



San Diego County Water Authority

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March 5, 2012

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

RE: Comments on Proposed Water Rates and Charges

Dear Chairman Foley and Members of the Board:

At its January 10, 2012 meeting, Metropolitan's board of directors set the public hearing on Metropolitan's proposed 2013 and 2014 rates and charges for its March 12, 2012 meeting of the Finance and Insurance Committee. Metropolitan is required by law to make available to the public, at least 10-days in advance of the public hearing, the cost of service data supporting the district's rates and charges.

In its Board Letter 8-1 for the January Board Meeting, Metropolitan management included as Attachments 2 and 3 the cost of service information upon which it is relying to support its recommended rate setting actions. If Metropolitan intends to rely upon any cost of service study or report, or any data or proposed methodology for establishing, adjusting, or increasing any rate or charge that is not contained in or attached to Board Letter 8-1, it must make that study, report, data, or methodology available to the public not less than 10-days in advance of the public hearing. If you believe Metropolitan *has* made available to the public information in addition to the above Board Letter 8-1 (including its attachments), please provide us all of the details including where and when such information was made available to the public and where it is available now for review.

Further, the January Board Letter 8-1 properly references the requirements of Metropolitan's Administrative Code § 4304. That section requires Metropolitan to conduct a public hearing and specifies that Metropolitan will set its rates and charges at its meeting in *April*. The April 10, 2012 date has been widely publicized based on Board Letter 8-1 and the provisions of Metropolitan's Administrative Code. See, for example, <http://aquaforia.com/archives/60027> (copy attached). Metropolitan cannot advance the rate-setting action from the April meeting without first amending its own Administrative Code.

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County of San Diego

A public agency providing a safe and reliable water supply to the San Diego region

We are aware that two different *committees* of the Metropolitan board recently purported to take action to move the board's vote to set its water rates and charges to its March board meeting, the day after the public hearing. When asked, staff explained that "the board" had directed that action be taken to shorten the time frame for consideration of public comment. We are not aware of any such *board* direction, and formally request that a copy of the *board* meeting minutes supporting such direction be provided to us immediately. This purported action by the board is not consistent with the information that has been provided to the public, does not comply with Metropolitan's own Administrative Code provisions, and, if you are relying upon discussions during committee meetings, has also not been publicly noticed or ratified by Metropolitan's board of directors. Metropolitan's highly irregular, headlong rush to adopt another two years of water rate increases serves no apparent purpose other than to shorten the time for public review and comment.

The public has a right to know when water rate increases will be authorized by the Metropolitan board of directors.

If a member of the public goes to Metropolitan's web site to find out when water rates will be voted on by the board of directors, it is told only that, "a final decision [on water rate increases] by the board is anticipated in Spring 2012."¹ The date of the March board meeting is not included and there is no indication that committees of the board have purported to take action to *recommend to the board* a change to the Administrative Code so that the board action will take place in March instead of April. These actions by Metropolitan to play "hide the ball" – and hide it quickly – with regard to the setting of water rates and charges would be unacceptable at any time, but is particularly inappropriate given the public's rightful concern with the fact that Metropolitan's water rates have increased by a total of more than 75% over the last six years alone. With the recommended rates being proposed for 2013 and 2014, Metropolitan will have more than *doubled* its Tier 1 Treated water rate since 2006.

As the Water Authority's representatives on the Metropolitan board, we submitted a series of questions and suggestions for reducing water rates prior to the last board workshop (copy attached). As of the date of this letter, we have still not received a written response to our questions as requested at the first board workshop and on two separate occasions since that time. Indeed, the budget workshops were concluded by Metropolitan in spite of the fact that staff never responded to our questions. With its new plan to adopt water rates and charges the very next day after the public hearing in March, it appears that the Metropolitan board will treat public comment with the same disregard it has shown for comments and suggestions by the San Diego County Water Authority.

Finally, this letter constitutes the Water Authority's formal request pursuant to Government Code § 54999.7, that Metropolitan immediately provide it with the data and proposed methodology for establishing the rates and charges for 2013 and 2014. Metropolitan may satisfy this requirement by confirming that the data and proposed methodology is included in the January Board Letter 8-1 referenced above. Otherwise, please advise us where we may

¹ The first day of Spring (Spring Equinox) is Tuesday, March 20, 2012.

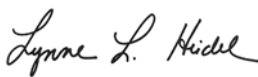
Chairman Foley and Members of the Board of Directors

March 5, 2012

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pick up today any additional information you intend to rely upon for establishing the rates and charges for 2013 and 2014.

Sincerely,



Lynne Heidel
Director



Keith Lewinger
Director



Fern Steiner
Director




Doug Wilson
Director

Attachment

cc: Metropolitan Water District Board of Directors
Jeffrey Kightlinger, MWD General Manager
Gary Breaux, MWD Chief Financial Officer
Marcia Scully, MWD Interim General Counsel
San Diego County Water Authority Board of Directors
San Diego County Board of Supervisors

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Metropolitan Water District sets hearing for proposed rate increase; The water district is considering a hike of 7.5% in 2013 and 5% in 2014

Posted by: Maven on January 11, 2012 at 6:38 am



From the Riverside Press-Enterprise:

“Water rates could increase over the next couple years under a proposal by Metropolitan Water District of Southern California, the wholesaler that supplies most Inland water agencies.

Metropolitan is considering a price hike of 7.5 percent in 2013 and 5 percent in 2014. At its meeting In Los Angeles on Tuesday, the board approved a March 12 public hearing before the Finance and Insurance Committee. A vote on the action by the full board is scheduled for April 10. ... “

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San Diego County Water Authority

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February 3, 2012

Aaron Grunfeld
Business and Finance Committee Chairman
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

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**OTHER
REPRESENTATIVE**

County of San Diego

Re: Proposed Biennial Budget and Associated Rates and Charges for 2012/13 and 2013/14

Dear Mr. Grunfeld:

First, we want to thank you for your commitment to hold budget workshops so the board may review, ask questions and understand the proposed budget.

We have reviewed staff's proposed biennial budget and associated rates and charges for 2012/13 and 2013/14, as well as the slides presented at the January workshop. Based on this preliminary review, we are providing you with the comments, requests and questions which are attached. In order to facilitate the board's deliberation of these issues, we request that staff respond to our comments and questions in writing prior to the next budget workshop.

We look forward to continuing this important dialogue at the next budget workshop.

Sincerely,

Lynne Heidel
Director

Keith Lewinger
Director

Fern Steiner
Director

Doug Wilson
Director

Attachment

cc: Jack Foley, MWD Board Chairman
Jeff Kightlinger, MWD General Manager
Gary Breaux, MWD Chief Financial Officer

MWD Budget Workshop #1 – January 24, 2012

San Diego County Water Authority (SDCWA)'s MWD Delegates' questions and comments on proposed biennial budget and associated water rates and charges for FY 2012/13 and 2013/14

All references are to Budget Memo 8-1 for the January 10, 2012 Board meeting or to the power point presentation at the January 24, 2012 budget and rate workshop.

1. The Board must take steps to “right-size” MWD in order to ensure that revenues – based on more reasonable demand projections – are sufficient to pay MWD’s costs.

- MWD’s water deliveries declined almost 500,000 acre feet over the last four years from 2.26 million acre feet (MAF) in 2008 to 1.68 MAF in 2012. Moreover, the 2012 delivery figures included 164,000 acre feet of San Diego County Water Authority’s (Water Authority) QSA transfer water and 225,000 of “one-time” discounted water sales that would not have occurred at full price. MWD’s 2010 Regional Urban Water Management Plan (RUWMP) shows its average year sales in 2030 will be 22% lower than projected in MWD’s prior RUWMP just five years ago. MWD’s sales projections are flat or trending downward and yet, the Board has taken no meaningful actions, in terms of programs or staffing, to reduce the expense side of the budget to reflect this dramatic reduction in MWD sales.
- What is basis of budget demand projections assuming full service sales of 1.5 MAF next year and in future years? The Board memo states that the sales estimate is “conservative,” yet, this assumption is 200,000 acre feet more than this and last year’s full service sales of 1.3 MAF.
- MWD has not covered its operating costs in six out of the last eight years (2004-2011). The first order of business must be to reduce spending, consistent with budget cuts already implemented by most of the cities and retail agencies in Southern California.
- Given that retail demand is down 20% or more across the MWD service area, we recommend a moratorium on all subsidy programs designed to further reduce MWD sales (and revenues). The moratorium should remain in place until MWD updates its IRP projections and conducts a comprehensive study to evaluate the need for MWD to pay for such programs. This recommendation should not be interpreted to suggest that the Water Authority does not fully support the development of local supply projects including increased water use efficiency, but rather, that funding should be at the local level.
- The budget notes that replenishment water will be sold at full service rates, however, it does not appear to account for the cost of “incentives” or “rebates” that are also part of the staff recommendation for a revised replenishment program. Please identify the amount and cost of service category to which these incentives or rebates are assigned. What rate is proposed to generate the revenue to pay the cost of these incentives or rebates?

2. MWD should reasonably spread cost burdens among current and future rate payers; it should not raid revenues intended for capital projects to pay operating expenses, and should not overburden future rate payers by deferring OPEB funding.

- The budget includes a reduction of PAYGo revenue collections in 2012/13 that is inconsistent with the Board’s adopted policy. If the Board approves this recommendation, MWD will have failed to follow its own PAYGo funding policy in eight out of the last ten years (2005-2014). Funding capital projects at such low PAYGo levels unfairly shifts obligations from current

MWD Budget Workshop #1 – January 24, 2012

San Diego County Water Authority (SDCWA)'s MWD Delegates' questions and comments on proposed biennial budget and associated water rates and charges for FY 2012/13 and 2013/14

ratepayers to future ratepayers. Moreover, several years of midyear reallocation of PAYGo funds intended for capital to meet operating expenses has distorted cost of service. The Board should not continue to apply revenues that are collected for capital projects to pay operating costs.

- The proposed budget continues to shift a disproportionate share of unfunded OPEB liability to future ratepayers. The funding schedule presented at the January workshop to begin ramping up payments to match MWD's Annual Required Contribution (ARC) does not go far enough. MWD should cut costs now in order to increase funding to match its ARC.
- A greater share of MWD's Capital Improvement Program (CIP) now consists of R&R projects. Indeed, the January workshop presentation showed R&R expenditures represent about two-thirds of CIP costs over the two years reviewed. Aside from the misuse of PAYGo to pay operating expenses, we would also suggest that the Board consider changing its PAYGo funding strategy so it is *proportionate* to the total CIP over time. This would ensure that current ratepayers are not being asked to pay a disproportionate share of R&R.

3. MWD must properly account for the cost of storing water.

Based on data assembled from the proposed budget, the supply and delivery balance is as followed:

Supply/Demand	2012/13	2013/14
State Water Project (Exchange)* Net to MWD	1,260 TAF (120 TAF) 1,140 TAF	1,140 TAF (108 TAF) 1,032 TAF
Colorado River**	727 TAF	890 TAF
Total supply to MWD service area	1,867, TAF	1,922 TAF
Total MWD demand**	1,700 TAF	1,700 TAF
Excess supply	167 TAF	222 TAF

*The budget document does not describe the exchange; if this is not MWD's exchange obligation with Coachella and Desert Water, please provide details.

**The budget document includes Water Authority's QSA water at 172.7 TAF and 177.7 TAF for 2012/13 and 2013/14, respectively, as both supply and demand. MWD does not report the local water supplies and associated demand of its other member agencies, and has no basis for treating Water Authority's QSA water differently. In accordance with the terms of the Exchange Agreement, the revenues generated from payments made under the Exchange Agreement should be treated as transportation or wheeling revenues.

- Staff reported at the workshop that it plans to store 300,000 acre feet of water this year, which is more water than is estimated to be available for storage in the supply and delivery balance. What is the source of the water staff is planning to store, and, how are the costs of that water captured in the cost of service? How much funding is included in the budget to pay for storage costs? Finally, is the energy cost of moving the water into storage being captured in the System Power Rate or through Supply Programs?

San Diego County Water Authority (SDCWA)'s MWD Delegates' questions and comments on proposed biennial budget and associated water rates and charges for FY 2012/13 and 2013/14

4. The cost of service does not recover the costs of system “standby” capacity and supply that enables year-to-year peaking off MWD.

- Many agencies peak off the MWD system from year-to-year, depending on hydrology and the availability of local water supplies. MWD has developed and continues to develop water supplies and incur storage and facility costs in order to meet these demands, but is not fully allocating the costs associated with these investments from the agencies that benefit from them. MWD must change its rate structure in order to account for and allocate these costs so that they are borne by the agencies that benefit by being able to peak and then roll off the MWD system.

5. The Delta Supply Surcharge should be continued because the purpose for which it was established by the Board has not changed.

- Please provide the basis of the staff recommendation to delete the Delta Surcharge. Given the rationale stated in Board Memo Revised 8-3 dated April 14, 2009, the Delta Surcharge should remain in place. In fact, the budget states at page three that increased funding is being included to aggressively pursue exactly the type of projects the Delta Surcharge was intended to cover.
- Was the Delta Supply Surcharge combined with the Tier 1 supply rate? If not, how were these costs reassigned?

6. Staff needs to provide more information why individual rate components are increasing or decreasing; and, take steps to better smooth rate increases at the retail level.

- The proposed individual rates and charges include changes that vary significantly from the “average” 7.5% increase staff reports. Since no agency pays “average” rates, information needs to be provided on why individual rates and charges are increasing or decreasing. Please provide the data supporting the System Access Rate increases. Also, please provide the data supporting the supply rate decrease.
- Staff should also explain why some elements show decreases one year and increases the next year – or vice versa, and, present alternatives to avoid swings in the rates and charges.

7. Staff must track all rate component costs and expenditures, not just the Water Stewardship Fund.

- MWD tracks over- and under- expenditures for revenues collected under Water Stewardship rate, but not others. What is the basis for this disparate treatment? For example, although MWD has a Treatment Surcharge Rate Stabilization Fund, when fund revenues are insufficient to pay those costs, MWD uses General Fund revenues to cover the difference. The net effect is that raw water customers are subsidizing treated water customers. We request that MWD provide a cost of service analysis for all rate components and identify or develop internal tracking mechanisms to prevent cross-subsidies.

MWD Budget Workshop #1 – January 24, 2012

San Diego County Water Authority (SDCWA)'s MWD Delegates' questions and comments on proposed biennial budget and associated water rates and charges for FY 2012/13 and 2013/14

8. All operations and staffing should be “right-sized” to reflect reduced demands.

- What were staffing levels and budget in 2008? What are they today?
- What criteria has staff used to “optimize” staffing levels?
- Are the staffing levels recommended in the budget higher than current actual levels? If so, why?
- Please provide a list of the O&M association dues that total \$5 million annually.

9. A contingency plan should be included in the proposed budget.

- The biennial budget should include a contingency plan that would automatically be triggered mid-year to reduce *current costs* in the event projected revenues are lower than budgeted.
- Similarly, the budget should provide a plan that describes in detail how MWD will apply excess funding in the event projected revenues exceed expenditures. This is especially important in light of the recent draw-down of reserves, raids on the PAYGo fund and cross-subsidies that have been created by the failure to track individual rate components – or to budget so that projected revenues are reasonably expected to be sufficient to pay MWD's expenses.

10. Even if it is unwilling to update or modify its cost of service analysis generally – which it should – MWD must at a minimum provide a new cost of service analysis to ensure compliance with Proposition 26.

- Even If the Board does not require staff to update or modify its cost of service analysis, or, support a moratorium on local projects spending to mitigate the impacts of reduced demands and MWD revenues, staff must identify the benefits it claims are associated with these payments and demonstrate that those benefits are received by those paying the charges and that the amount of the charge is reasonably related to the benefits. The benefits that have been stated but which have not been supported by any data or analysis include (1) capacity will be made available that is otherwise not available for the transportation of MWD water; (2) investments MWD would otherwise need to make in other facilities and/or water supply will be avoided as a result of these payments; and (3) MWD needs and will benefit from the local water supply it is paying for. Please provide the analysis required by Proposition 26.