDA and Increase Oversight

According to the board memo, CDA has been paid \$6 million more than it was entitled to receive under the existing agreement. Given MWD's current and projected budget deficits and rate pressures, MWD should require repayment of this money now, rather than "finance" it as part of a new agreement. Clearly, additional auditing and oversight is also needed to better track payments to member agencies under the LRP program.

Effect of Disqualification of the Water Authority from Subsidy Program Benefits

The Water Authority pays more to support MWD's conservation and local supply programs than any other MWD member agency. By MWD's own estimate, the Water Authority averages \$22.5 million annually in Water Stewardship Rate payments; yet, under MWD board policy and action under the RSI clause, the Water Authority and the ratepayers it serves are ineligible for program benefits. The Water Authority hereby makes formal demand that MWD cease collection of Water Stewardship Rate dollars from the Water Authority's ratepayers so we may fund our own conservation and local water supply development projects directly. The Water Authority will commit to spend these dollars on water conservation and local supply development in San Diego County *so that there will be no net impact to MWD in achieving its articulated water conservation and local water supply development objectives.* Those MWD member agencies that choose to "pool" their funding for the development of local water supplies would remain free to do so.

For these reasons, the Water Authority delegates do not support item 8-6.

Sincerely,

Jim Bowersox
Director

Lynne Heidel
Director

Keith Lewinger
Director

Fern Steiner
Director

cc: Jeff Kightlinger, MWD General Manager