



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

August 15, 2011

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

MEMBER AGENCIES

Carlsbad
Municipal Water District

City of Del Mar

City of Escondido

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Fallbrook
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Marine Corps Base

Rainbow
Municipal Water District

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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 8-7 – Adopt the Long-Term Conservation Plan and revised policy principles on water conservation – OPPOSE

Dear Chairman Foley:

We write to express our opposition to Board Memo 8-7, Adopt the Long-Term Conservation Plan (LTCP) and revised policy principles on water conservation. During the planning process, MWD stated that its objective was to “focus on its strengths and opportunities as a large regional wholesale water agency.” The LTCP fails to achieve this core objective. Instead, it muddles the roles and responsibilities of MWD with retail water suppliers. By doing so, the LTCP is much more likely to impede rather than promote expanded water conservation in Southern California.

The Water Authority strongly supports expanding water conservation programs beyond current legal requirements. However, as a regional water supplier, MWD must target water use efficiency *beyond* what retail water suppliers are already mandated to do under the Water Conservation Act of 2009. MWD should not use regional ratepayer dollars to fund any 20x2020 retail compliance. MWD must also adjust its other water supply development projects to account for increased water conservation in order to both provide regional benefit and avoid stranded investments. The LTCP fails entirely to present a plan to meet these requirements. The LTCP makes no distinction between zero-cost conservation measures and investments in very expensive local recycled water projects of selected MWD member agencies. The Water Authority opposes any investment of regional ratepayer dollars in local conservation and recycled water projects of individual member agencies absent a showing of regional benefit.

The Water Authority has provided detailed comments and analyses on past drafts of the LTCP and August 2010 Board Memo 9-1, MWD Water Conservation Program (copies attached), all of which are incorporated herein by this reference. We are disappointed that none of the issues we have raised has been responded to during the long editing process MWD has conducted or in Board Memo 8-7. Despite repeated requests, no assessment has been conducted to evaluate what conservation programs have worked in the past and those that have not. Although the proposed LTCP recognizes only a small percentage of water savings are from devices, the only recommended conservation programs outlined in the LTCP are based on payment of subsidies for devices. As a regional agency, MWD has the ability to influence laws, ordinances and regulations to encourage wise water use, and yet the LTCP has virtually no discussion on what role MWD will play as a regional water supplier. Indeed, the LTCP does not provide *any details or*

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

strategies of how MWD plans to achieve water savings above those that are already required by state law. Due to these deficiencies, the MWD board is essentially being asked to vote in favor of a “blank check” in the name of water conservation. MWD staff has a responsibility to address the issues on the merits and the MWD board should have an opportunity to deliberate the issues based on staff analysis – and make decisions that are in the best interest of MWD’s regional water ratepayers.

It is premature to delegate authority to a Program Advisory Committee consisting of member agency managers to develop research and program priorities. We renew our request for a board workshop to review the many policy and legal issues that are not addressed in the LTCP, including an evaluation of MWD funding of conservation and local water supply development programs after passage of Proposition 26. We would ask our staff to work with MWD staff and other member agencies to craft the board workshop agenda. If the MWD board fails to act now, we lose a critical opportunity to show the Southern California and the rest of the state that MWD is serious about water conservation.

Sincerely,



Fern Steiner, on behalf of the Water Authority’s MWD Delegation

cc: MWD Board of Directors
SDCWA Board of Directors

Attachments:

1. August 16, 2010 Letter to Chairman Brick re: Board Memo 9-1
2. September 10, 2010 Comment Letter on MWD 2010 IRP
3. November 29, 2010 Comment Letter on Draft LTCP
4. July 20, 2011 Letter, Comments on LTCP Working Draft Version 11



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August 16, 2010

Timothy Brick
Metropolitan Water District of Southern California
PO Box 54153
Los Angeles, CA 90054-0153

MEMBER AGENCIES

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OTHER REPRESENTATIVE

County of San Diego

Re: August 2010 Board Memo 9-1, MWD Water Conservation Program

Dear Tim:

Board Memo 9-1 addresses what is described as an “opt in/opt out” approach for MWD’s water conservation program. The memo concludes that accounting for conservation at the individual member agency level would be too difficult and would threaten the efficacy of MWD’s Integrated Resources Plan, Water Supply Allocation Plan and other programs. Although we strongly support increased conservation, we respectfully disagree with the analysis and conclusions stated in the Board Memo. The MWD board must consider changed circumstances and legal requirements to ensure that any future regional program integrates with local programs, and, avoids creating conservation disincentives through the pricing structure, water supply allocation plan, or otherwise.

The Water Conservation Act of 2009 (the Conservation Act) established new methodologies, water use targets and reporting requirements. The Act’s requirements apply to urban **retail water suppliers**. Although MWD and its wholesale member agencies have a supporting role, primary responsibility falls to each retail agency within MWD’s service territory. The board memo does not address these requirements or explain how a regional program would integrate with or support these retail conservation programs.

Although the Board Memo appears to *assume* a regional compliance approach, the Conservation Act provides that urban retail water suppliers must achieve and report compliance on an individual basis unless certain prerequisites for regional compliance and reporting are met. Among other things, regional compliance requires the written consent of each retail agency.

As a wholesale water provider, MWD’s role in conservation must be carefully evaluated in light of these new legal requirements. Since it is unlikely that all retail water suppliers within MWD’s service territory will elect to report as part of MWD’s regional water management group, MWD must account for that as the regional program is being developed. MWD must carefully assess how a regional program can fairly integrate with the individual programs its member agencies choose to implement to ensure that each retail agency and group of ratepayers is carrying its lawful and equitable share of the cost.

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Mr. Tim Brick
August 16, 2010
Page 2

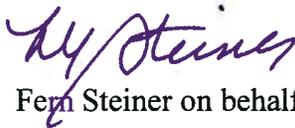
Turning to some of the other key issues, we believe that changes in MWD's water shortage allocation plan are necessary to encourage further conservation. The City of Long Beach has presented a number of ideas and approaches to address this concern. We also believe that MWD's wholesale price structure discourages conservation by disguising the true cost of alternative water supplies. By continuing to offer regional subsidies to retail agencies to meet conservation targets that are already required, MWD is actually discouraging water conservation. This element of the current plan creates free riders, and, fails to ensure that each member agency pays its fair share or that all MWD water ratepayers are treated fairly.

As noted earlier, the board memo also states that water conservation at the member agency level would be difficult to quantify and measure and could be labor intensive in verification; however, we believe that measurement and verification are essential to any water use efficiency program, and is in fact, required for compliance.

Finally, the board memo states that consideration of different approaches to conservation would require MWD to reconsider its message under the Laguna Declaration. The Laguna Declaration has been included in the IRP draft as a statement that MWD will provide all of the water anyone needs at any time under any hydrologic condition. But we believe the Laguna Declaration is not a reason to refuse to consider changes in MWD's conservation program. To the contrary, we believe that MWD *should* reconsider whether the Laguna Declaration properly reflects California law and public policy, or, Southern California's conservation ethic. Our ratepayers have said that they want a choice whether to conserve more in lieu of paying for 100% water supply reliability 100% of the time. It is imperative that MWD work with its member agencies to ensure that we can offer them that choice.

We would like to reiterate that the Water Authority strongly supports increased conservation. We believe there is an important role for MWD but that MWD's water conservation program must change in order to address the concerns described in this letter.

Sincerely,



Fern Steiner on behalf of the Water Authority's MWD Delegation

cc: MWD Board of Directors
SDCWA Board of Directors



San Diego County Water Authority

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September 10, 2010

Jeffrey Kightlinger
General Manager
Metropolitan Water District of Southern California
PO Box 54153
Los Angeles, CA 90054-0153

MEMBER AGENCIES

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Municipal Water District

City of Del Mar

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OTHER
REPRESENTATIVE

County of San Diego

Re: 2010 Integrated Resources Plan Update

Dear Jeff:

Water Authority staff has completed its review of the draft 2010 Integrated Resources Plan Update (draft IRP). We plan a broader outreach effort to our region’s cities, stakeholders and communities once we have complete information and a revised draft IRP document. Given that the current draft IRP has only been available since July, and since the revised draft won’t be available until sometime later in September, we reiterate our request that the October timeline for adoption of the IRP be extended to allow for broader distribution of the revised draft IRP here and in other parts of the MWD service territory. This outreach should then be followed by additional public meetings of MWD’s board so that the merits of the revised draft IRP can be fully deliberated in a transparent setting after MWD responds to all the current comments and questions.

Changed Circumstances

The water supply and cost environment have fundamentally changed since the IRP was last updated in 2004. Twenty percent water conservation is now legally required at the retail level by 2020. Replenishment deliveries by MWD have been interrupted indefinitely. Severe cutbacks of water supplies from the Bay-Delta are now a way of life for the foreseeable future. We must plan for impacts of climate change. As a result of these and other changed circumstances – and taking into account the reasonably anticipated cost of a Delta Fix – conservation and local projects that once warranted subsidies have become cost effective compared to MWD’s current and projected water rates. For this reason, many of the more than 250 retail water agencies and cities in the MWD service territory are now in the process of expanding conservation programs and developing local water supply projects.

Although the draft IRP refers generally to some of these changed circumstances, it does not recommend any changes in the basic MWD business model to address them. The draft IRP plan essentially assumes the same base resource mix and adds a massive, undefined “Buffer Supply” to mitigate undefined and unquantified uncertainties. Instead of asking how it may best *coordinate, encourage and integrate* with planned conservation and local water supply development that is already under way throughout the service territory, MWD proposes to embark on a massive spending program.

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Stranded Costs and Stranded Historic Imported and Low Cost Water

MWD's IRP strategy will drive MWD's rates up drastically and lead to lower water sales by MWD as local agencies develop lower-cost supply alternatives. With the Buffer Supply strategy in the draft IRP, MWD is setting itself up for a perfect storm of skyrocketing water rates and plummeting water sales. This course of action amounts to a fiscal death-spiral for MWD and is financially unsustainable.

While it is not possible to determine from the draft IRP precisely what the current core supplies are or how the proposed Buffer Supply will be developed as MWD projects and member agency projects (or any iteration thereof), one thing is very clear from the draft IRP: *MWD is embarking on a course of action that will result in abandonment of MWD's historic investments in water supply infrastructure and low-cost core water supplies in favor of far more expensive water.* A graph illustrating this practical effect of the IRP is included as Attachment 1 to this letter. That graph shows that MWD's Buffer Supply strategy will lead to 500,000 acre-feet of imported water being stranded by MWD each year, in favor of more expensive local supplies developed by MWD at a cost of more than \$1 billion annually on MWD's rates (2035). It is imperative that MWD take the time now to refine this draft IRP to avoid creating stranded water and the associated stranded costs we will be asking our ratepayers to cover for decades to come.

Detailed Comments on July Draft IRP

Our detailed comments are included in Attachment 2 to this letter in the following broad subject matter categories:

- *Water Rate Impacts*
- *Conservation*
- *Commitment to the Delta*
- *Stranded Costs*
- *Why Abandon Historic Investments and Low Cost Water?*
- *Respect for Local Autonomy*
- *Definition of Region*
- *Outdated Reliability Goal*
- *Need to Integrate Member Agency and Local Planning Data*
- *Failure to Identify Key Issues to Maximize Surface Storage, Groundwater Storage and Conjunctive Use*
- *The Problem with Water Insurance, aka "Buffer Supply"*
- *"Adaptive Management" Inadequately Defined*
- *Inaccurate and Incomplete Data*
- *Process Concerns*
- *Recommendations*

Mr. Kightlinger
September 10, 2010
Page 3

We met with our member agency managers to obtain their perspectives, comments and questions. The August 10 IRP forum in San Diego was well attended by our agency managers and many questions and comments were presented to you directly at that time. A list of those questions is included as Attachment 3 to this letter.

We request that MWD staff distribute a revised draft IRP once it has an opportunity to respond to comments and questions raised here and at the IRP Stakeholder Forums, and to review and reconcile the data in the report so that it is both internally consistent and consistent with MWD's Regional Urban Water Management Plan.

Please let us know what the timeline is for receiving your written responses to this letter and the questions asked at the IRP Stakeholder Forums. We hope to work with you to complete an IRP that will provide a solid roadmap for the future for all of Southern California.

Sincerely,



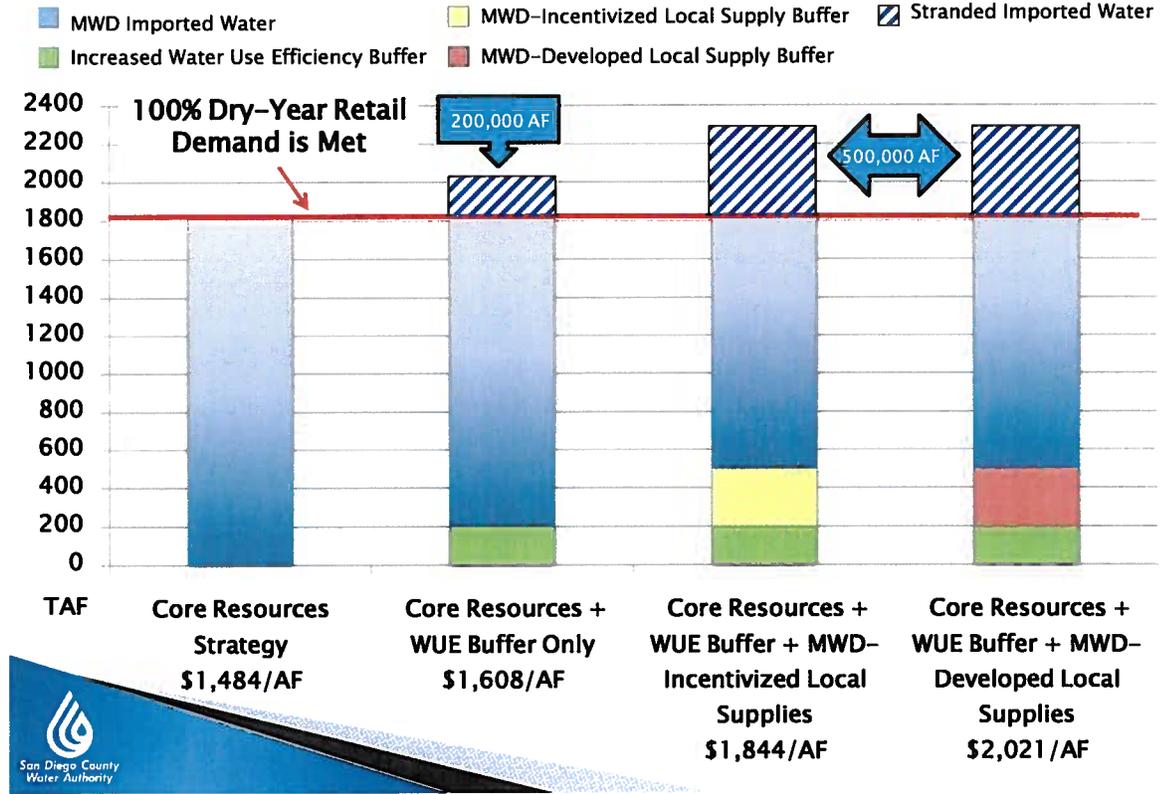
Maureen A. Stapleton
General Manager

Attachment 1: Stranded Imported Water in 2035
Attachment 2: Comments on MWD's July Draft 2010 IRP Update
Attachment 3: Questions posted at San Diego IRP Forum

cc: MWD Board of Directors
MWD Member Agency Managers
Water Authority Board of Directors
Water Authority Member Agency Managers

ATTACHMENT 1— STRANDED IMPORTED WATER IN 2035

Stranded Imported Water 2035



ATTACHMENT 2 – COMMENTS ON MWD’S JULY DRAFT 2010 IRP UPDATE**WATER RATE IMPACTS**

With the unprecedented recommendation to develop 25% more water than MWD demands require, the draft IRP is extremely light on its analysis of potential rate impacts. The only rate analysis included in the draft was a table in Section 3 prepared for the board’s strategic policy discussion and not related to the recommendation to implement the Buffer Supply. Presumably, the supplies being developed under the Core Resources Strategy would generally be lower in cost than those under Buffer and Foundational Actions. The implementation of the Buffer Supply will require substantial financial investment by MWD and its member agencies. A critical analysis of potential rate impacts and the impact rate increases will have on demand must be completed and deliberated by the board before it takes a policy direction on the IRP and implementation of a Buffer Supply.

In mid-August, MWD’s staff presented a “2010 IRP Average Rate Analysis” on four implementation strategies for the IRP. The presentation showed the difference in the rate increase between the Core Resources Strategy – one that MWD admits meets all projected dry-year demand – and the plan’s recommended strategy to develop 500,000 acre-feet of additional Buffer Supplies is only 2 percent, a deceptively and alluringly low number that obscures the actual difference in cost ratepayers would experience between implementing the Core Resources Strategy and any one of the three Buffer Supply strategies. The difference amounts to up to \$537 per acre-foot in 2035 – a 36% difference in water rates in that year; this is not insignificant.

More troublesome, however, are some of the assumptions that went into the rate analysis. MWD currently funds about \$20 million for its water conservation programs, which it projects would result in about 10,000 acre-feet of new conservation annually. Both the 20x2020 retail mandate and 20x2020 regional consistency require investment far beyond the current conservation effort. Under the 20x2020 regional consistency analysis, staff estimated 580,000 acre-feet of water use efficiency beyond that anticipated through current conservation programs is needed. Yet, only \$20 million is assumed in the analysis to achieve the conservation goal that is significantly higher than what the current investment is producing. Similarly, the rate impact for Buffer implementation assumes MWD continues the \$250 acre-foot subsidy for local projects development at the same time it is proposing investments in local water supply development that greatly exceed this cost. Another example: in the MWD-Developed Buffer Supply scenario wherein MWD assumes financial responsibility for 500,000 acre-feet of conservation and local supply development, MWD’s operations would surely grow, yet the rate analysis shows zero cost difference in the Departmental O&M from the Core Resources Strategy; this appears to be an unrealistic assumption. Another example: zero cost has been assigned to account for the project development costs and risks associated with the Foundational Actions component of the plan.

MWD’s failure to calculate or acknowledge the true cost of water by basing the rate impact analysis on unrealistic assumptions does a disservice to Southern California ratepayers and only pushes the hard decisions to another day. We request that a more realistic set of cost assumptions be used to conduct the rate analyses associated with the IRP and that this information be available for full discussion and deliberation by MWD’s board of directors.

CONSERVATION

The Water Conservation Act of 2009 (the Conservation Act, or 20x2020) established new methodologies, water use targets and reporting requirements. The Act's requirements apply to urban *retail water suppliers*. Although MWD and its wholesale member agencies have a supporting role, primary responsibility for compliance with the law falls to each retail agency within MWD's service territory. The draft IRP does not address these requirements or explain how a regional program would integrate with, or support these retail conservation programs.

MWD's recent board memo on water conservation concluded that accounting for conservation at the individual member agency level would be too difficult and would threaten the efficacy of MWD's Integrated Resources Plan, Water Supply Allocation Plan and other programs. We respectfully disagree, and point out that local agencies already do so as part of their Urban Water Management Plans (and other plans). It is imperative that the MWD board consider changed circumstances and legal requirements to ensure that any future regional conservation program integrates with local programs, and avoids creating conservation disincentives through the pricing structure, water supply allocation plan, or otherwise.

While the draft IRP appears to *assume* a regional compliance approach, the Conservation Act provides that urban retail water suppliers must achieve and report compliance on an individual basis unless certain prerequisites for regional compliance and reporting are met. Among other things, regional compliance requires the written consent of each retail agency. MWD should factor this legal requirement into its analysis in the revised draft IRP.

Indeed, as a wholesale water provider, MWD's role in conservation must be carefully evaluated in light of these new legal requirements. Since it is unlikely that all retail water suppliers within MWD's service territory will elect to report as part of MWD's regional water management group, MWD must account for that as the regional program is being developed. MWD must carefully assess how a regional program can fairly integrate with the individual programs its member agencies, and their respective retail agencies, choose to implement to ensure that each retail agency and group of ratepayers is carrying its legally required, fair share of the cost.

Changes will also be necessary to MWD's water shortage allocation plan in order to encourage conservation. The City of Long Beach has presented a number of ideas and approaches to address this concern that should be thoroughly evaluated and considered. We also believe that MWD's wholesale price structure discourages conservation by disguising the true cost of alternative water supplies. By continuing to offer regional subsidies to retail agencies to meet water use efficiency targets that are legally required of them, MWD is actually discouraging water conservation – unless, that is, MWD pays for it. Any regional program must start where the legal requirement on the retailers ends, otherwise, MWD is simply robbing Peter to pay Paul and rewarding free riders. And, by subsidizing compliance with the retail 20x2020 targets, funds that MWD collects from some of its member agencies will be benefitting (subsidizing) compliance of other member agencies while providing no commensurate benefit to the “donor” agencies, because those donor agencies do not receive “credit” toward their own 20x2020 compliance goals for spending money (via the MWD subsidies) in other retailers' service areas.

These donor agencies must additionally spend their own rate money to meet their own compliance requirement.

As noted earlier, we believe that measurement and verification are essential to any water use efficiency program, and is in fact, required for compliance. We would note that the data MWD uses to support the conservation section of the IRP is, except for the current demographic data from SCAG and SANDAG, outdated (Attachment A.1, Attachment C-2) (1997). One of the recommendations in the 1997 report was that MWD expand the coverage of its conservation data base to include the many MWD member agencies with respect to which conservation data was not available. (See IRP Attachment A-1 at Attachment C-40)

We believe there is an important role for MWD in water conservation but that its programs must change in order to address the concerns described above. The draft IRP fails to address these important considerations.

COMMITMENT TO THE DELTA

Many agencies and stakeholders are reading the draft IRP recommendation to “immediately” and “aggressively” implement 500,000 acre-feet of Buffer Supply as a signal that MWD is abandoning, or does not believe that it will be successful in fixing the Delta. This comes as a big surprise to our community, which worked tirelessly on the 2009 water bill package and water bond. We do not support changing course and believe that we must diligently pursue and protect our investment in the Delta and State Water Project. The Delta Community is also counting on our continued support. It is our understanding from the information provided by MWD that the Core Resources Strategy includes both a Delta Fix and continuation of existing Colorado River programs contemplated by the Quantification Settlement Agreement. We believe this is the correct approach and consistent with MWD’s core mission.

This having been stated, the Water Authority is open to having a candid discussion with MWD, the Delta Community and all interested parties about the nature and extent of the Delta “Fix,” if MWD has grown skeptical of the prospects for success in the Delta. In the meantime, and unless and until a *conscious decision* is made – with the benefit of analysis and input from all affected parties – we believe the call for a Buffer Supply sends the wrong message vis-à-vis MWD’s intentions in the Delta – and an expensive message at that.

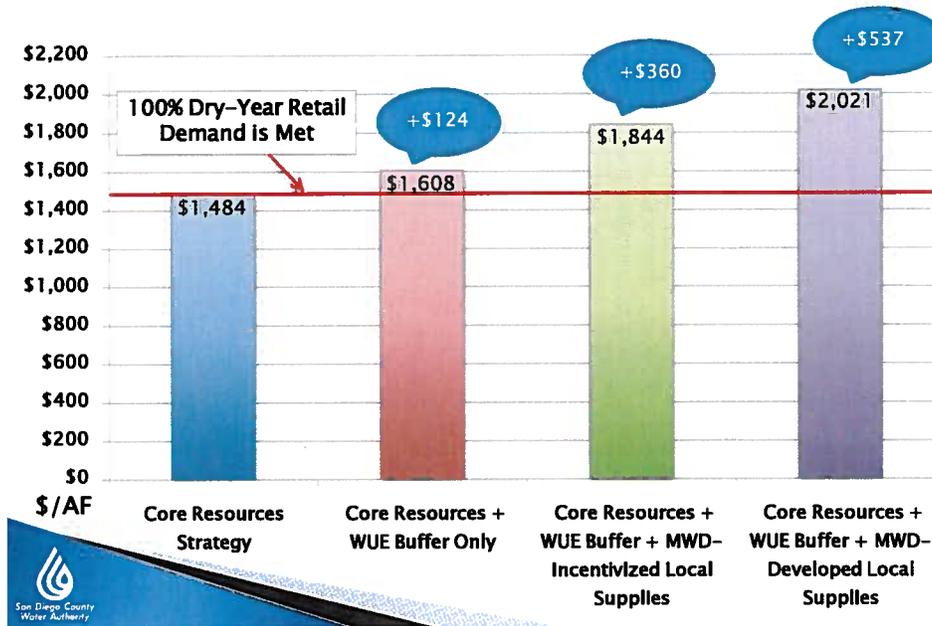
STRANDED COSTS

Since the drought in the early 1990’s, MWD’s water management strategy has been to invest in storage to take advantage of the hydrologic cycles to best utilize low-cost, available water. Today, this investment, which stands in excess of 5 million acre-feet of storage capacity, has served the region well during the current supply challenges. But, rather than continuing this management strategy to optimize the historic investment in the State’s water supply infrastructure and MWD’s own low-cost imported water, the draft IRP proposes to shift course in favor of MWD developing local water supplies at a high cost to its ratepayers.

The development of the Buffer Supplies would lead to a similar outcome. If these supplies are not needed – and the draft indicates that demands for the Buffer Supplies will not exist – then the costs to develop them are truly in excess of need and stranded and, therefore, will be stranded costs. A graphic illustration of the stranded costs is shown below in Figure A.

Stranded Dollars/AF in 2035

Figure A



It is important that MWD integrate its planning with those of its member agencies so that it does not find itself with stranded investments and future unexpected rate increases due to poor planning.

WHY ABANDON HISTORIC INVESTMENTS AND LOW COST WATER?

Staff's rate analysis released in mid-August sheds light on the following facts: the immediate implementation of Buffer Supply, whether limited to regional consistency Water Use Efficiency of 200,000 acre-feet or the entire 500,000 acre-feet inclusive of local projects would result in abandonment of like amounts of lower-cost imported water, even after it has obligated its share of the Delta Fix improvements. Case in point, in 2035, with Buffer Supply inclusive of Water Use Efficiency only, MWD's own rate analysis showed it would forgo a like amount of imported water due to reduction in sales. The situation worsens if MWD implements the entire 500,000 acre-feet of Buffer Supply, under both MWD-Incentivized and MWD-Developed Buffer Supply scenarios, 500,000 acre-feet of imported water is forgone. Why would MWD spend billions of dollars to develop new supplies and, at the same time, plan to forego use of those supplies?

RESPECT FOR LOCAL AUTONOMY

The key question addressed in the draft IRP focuses on the "role" of MWD. But, with due respect, we believe it's the wrong question. The focus should not be on MWD's "role," but on how the most reliable, cost-effective water supply can be provided to water ratepayers, being

mindful that not every retail water supplier or even every “region” within the vast MWD service territory will answer that question the same way. MWD’s “top-down, all-in” planning model in which it will assume responsibility over local water supply development fails to take into account the many cities, local agencies and groundwater managers who grapple with local water supply development issues every day. It is an open question what role these agencies and water suppliers would like MWD to play, but it is certainly important to ask. Historically, the answer to that question would be easy: they want funding to help support local water supply development. We believe that there *is* a role MWD can play in helping to support local projects including funding mechanisms for local supply development. But the rules must be firm and fair, laid out in advance, and equitable to all parties.

DEFINITION OF REGION

Given the dramatic shift in the draft IRP from imported water supplier to local supply developer, MWD should take a step back and ask itself, its member agencies and, critically – the hundreds of cities, counties, water suppliers, groundwater managers and other local districts – how they define their “region” for purposes of local water supply development. MWD has been Southern California’s principal “regional” *imported* water supplier. That does not mean that it will be efficient or even logical for MWD to become Southern California’s “regional” *local* water supplier. The State, for example, recognizes nine separate IRWM planning groups that are wholly or partially within the MWD service territory. What makes sense for “regional” local water supply development needs to be discussed between and among all interested parties, not just MWD and its member agencies, and be defined in a manner that is practical, workable and equitable to all parties. It is likely that not all local and regional agencies desire to be under the planning umbrella of MWD and its member agencies – whose member agencies often have goals, priorities and objectives that are different than their own.

OUTDATED RELIABILITY GOAL

By declaring allegiance to the 1952 Laguna Declaration, the draft IRP misses a critical opportunity to signal that it is no longer “business as usual” in Southern California or at MWD. Indeed, where and how to establish the reliability goal was not even discussed as part of the IRP process. In today’s water-scarce, high-rate environment, our customers want a choice about the level of “regional” reliability they want to pay for.

But the draft IRP goes even further, it advocates a reliability goal of developing core supplies to meet full-service dry year demands at the retail level under all foreseeable hydrologic conditions, *plus* developing a Buffer Supply of 10% of retail demand, *plus* completing project planning for an array of additional projects based on undefined “uncertainty” (the Foundational Actions). This “Laguna Declaration-*Plus*” approach is excessive, impractical and fiscally imprudent. It also flies in the face of California’s changed circumstances and Southern California’s conservation ethic.

Before staff recommends the highly aggressive supply development outlined in the draft IRP, it should communicate with each of its member agencies to determine the extent to which those

agencies intend to rely upon MWD to meet their future supplemental water supply needs. As aptly noted in the 1994 Blue Ribbon Task Force Report,

“[It was troubling] to learn, for example, that some of the member agencies most strongly supporting big-ticket projects...also had the most aggressive plans to reduce their future MWD water purchases and develop independent supplies. In effect, such agencies appear to want MWD to develop costly backup capacity-or insurance-for their local supply strategies, while seeking to shift the costs for these benefits on to Metropolitan and other agencies and customers.” -- BRTF Report at page 23.

Just as in the past, it is clear that some of the MWD member agencies most strongly supporting the draft IRP are doing so precisely because they believe that it will allow them to become less dependent upon MWD.

NEED TO INTEGRATE MEMBER AGENCY AND LOCAL PLANNING DATA

The draft IRP identifies the need for only 16,000 acre-feet of local projects to achieve the Core Resources Strategy target in 2015 and only 46,000 acre-feet by 2025 and through the end of the planning horizon (2035). According to the draft IRP, this will result in 100% supply reliability under all hydrologic conditions to meet dry-year demand. It is important to note that in reaching the 100% reliability assessment, the plan has taken into account regulatory and environmental constraints on supplies from the Bay-Delta in the years before mid- and long-term Delta improvements are completed.

Based upon review of the limited data included in Appendix A.5 of draft IRP, it appears that as much as 750,000 acre-feet of local water supply is already being planned by MWD member agencies. It is unclear whether this list includes all supply projects that are being planned by cities, groundwater managers, replenishment districts, utilities and other agencies and water suppliers throughout Southern California. Given that the draft identifies only 46,000 acre-feet of local projects is needed to achieve Core Resources strategy’s 100% reliability goal, the draft IRP fails to grapple with the reality that MWD sales will be reduced, not increased in the future. If properly coordinated, this trend can be a positive outcome for MWD and all of Southern California. But MWD threatens to disrupt the positive economic impacts of this shift by proposing to over-invest in new water supplies in an ill-fated and illusory attempt to increase its own sales. Failure to coordinate with the many cities, water districts, and utilities beyond MWD member agencies places all Southern California water ratepayers at risk.

The draft IRP also does not provide projected supplies under average- and wet-year hydrologic conditions and their frequencies of occurrence. The draft shows only how MWD’s storage would fare under “average” conditions. Figures 4-5 and 4-6 reflect very healthy storage conditions for MWD, but lack data for member agencies to assess how their surface reservoir or groundwater basins could be augmented for dry year use.

In summary, although the IRP by definition is intended to be an *integrated* plan that takes member agency and retail supply plans into account as part of MWD’s regional planning, the

IRP draft fails to do so. This presents grave risk to MWD and Southern California water ratepayers.

Finally, MWD's historic and principal role has been to deliver water to Southern California imported from the Colorado River and State Water Project. The subsidy programs were originally created to "encourage" conservation and development of local water supplies that were otherwise not cost-effective, and, in order to "send the right message" to Northern California where it was seeking to maintain its State Water Project entitlement. The rationale was that by supporting these local water supply investments, the costs of securing additional imported water supplies and/or infrastructure were "avoided," and thus the payment of MWD subsidies benefited the region as a whole. MWD should take the time now as part of the IRP planning process to consider the appropriate role of subsidies generally, and including whether subsidies are encouraging or impeding desired outcomes.

FAILURE TO IDENTIFY KEY ISSUES TO MAXIMIZE SURFACE STORAGE, GROUNDWATER STORAGE AND CONJUNCTIVE USE

The draft IRP says that Metropolitan has "gradually shifted from being exclusively a supplier of imported water to collaborating with its member agencies on regional water supply planning issues." This statement does not capture the momentous change that is being recommended for adoption in the draft 2010 IRP, which will place MWD in control of planning, outreach, all state and federal funding and decision-making about local project development. While the draft promises that MWD will "collaborate" with agencies outside of their own member agencies, it appears that it has not collaborated with them in proposing this new role for MWD in the first place. Willingness to allow MWD to become the regional master facilities planner may also vary by region.

MWD's principal, historic role has been as a supplemental, imported wholesale water supplier to its member agencies. While "collaboration" with its member agencies is indeed important, MWD is announcing in the draft IRP a substantially different and enhanced role for itself in the future, including "master planning" for significant local water supply resources over which it has no legal jurisdiction or expertise. The draft IRP does not so much represent a "gradual shift" as a takeover strategy for local water supply development in which MWD will be in charge of local water supply development through its regional master planning process. For example, MWD is declaring that it will be in charge of "master planning" for the following activities:

1. Recycled water development, including creation of a regional finance committee that will determine how all state and federal funding dollars are best spent (Table 5-5);
2. Preparation of salt management plans and groundwater basin management plans (Table 5-7);
3. Seawater desalination "integration" (Table 5-10) and funding mechanisms (Table 5-13); and,
4. Stormwater capture, including regional master planning, implementation of pilot projects and development of subsidy programs (Table 5-19).

MWD's newly announced role as "master planner" for all Southern California local water supply development goes far beyond the function of "collaboration" described above. Given that it has little expertise in groundwater and developing local projects, staffing and budget increases will undoubtedly be on the horizon. These efforts will duplicate those of the many local water suppliers, replenishment districts and groundwater managers who are already engaged at the local level.

In lieu of these proposed changes, MWD should follow the same, more cautious guidelines it suggests for graywater (see page 5-36), namely,

1. Do not establish subsidies to pay for graywater;
2. Focus instead on reviewing and suggesting standards and pursuing changes to legislation and regulations to support graywater development;
3. Work with local entities to create model guidelines for permitting processes; and,
4. Assist with public information efforts as requested and appropriate.

Finally, the draft IRP fails to address the most fundamental questions that must be addressed by MWD at the wholesale level, including: 1) how available imported water supplies will be managed; and 2) what policies are needed to assure fair access to facilities in order to move water stored in groundwater basins in and out of, and within the MWD distribution system.

THE PROBLEM WITH WATER INSURANCE, AKA "BUFFER SUPPLY"

The draft IRP recommends implementation of the Buffer Supply as an insurance policy against uncertainties, but does not provide a quantitative analysis or risk assessment to show how the 500,000 acre-feet of supply development was derived. For this reason, the Buffer Supply is purely speculative.

The Buffer Supply is also financially unsustainable under the current rate structure, since agencies would only pay for the "insurance" when they file a "claim" for the water. The cost of maintaining a large "standby" supply will be extraordinarily expensive, force MWD rates to increase exponentially, and, drive water purchasers away from MWD in search of lower cost supplies that they can control. Here again, the 1994 Blue Ribbon Task Force had it right:

"Reliability, quality and other water supply specifications cannot be made independently from the willingness of MWD customers to pay for such services. Member agencies may want, for example, the insurance provided by major investments to increase MWD standby capacity, but if forced to commit funds for such capabilities, they may actually prefer far lower levels of protection than a hypothetically "costless" water supply guarantee." -- BRTF Report at page 9.

While the draft IRP itself is silent on the cost of the Buffer Supply, MWD's mid-August rate analysis showed startling costs of the Buffer Supply, in terms of sky-high water rates, stranded water supply and stranded costs. The two charts included with these comments were developed based upon this mid-August rate analysis.

Furthermore, the draft IRP appears to ignore the fact that MWD already has a substantial “Buffer” in which it has invested, namely, MWD’s vast storage program. MWD has 5 million acre-feet of storage, which the draft IRP indicates will be full on average. The draft IRP also says that if the Core Resources Programs are implemented, the region could have an excess of 1 million acre-feet of water during dry years, when storage and transfers are factored in. If the 500,000 acre-feet Buffer Supply is implemented, *without* MWD taking any water from its storage, the region will have more water than required to meet demands including filling all available storage. The bottom line is that the draft IRP fails to factor in that the very purpose of the existing storage is to provide the same dry year assurance that is proposed to be filled by the new Buffer Supply.

“ADAPTIVE MANAGEMENT” INADEQUATELY DEFINED

Although the draft IRP says that MWD will employ an “adaptive management” strategy, the draft also concludes that an aggressive approach to immediately implement the Buffer Supply is required. In general, it is not possible to discern from the draft IRP what the timing or “triggers” are for any of the “adaptive” actions. The draft IRP is also inconsistent with statements made by MWD staff at the August 10 San Diego Stakeholders Forum with regard to timing of adaptive management actions described in the draft IRP.

At its own August 20 member agency managers’ meeting, MWD staff stated that it plans to only recommend immediate implementation of the regional consistency Water Use Efficiency Buffer, and leave the implementation of the Local Resources Buffer to occur only when certain trigger events take place, such as failure to obtain the environmental documentation for a Delta conveyance facility by a date-certain (yet to be specified). This is a very different position than the draft’s aggressive approach to implement local projects as delineated within the draft IRP as follows:

Page 4-20, “Implementing a Supply Buffer,” states, in part: “...a ‘planning’ Buffer was introduced during the 2004 Update. The 2010 IRP Update proposes to expand the concept of a planning Buffer and create an actual hedge against demand uncertainty, by implementing a supply Buffer equivalent to 10 percent of total retail demand. Metropolitan will collaborate with the member agencies to implement this Buffer through complying with the 20X2020 legislation, and by implementing aggressive adaptive actions to meet any remaining portion of the 10 percent Buffer.” (Emphasis added.)

On page ES-8, the draft states: “Maximizing regional benefits through economies of scale and minimizing the cost of redundancy is important to adaptability. The 2010 IRP Update will hedge against demand, supply and environmental uncertainties by implementing a supply Buffer equivalent to 10 percent of total retail demand. This Buffer will be implemented through meeting 20X2020 water use efficiency goals, and by implementing aggressive adaptive actions to meet the remaining portion of the 10 percent Buffer through local supplies and transfers. This approach is consistent with maintaining reliable baseline supplies and advancing local and regional solutions.” (Emphasis added.)

In its outreach materials used at the IRP Public Forums, MWD has an executive summary, page ES-10, that states the Buffer Supply will be "...developed through collaboration with the member agencies on aggressive actions." And, on Figure ES-4, Component 2 box reads "aggressive adaptive actions for the remainder." (Emphasis added.)

It is impossible to reconcile the oral comments made by MWD staff at the August 10 Stakeholder Forum and the August 20 MWD Member Agency Managers meeting with the conflicting verbiage in the draft IRP document.

It is also completely unclear what "adaptive management" means or how it will be employed by the MWD staff once the IRP is adopted by the board. Substantially more detailed planning and transparency is required before board adoption so that the member agencies can better understand what is intended by the draft IRP.

INACCURATE AND INCOMPLETE DATA

The Core Resources Strategy is the heart of MWD's current water supply planning. It is essential that the draft IRP provide a full description of the components of the Core Resources Strategy. And yet, it is not possible to discern the details of the Core Resources Strategy due to the fact that there is inconsistent data presented throughout Sections 4 and 6 of the draft IRP. These are the key sections of the report that present analyses of the available water supplies and need to develop additional supplies.

To ensure a sustainable resource plan that clearly outlines a path for long-term reliability, it is fundamental that the draft IRP start with a more comprehensive evaluation of the Core Resource Strategy. The Core Resource Strategy serves as the foundation of the plan. The analysis should include an identification of what actions can be taken to strengthen the core strategy in order to maximize investments already made in imported supplies. The evaluation should include an assessment that clearly identifies the risks associated with implementation of the core strategy and takes adaptive measures to mitigate those risks. This assessment would provide a linkage between the Core Resource Strategy and the timing and type of adaptive management strategies recommended. Transparency in the process is critical to providing the member agencies the data and information needed to plan accordingly in their UWMP and resource plans.

In addition to the internal inconsistencies, the data included in the draft IRP is also inconsistent with data included in MWD's recently released draft Regional Urban Water Management Plan (RUWMP). The Water Authority suggests that MWD staff conduct a workshop with the member agency managers to work through this detail so that MWD's Core Resources Strategy can be presented in a manner that may be better understood and inconsistencies with MWD's RUWMP can be reconciled.

To cite just a few examples, seawater desalination is listed as existing production on Table 4-6 but as a yet-to-be-developed Core Resource on Table 4-8. There is no indication how the groundwater, local surface water and Los Angeles Aqueduct (LAA) supplies listed in Table 4-7 were projected. And, it is unclear why there is an increase in groundwater supplies during this

planning horizon, but a decrease in surface water. The data for LAA also differs between the IRP and RUWMP. These and other inconsistencies and lack of foundational data are not “details” to be “worked out later” – rather, this is foundational information required in order to meaningfully assess MWD’s current supplies and the need to develop additional supplies.

Beyond the internal inconsistencies in the draft IRP, there is also insufficient information provided on the plans of cities, groundwater agencies, replenishment districts, utilities and water suppliers throughout the Southland to implement conservation and other local water supply programs that will substantially reduce the amount of water purchases from MWD in the future. While the draft notes that there are approximately 250 retail agencies that supply water to the public, the draft IRP analysis has failed to account for the plans and timing of plans that many of these 250 retail agencies have to both conserve water and develop local resources. Although Appendix A.5 includes a list of member agency area projects, it does not provide analysis to show how these projects will reduce the demand for MWD supplies. It also does unclear whether it includes projects of the many agencies, sub-agencies and utilities who presently buy water from MWD member agencies. MWD must work with its member agencies to develop an accurate and agreed upon list of projects as well as project timing, and eliminate inconsistencies before it finalizes the draft IRP.

Moreover, MWD’s methodology limits its accounting of local supplies to existing, under construction and “committed” projects (a term not defined in the draft IRP). All other planned local projects are included as part of MWD’s own “regional” target, with the explanation that, “... [t]his recognizes the uncertainty in local supplies and avoids over and under allocating local supply targets to individual agencies” (see Appendix A.1-22, “Projected Active Conservation: A New Approach). This approach appears grounded in MWD’s past experience and the notion that local water suppliers cannot be relied upon to develop local supplies and, therefore, MWD must step in and take over responsibility for local supply development. This assumption fails to take into account the substantially changed circumstances and that many local water supply projects that were once uncompetitive with the price of imported water are now cost-effective – without any subsidies from MWD – when compared to even the conservatively projected cost of MWD water. There are also better mechanisms to hold local water suppliers accountable to the region for completion of projects than the theoretical no-cost or low-cost water supply Buffer “insurance” recommended in the draft IRP.

The realistic regional demand “gap” cannot reasonably be estimated without taking into account the existing and planned actions of MWD’s member agencies and other local water suppliers. The draft IRP notes that Metropolitan has historically provided between 45 and 60 percent of the municipal, industrial, and agricultural water used within its service area. However, enhanced conservation and development of local water supplies will result in a dramatic reduction in water demand on MWD. Implementing any of the Buffer Supply strategies in the draft IRP will lead to unavoidably higher rates and inversely declining sales.

PROCESS CONCERNS

While there have been a large number of meetings and IRP-related “processes,” the process overall has been both “top down” and “disintegrated,” with no meaningful opportunity for non-MWD member agency participants to shape the outcome. This shortcoming is all the more important given the draft IRP proposes that MWD become responsible for, or compete with many local projects that are currently within the jurisdiction of cities, local agencies and groundwater managers. The 1994 Blue Ribbon Task Force made similar observations about the then-pending IRP process:

“Although both the IRP and rate structure efforts largely involve member agencies in setting functional objectives, performance standards and the development of background materials such as the Strategic Resources Assessment-and to some extent, other outside participants-the precise role of non-MWD participation in IRP and rate structure discussions often seems limited to commenting on Metropolitan-generated objectives rather than considering de novo functional objectives and performance standards.” -- Blue Ribbon Task Force Report (BRTF Report) at page 8.

“As different resource, reliability and operational goals are considered, IRP participants are not presented with fully articulated alternative models. The current practice is to make marginal changes in an assumed base resource mix in response to new, cost, technological, political or other concerns. This practice may limit the participants’ understanding about the implications of different options, and artificially constrain the range of choices they take into account.” -- BRTF Report at page 12.

“Despite a heavy meeting schedule, and numerous specialized committees and subcommittees, the Board often seems to be presented with limited options and choices for final approval largely defined and developed by MWD staff, rather than conduct an independent inquiry of relevant matters.” -- BRTF Report at page 74.

These observations are as accurate regarding the current draft IRP and IRP process as they were more than 15 years ago. The 2010 draft IRP has been available for public review only recently, and although voluminous, contains limited information. The revised draft IRP will apparently not be available until later in September, with board adoption scheduled for October. This schedule and process does not allow for meaningful distribution or review of the draft IRP by those who are impacted through the adoption of the IRP. MWD staff has been portraying the draft IRP as implementation of the will of the people, rather than as a recommendation of MWD staff. But, of the almost 19 million people who live and work in Southern California, less than 350 people attended the four stakeholder workshops combined – and, many of those participants were MWD and member agency staff and consultants. Moreover, the stakeholders were being asked to comment on a draft report in which fundamental questions remain to be answered.

Given that MWD is proposing to change its historic role as imported water supplier – which is the principal responsibility most local agencies now associate with MWD – it is vitally important that sufficient time be allowed for distribution to city councils, county board of supervisors, groundwater managers, replenishment districts, water districts, utilities, and other local entities which will bear the expense of, or otherwise be impacted by MWD’s new role. MWD and its member agencies should not simply assume that all agencies and stakeholders will welcome this new role for MWD or the associated rate increases that will be necessary to implement this course of action.

RECOMMENDATIONS

MWD uses the IRP as a foundation for its RUWMP. Thus, the draft IRP should reflect the clear professional recommendation of MWD staff. Is that the case? If so, we recommend you say so when the revised draft IRP is released. As it stands in the draft IRP, this is unclear.

At a minimum, we recommend that MWD provide a full 60-day review period between the release of a revised draft IRP, including responses to all comments and questions, and the first MWD board meeting to consider the revised draft. We also recommend at least two public meetings of the board to consider and deliberate the revised draft IRP. This time frame would still allow adoption of the IRP in advance of the RUWMP. Although the update process stated more than a year ago, the recommendations were made available for the first time in July 2010 when draft report was posted online. We were quite surprised with the recommended strategy, especially since the draft’s own data indicates the excessiveness of such a recommendation. The draft recommends an adaptive strategy that included three components: Core Resources Strategy, Buffer Implementation, and Foundational Actions.

The draft IRP clearly indicated that the implementation of the Core Resources Strategy would meet projected dry-year demands under all foreseeable hydrologic conditions, with MWD’s 5 million acre-feet of average storage capacity above 60 percentile and probability of dry-year shortage diminishing to zero past 2015 (with only than less than 1 percent shortage in 2015). Yet, it recommends moving forward with all three components concurrently, including aggressively pursuing Buffer Supply implementation (in contrast to 2004 IRP’s planning buffer) and at the same time developing large-scale projects so they are “ready to proceed” under Foundational Actions.

The forthcoming revised draft IRP must integrate member agency plans and projects into the discussion, and before implementation of projects that exceed demand, member agencies’ commitment to pay for these supplies must be obtained and proper choice and structure be set in place to ensure MWD does not strand water nor investments under the new supply strategy.

ATTACHMENT 3 – QUESTIONS POSED AT SAN DIEGO IRP FORUM

RELIABILITY GOALS

- Doesn't the IRP's reliance on the almost 60 year old Laguna Declaration – drafted at a time when Southern California was almost completely dependent on imported water – send the wrong message in today's limited resource and escalating cost environment? Is that a smart message in the water bond campaign?
- Why didn't MWD reconsider the central question of the where the regional reliability goal should be set?
- Why should everyone have to pay for the same reliability standard if they want to conserve more and pay less?
- How has MWD accounted for the dampening effect higher prices will have on water demand?

SUPPLY AND PLANNING BUFFER

- Has MWD done a survey of each of its member agencies and other local agencies and utilities to determine what projects they are developing now or plan to develop in the near future? Don't you need this kind of information in order to determine what supply "gap" exists?
- Will MWD staff agree to collect this information about local projects development and make it available before asking the board to adopt this IRP?
- What is the rationale for an MWD Buffer Supply equal to 10% of retail demand? What is that number based on?
- What is MWD's assumption in the IRP about who will pay for the core and Buffer supplies? Is there a breakdown of this by region or project? Isn't this information necessary to define even broad parameters of a real plan?
- Is staff recommending the implementation of both core and Buffer supplies because it does not believe it will be successful in the Delta Fix? If not, why does this draft recommend moving forward now with implementation of both supplies?
- Can you be more specific about the risks and uncertainties you believe justify the expenditure of current ratepayer dollars? What are the "trigger points" that would warrant increased spending?
- What is the level of commitment to developing the resources identified in the Buffer? And is there a certain date by which those resources will be developed?
- Why are recycled water and seawater desalination identified as part of the Buffer supplies?
- What is the size and composition of the Buffer?
- What is the process by which the region will make the decision to deploy elements of the Buffer? And are there risks associated with each trigger level?

MWD'S ROLE

- Isn't our current water supply allocation the result of challenges to our imported supplies? Since this has been MWD's historical role, shouldn't MWD focus its efforts and regional dollars on securing the Delta Fix and filling the Colorado River Aqueduct?

MEMBER AGENCY'S ROLE

- Does the IRP assume and recognize that the 20x2020 requirement is a retail obligation? Given that, why should MWD subsidize member agencies to meet this local mandate? Isn't this rewarding bad behavior?
- What is the IRP assumption about the project cost that would qualify for a financial "incentive" from MWD?
- Won't MWD by definition be investing in the most expensive sources of supply? [*Comment: If not, why would the local agency need an "incentive"?*]
- How does Met intend to ensure fairness among its member agencies in the collection and redistribution of incentive money for conservation and local projects?

PROJECT ASSUMPTIONS

- What is MWD's assumption on who will implement the 20x2020 mandate?
- What are MWD's planning assumptions for the on-line dates for the member agency projects described in the Appendix?
- What are MWD's assumptions for supply conditions under normal and wet years?
- What assumptions does the report make about how surplus water in any given year will be used? Will it go first to refill MWD's storage? Do you assume that discounted replenishment rates will be available at any time in the future? If so, under what conditions?

COST ANALYSIS

- What are the cost assumptions for core and Buffer Supply projects?
- What is the estimated rate impact as a result of implementing the core strategies? Is this impact based on an assumption the current rate structure remains unchanged?
- What would the implementation of Buffer Supply add to water rates?
- What about the Foundational Actions? How much would those activities add to water rates?
- Will MWD do a new rate structure analysis and cost of service study for IRP programs and projects before adopting the IRP?
- How does MWD ensure its core supply investments would not be stranded?
- Is MWD going to require firm contractual commitments from each of its member agencies to pay for all of this supply development?
- How do preferential rights relate to the availability of Buffer Supply water? Are they enforceable if a member agency claims them?
- Do you have any analysis available to show the "balancing" between resource investment and cost considerations?

TIMING

- IRP sets forth MWD's policy for future supply development and is an especially important document given changed water supply environment. Why the rush to get the report adopted so quickly?
- Are you willing to recommend extending the time for MWD staff to answer our questions before we are required to comment further on the report?



San Diego County Water Authority

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November 29, 2010

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

Visita Irrigation District

Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Carolyn Schaffer
Associate Resource Specialist
Metropolitan Water District
700 N. Alameda Street
Los Angeles, CA 90012

RE: Metropolitan's Draft Long Term Conservation Plan

Dear Ms. Schaffer:

Thank you for the opportunity to provide comments on Metropolitan's Draft Long Term Conservation Plan. The Water Authority's comments are attached.

I look forward to discussing these comments and those of the other Metropolitan member agencies at the meeting on Wednesday, December 1, 2010.

Sincerely,

William J. Rose
Water Conservation Program Executive

WJR:tp

Enclosure: Long Term Conservation Plan Comments
cc: Amy Chen, MWD Program Chief

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

Summary Comments on MWD's Long Term Conservation Program (LTCP)¹

The LTCP must recognize that conservation is a core supply

- The LTCP should clearly state that the *20% water use efficiency target is a core water supply* and not part of the “uncertainty buffer.” MWD should also reduce its target of alternative water supplies to be developed by the amount of water included in the water use efficiency target.
- The LTCP should reflect that retail agencies have choices of compliance options to meet the 20x2020 requirements. After taking into account the cumulative conservation of the retail agencies within its service territory, *MWD should develop additional “water use efficiency” supplies as part of core water supplies.* The cost of these supplies should be competitive with the avoided cost of alternative water supplies available to be developed by MWD. As a *supplemental, wholesale water supplier* – and particularly in the current high rate environment – MWD must develop lower cost supplies first.

Metropolitan's wholesale conservation programs should be grounded on a requirement that each retail agency pay for its own state-mandated 20 x 2020 compliance

- The LTCP should account for the 20x2020 compliance target as determined by the member agency, or by the retail subagencies served by the member agency. The MWD target cannot be established until the retail agencies have selected their respective compliance targets and methodologies. MWD should make it clear that retail agency compliance with statutory requirements is the foundation of the LTCP.
- The LTCP should provide a *structure to integrate retail compliance with 20x2020 requirements and allow for trading of conservation credits.* MWD should not pay subsidies to retail agencies to meet compliance requirements. MWD can facilitate retail compliance by creating a structure to allow for voluntary trading of conservation credits among member agencies.
- *MWD's LTCP as drafted encourages free riders and creates disincentives to water conservation in Southern California.* Wholesale pricing that understates the true cost of water sends a contrary price signal and obstructs market transformation at the retail level
- *MWD must determine whether it has authority to grant subsidies.* Before adopting the LTCP, MWD must evaluate its legal authority to pay subsidies to member agencies or retail sub-agencies to pay for 20x2020 compliance. This analysis is

¹ This Summary is intended to provide general comments and recommendations on the LTCP rather than respond in detail to the most recent draft. It is difficult to provide meaningful comments on the draft due to the draft's failure to define key terms or distinguish between conservation mechanisms that have widely differing costs and implementation features.

particularly important because of the recent passage of Proposition 26 by California voters.

- *Retail agencies are in the best position to implement market transformation.* Consumer conservation measures are imposed and implemented at the retail level. MWD can support implementation at the local level by working with industry groups and statewide retail suppliers like Home Depot and Rainbird. But MWD does not have the authority to regulate conservation at the retail level, and retail agencies need to have maximum flexibility as conservation programs make short term water use reductions more challenging.

Measurement and verification are essential components of conservation

- Sound conservation programs require *measurement and verification of conservation savings*. Measurement of water conservation solely by reference to average per capita water use throughout the MWD service territory as proposed by the LTCP is an insufficient foundation to support the expenditure of regional dollars and does not recognize the legal obligation all retail agencies have under current state law.
- MWD must implement a *system to account for MWD water supplies* that are available to each of its member agencies in order to have a baseline against which to measure conservation. MWD's *water supply allocation plan* should accommodate voluntary trading among member agencies.

MWD must send correct pricing signals in order to lay the foundation for conservation

- Price to the end user is a significant factor affecting conservation – *as the price of water goes up many consumers will choose to use less*. Significant research on retail price elasticity has already established this premise. MWD must *reform its wholesale rate structure* to send correct pricing signals to its member agencies to develop local supplies or increase conservation efforts. Wholesale pricing is an important component of market transformation at the retail level.
- MWD should *eliminate subsidies* for water conservation. Instead, MWD should *create and manage a "grid" through which retail conservation can be valued and traded*. This is a more appropriate and productive role for MWD and truly represents something it has the unique ability to do as a regional agency serving all of Southern California

MWD must rewrite the LTCP to define key terms and distinguish conservation options

- The LTCP must *define key terms and distinguish various conservation approaches* in order to assess which programs are better implemented by MWD at the wholesale level and which programs are better implemented at the retail level. As drafted, the LTCP does not distinguish regulations, subsidies, devices and full scale water reclamation projects, even though these various methods of conservation have

dramatically different costs and implementation considerations at the wholesale and retail level.

- In its current form the LTCP essentially says that MWD will make the conservation plan up as it goes along and essentially do “more” of what it has been doing in the past. This approach fails to grapple with problems of the past or provide creative leadership for the future of California water supply planning and management.



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July 20, 2011

Andy Hui
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Metropolitan Water District of Southern California
700 N. Alameda Street
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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
- Oliverain Municipal Water District
- Otay Water District
- Padre Dam Municipal Water District
- Camp Pendleton Marine Corps Base
- Rainbow Municipal Water District
- Romana 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

Re: Comments on Long Term Conservation Plan Working Draft Version 11

Dear Andy:

This letter provides the Water Authority's comments on the latest draft of MWD's Long Term Conservation Plan (LTCP Draft 11).

The LTCP Draft 11 is obtuse. It is not possible to understand from the document what programs MWD intends to implement or even how or if water conservation will be measured by MWD or its member agencies. A board workshop should be scheduled so that the policy objectives and role of MWD in achieving those objectives may be clearly defined. Although the LTCP Draft 11 suggests creation of a Program Advisory Committee, the draft does not provide sufficient policy guidance to permit delegation of program implementation or further deliberation and decision-making by the member agencies. MWD's board of directors has a fiduciary responsibility to address these issues with more clarity and accountability than is provided in the draft LTCP Draft 11.

The Water Authority has previously provided significant comments on prior drafts of the LTCP, which have not been incorporated into or addressed in the LTCP Draft 11. The Water Authority's representatives on MWD's board of directors sent a letter in August 2010 providing comments on Board Memo 9-1, MWD Conservation Program (Attachment 1). The key recommendations contained in that letter were:

- MWD's LTCP must take into account the responsibilities all retail water suppliers have under the Water Conservation Act of 2009 (the Conservation Act) and structure a regional program that accounts for, integrates with and supports retail conservation programs.

OTHER REPRESENTATIVE

County of San Diego

- MWD's LTCP must require measurement and verification at the retail level to assure that its member agencies are in compliance with the Conservation Act, as a prerequisite to participation in MWD regional conservation programs.

LTCP Draft 11 fails to achieve either of these core objectives.

By letter dated September 10, 2010, the Water Authority staff provided comments on the conservation component of the 2010 Integrated Resources Plan Update (Attachment 2 at page 2). Although these comments relate directly to MWD's long term conservation objectives and policies, LTCP Draft 11 fails to address these comments.

Key recommendations regarding the LTCP were again provided in November 2010 (Attachment 3), including the following:

- The LTCP must recognize that conservation is a core supply, and MWD must adjust its supply program investments accordingly to match demands.
- MWD's wholesale conservation programs should be grounded on a requirement that each retail agency pay for its own state-mandated 20 x 2020 compliance.
- Measurement and verification are essential components of conservation.
- MWD must send correct pricing signals in order to lay the foundation for conservation.
- MWD must rewrite the LTCP to define key terms and distinguish conservation options.

LTCP Draft 11 also fails to incorporate or address these recommendations.

MWD must recognize that retail water suppliers have primary responsibility to establish and implement water conservation and that MWD's regional conservation objectives should target water use efficiency *beyond* what retail water suppliers are mandated to accomplish under the Conservation Act. MWD's proposed use of regional ratepayer dollars to fund subsidies to its member agencies to meet their conservation mandates is inconsistent with the law and good public policy. Subsidizing required retail conservation would reward agencies that have not invested in water conservation, punishing those who have done the right thing. MWD must treat regional conservation investments as part of its core water supply strategy and adjust its capital and financing plans so that the regional supply benefit of additional conservation beyond the 20 x 2020 retail mandate is achieved.

The LTCP Draft 11 purports to establish a target of 141 gallons per capita per day (GPCD) for the MWD region, but wholesale water suppliers are not required to establish and meet targets for daily per capita water use. The legal mechanism for wholesale water suppliers to serve that role is through a voluntary alliance of urban retail water suppliers documented by a formal agreement among those suppliers. MWD cannot assume that role without the written consent of each retail agency. Although the LTCP appears to propose a regional conservation plan, the draft fails to take into account any Department of Water Resources requirements for establishing a regional alliance. See

[http://www.water.ca.gov/wateruseefficiency/sb7/docs/MethodologiesCalculatingBaseline Final 03 01 2011.pdf](http://www.water.ca.gov/wateruseefficiency/sb7/docs/MethodologiesCalculatingBaselineFinal03012011.pdf).

LTCP Draft 11 mentions “avoided cost” but no definition is provided. The LTCP must define how “avoided cost” is calculated and MWD capital and financing programs must be adjusted to ensure regional benefit.

The LTCP must also update the analysis of the “gap” the LTCP is intended to fill. Currently, the LTCP Draft 11 is based on the 1996-2005 average water use; however, substantial additional water conservation has already been achieved at the retail level and by MWD. The conservation target should be restated after recent water conservation and retail agencies’ state-mandated requirements have been factored in. LTCP Draft 11 seems to suggest, based on historical patterns over the past twenty years, that recent achievements in water conservation will be short term or actually followed by an increase. However, the same circumstances do not exist today – when Southern California is facing long-term, regulatory supply shortages – as we had in the past during hydrologic drought cycles. The review of this issue should also take into account that *the cost of water has also increased substantially and this factor will continue to contribute to reduced water sales by MWD and its member agencies.*

Planning for MWD investments in local recycled water projects, if any, must be part of the conservation plan and regional benefit must be demonstrated. MWD should certainly pursue all low cost conservation measures before considering any investment of regional ratepayer dollars in local recycled water projects. Under the current water supply conditions, rate structure and IRP, there is no evidence that one member agency’s recycled water project provides any benefit to other MWD member agencies.

LTCP Draft 11 states that “adaptive management” is needed to “rebalance” the conservation and recycled water targets that comprise the IRP water use efficiency target. This should be explained in the next draft.

Mr. Hui
July 20, 2011
Page 4

The draft LTCP states that MWD's efforts will "focus on its strengths and opportunities as a large regional wholesale water agency." We believe this is the right approach for MWD, and that there are indeed, important roles MWD could play in achieving water conservation over and above the retail targets for 2020. However, this will require MWD to design a LTCP that factors in the retail urban water conservation that is required by each of its member agencies and to develop a regional plan in which the avoided cost of conservation above existing legal requirements base line can be measured. Unfortunately, the current draft fails to achieve this level of analysis or clarity.

Sincerely,

A handwritten signature in blue ink that reads "Meena Westford". The signature is fluid and cursive, with the first name being more prominent.

Meena Westford
Public Affairs Senior Manager

Attachment 1: Comment letter on MWD Water Conservation Program, August 16, 2010

Attachment 2: Comment letter on MWD 2010 IRP, September 10, 2010

Attachment 3: Comment letter on MWD's Draft LTCP, November 29, 2010

cc: Water Authority MWD Delegates and Board of Directors



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

August 16, 2010

Timothy Brick
Metropolitan Water District of Southern California
PO 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 Diabolo
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: August 2010 Board Memo 9-1, MWD Water Conservation Program

Dear Tim:

Board Memo 9-1 addresses what is described as an “opt in/opt out” approach for MWD’s water conservation program. The memo concludes that accounting for conservation at the individual member agency level would be too difficult and would threaten the efficacy of MWD’s Integrated Resources Plan, Water Supply Allocation Plan and other programs. Although we strongly support increased conservation, we respectfully disagree with the analysis and conclusions stated in the Board Memo. The MWD board must consider changed circumstances and legal requirements to ensure that any future regional program integrates with local programs, and, avoids creating conservation disincentives through the pricing structure, water supply allocation plan, or otherwise.

The Water Conservation Act of 2009 (the Conservation Act) established new methodologies, water use targets and reporting requirements. The Act’s requirements apply to urban **retail water suppliers**. Although MWD and its wholesale member agencies have a supporting role, primary responsibility falls to each retail agency within MWD’s service territory. The board memo does not address these requirements or explain how a regional program would integrate with or support these retail conservation programs.

Although the Board Memo appears to *assume* a regional compliance approach, the Conservation Act provides that urban retail water suppliers must achieve and report compliance on an individual basis unless certain prerequisites for regional compliance and reporting are met. Among other things, regional compliance requires the written consent of each retail agency.

As a wholesale water provider, MWD’s role in conservation must be carefully evaluated in light of these new legal requirements. Since it is unlikely that all retail water suppliers within MWD’s service territory will elect to report as part of MWD’s regional water management group, MWD must account for that as the regional program is being developed. MWD must carefully assess how a regional program can fairly integrate with the individual programs its member agencies choose to implement to ensure that each retail agency and group of ratepayers is carrying its lawful and equitable share of the cost.

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

Mr. Tim Brick
August 16, 2010
Page 2

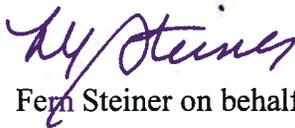
Turning to some of the other key issues, we believe that changes in MWD's water shortage allocation plan are necessary to encourage further conservation. The City of Long Beach has presented a number of ideas and approaches to address this concern. We also believe that MWD's wholesale price structure discourages conservation by disguising the true cost of alternative water supplies. By continuing to offer regional subsidies to retail agencies to meet conservation targets that are already required, MWD is actually discouraging water conservation. This element of the current plan creates free riders, and, fails to ensure that each member agency pays its fair share or that all MWD water ratepayers are treated fairly.

As noted earlier, the board memo also states that water conservation at the member agency level would be difficult to quantify and measure and could be labor intensive in verification; however, we believe that measurement and verification are essential to any water use efficiency program, and is in fact, required for compliance.

Finally, the board memo states that consideration of different approaches to conservation would require MWD to reconsider its message under the Laguna Declaration. The Laguna Declaration has been included in the IRP draft as a statement that MWD will provide all of the water anyone needs at any time under any hydrologic condition. But we believe the Laguna Declaration is not a reason to refuse to consider changes in MWD's conservation program. To the contrary, we believe that MWD *should* reconsider whether the Laguna Declaration properly reflects California law and public policy, or, Southern California's conservation ethic. Our ratepayers have said that they want a choice whether to conserve more in lieu of paying for 100% water supply reliability 100% of the time. It is imperative that MWD work with its member agencies to ensure that we can offer them that choice.

We would like to reiterate that the Water Authority strongly supports increased conservation. We believe there is an important role for MWD but that MWD's water conservation program must change in order to address the concerns described in this letter.

Sincerely,



Fern Steiner on behalf of the Water Authority's MWD Delegation

cc: MWD Board of Directors
SDCWA Board of Directors



San Diego County Water Authority

4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

September 10, 2010

Jeffrey Kightlinger
General Manager
Metropolitan Water District of Southern California
PO 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: 2010 Integrated Resources Plan Update

Dear Jeff:

Water Authority staff has completed its review of the draft 2010 Integrated Resources Plan Update (draft IRP). We plan a broader outreach effort to our region’s cities, stakeholders and communities once we have complete information and a revised draft IRP document. Given that the current draft IRP has only been available since July, and since the revised draft won’t be available until sometime later in September, we reiterate our request that the October timeline for adoption of the IRP be extended to allow for broader distribution of the revised draft IRP here and in other parts of the MWD service territory. This outreach should then be followed by additional public meetings of MWD’s board so that the merits of the revised draft IRP can be fully deliberated in a transparent setting after MWD responds to all the current comments and questions.

Changed Circumstances

The water supply and cost environment have fundamentally changed since the IRP was last updated in 2004. Twenty percent water conservation is now legally required at the retail level by 2020. Replenishment deliveries by MWD have been interrupted indefinitely. Severe cutbacks of water supplies from the Bay-Delta are now a way of life for the foreseeable future. We must plan for impacts of climate change. As a result of these and other changed circumstances – and taking into account the reasonably anticipated cost of a Delta Fix – conservation and local projects that once warranted subsidies have become cost effective compared to MWD’s current and projected water rates. For this reason, many of the more than 250 retail water agencies and cities in the MWD service territory are now in the process of expanding conservation programs and developing local water supply projects.

Although the draft IRP refers generally to some of these changed circumstances, it does not recommend any changes in the basic MWD business model to address them. The draft IRP plan essentially assumes the same base resource mix and adds a massive, undefined “Buffer Supply” to mitigate undefined and unquantified uncertainties. Instead of asking how it may best *coordinate, encourage and integrate* with planned conservation and local water supply development that is already under way throughout the service territory, MWD proposes to embark on a massive spending program.

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

Stranded Costs and Stranded Historic Imported and Low Cost Water

MWD's IRP strategy will drive MWD's rates up drastically and lead to lower water sales by MWD as local agencies develop lower-cost supply alternatives. With the Buffer Supply strategy in the draft IRP, MWD is setting itself up for a perfect storm of skyrocketing water rates and plummeting water sales. This course of action amounts to a fiscal death-spiral for MWD and is financially unsustainable.

While it is not possible to determine from the draft IRP precisely what the current core supplies are or how the proposed Buffer Supply will be developed as MWD projects and member agency projects (or any iteration thereof), one thing is very clear from the draft IRP: *MWD is embarking on a course of action that will result in abandonment of MWD's historic investments in water supply infrastructure and low-cost core water supplies in favor of far more expensive water.* A graph illustrating this practical effect of the IRP is included as Attachment 1 to this letter. That graph shows that MWD's Buffer Supply strategy will lead to 500,000 acre-feet of imported water being stranded by MWD each year, in favor of more expensive local supplies developed by MWD at a cost of more than \$1 billion annually on MWD's rates (2035). It is imperative that MWD take the time now to refine this draft IRP to avoid creating stranded water and the associated stranded costs we will be asking our ratepayers to cover for decades to come.

Detailed Comments on July Draft IRP

Our detailed comments are included in Attachment 2 to this letter in the following broad subject matter categories:

- *Water Rate Impacts*
- *Conservation*
- *Commitment to the Delta*
- *Stranded Costs*
- *Why Abandon Historic Investments and Low Cost Water?*
- *Respect for Local Autonomy*
- *Definition of Region*
- *Outdated Reliability Goal*
- *Need to Integrate Member Agency and Local Planning Data*
- *Failure to Identify Key Issues to Maximize Surface Storage, Groundwater Storage and Conjunctive Use*
- *The Problem with Water Insurance, aka "Buffer Supply"*
- *"Adaptive Management" Inadequately Defined*
- *Inaccurate and Incomplete Data*
- *Process Concerns*
- *Recommendations*

Mr. Kightlinger
September 10, 2010
Page 3

We met with our member agency managers to obtain their perspectives, comments and questions. The August 10 IRP forum in San Diego was well attended by our agency managers and many questions and comments were presented to you directly at that time. A list of those questions is included as Attachment 3 to this letter.

We request that MWD staff distribute a revised draft IRP once it has an opportunity to respond to comments and questions raised here and at the IRP Stakeholder Forums, and to review and reconcile the data in the report so that it is both internally consistent and consistent with MWD's Regional Urban Water Management Plan.

Please let us know what the timeline is for receiving your written responses to this letter and the questions asked at the IRP Stakeholder Forums. We hope to work with you to complete an IRP that will provide a solid roadmap for the future for all of Southern California.

Sincerely,



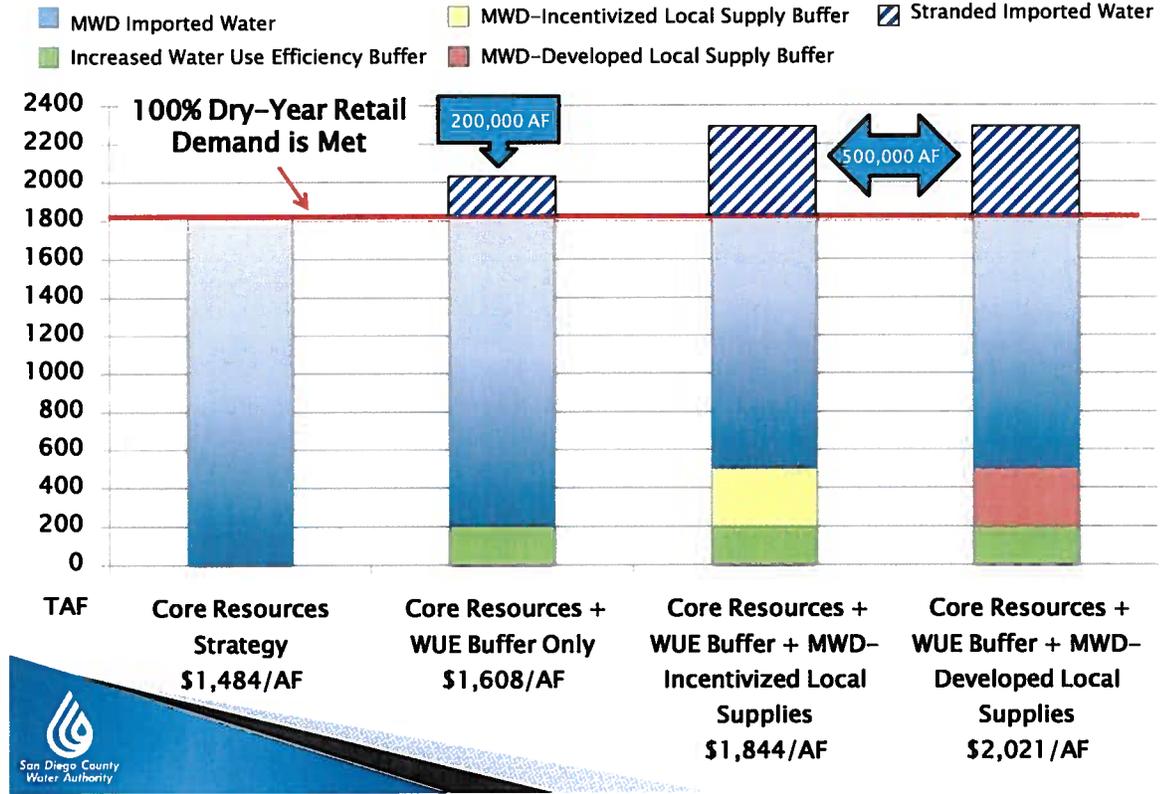
Maureen A. Stapleton
General Manager

Attachment 1: Stranded Imported Water in 2035
Attachment 2: Comments on MWD's July Draft 2010 IRP Update
Attachment 3: Questions posted at San Diego IRP Forum

cc: MWD Board of Directors
MWD Member Agency Managers
Water Authority Board of Directors
Water Authority Member Agency Managers

ATTACHMENT 1— STRANDED IMPORTED WATER IN 2035

Stranded Imported Water 2035



ATTACHMENT 2 – COMMENTS ON MWD’S JULY DRAFT 2010 IRP UPDATE**WATER RATE IMPACTS**

With the unprecedented recommendation to develop 25% more water than MWD demands require, the draft IRP is extremely light on its analysis of potential rate impacts. The only rate analysis included in the draft was a table in Section 3 prepared for the board’s strategic policy discussion and not related to the recommendation to implement the Buffer Supply. Presumably, the supplies being developed under the Core Resources Strategy would generally be lower in cost than those under Buffer and Foundational Actions. The implementation of the Buffer Supply will require substantial financial investment by MWD and its member agencies. A critical analysis of potential rate impacts and the impact rate increases will have on demand must be completed and deliberated by the board before it takes a policy direction on the IRP and implementation of a Buffer Supply.

In mid-August, MWD’s staff presented a “2010 IRP Average Rate Analysis” on four implementation strategies for the IRP. The presentation showed the difference in the rate increase between the Core Resources Strategy – one that MWD admits meets all projected dry-year demand – and the plan’s recommended strategy to develop 500,000 acre-feet of additional Buffer Supplies is only 2 percent, a deceptively and alluringly low number that obscures the actual difference in cost ratepayers would experience between implementing the Core Resources Strategy and any one of the three Buffer Supply strategies. The difference amounts to up to \$537 per acre-foot in 2035 – a 36% difference in water rates in that year; this is not insignificant.

More troublesome, however, are some of the assumptions that went into the rate analysis. MWD currently funds about \$20 million for its water conservation programs, which it projects would result in about 10,000 acre-feet of new conservation annually. Both the 20x2020 retail mandate and 20x2020 regional consistency require investment far beyond the current conservation effort. Under the 20x2020 regional consistency analysis, staff estimated 580,000 acre-feet of water use efficiency beyond that anticipated through current conservation programs is needed. Yet, only \$20 million is assumed in the analysis to achieve the conservation goal that is significantly higher than what the current investment is producing. Similarly, the rate impact for Buffer implementation assumes MWD continues the \$250 acre-foot subsidy for local projects development at the same time it is proposing investments in local water supply development that greatly exceed this cost. Another example: in the MWD-Developed Buffer Supply scenario wherein MWD assumes financial responsibility for 500,000 acre-feet of conservation and local supply development, MWD’s operations would surely grow, yet the rate analysis shows zero cost difference in the Departmental O&M from the Core Resources Strategy; this appears to be an unrealistic assumption. Another example: zero cost has been assigned to account for the project development costs and risks associated with the Foundational Actions component of the plan.

MWD’s failure to calculate or acknowledge the true cost of water by basing the rate impact analysis on unrealistic assumptions does a disservice to Southern California ratepayers and only pushes the hard decisions to another day. We request that a more realistic set of cost assumptions be used to conduct the rate analyses associated with the IRP and that this information be available for full discussion and deliberation by MWD’s board of directors.

CONSERVATION

The Water Conservation Act of 2009 (the Conservation Act, or 20x2020) established new methodologies, water use targets and reporting requirements. The Act's requirements apply to urban *retail water suppliers*. Although MWD and its wholesale member agencies have a supporting role, primary responsibility for compliance with the law falls to each retail agency within MWD's service territory. The draft IRP does not address these requirements or explain how a regional program would integrate with, or support these retail conservation programs.

MWD's recent board memo on water conservation concluded that accounting for conservation at the individual member agency level would be too difficult and would threaten the efficacy of MWD's Integrated Resources Plan, Water Supply Allocation Plan and other programs. We respectfully disagree, and point out that local agencies already do so as part of their Urban Water Management Plans (and other plans). It is imperative that the MWD board consider changed circumstances and legal requirements to ensure that any future regional conservation program integrates with local programs, and avoids creating conservation disincentives through the pricing structure, water supply allocation plan, or otherwise.

While the draft IRP appears to *assume* a regional compliance approach, the Conservation Act provides that urban retail water suppliers must achieve and report compliance on an individual basis unless certain prerequisites for regional compliance and reporting are met. Among other things, regional compliance requires the written consent of each retail agency. MWD should factor this legal requirement into its analysis in the revised draft IRP.

Indeed, as a wholesale water provider, MWD's role in conservation must be carefully evaluated in light of these new legal requirements. Since it is unlikely that all retail water suppliers within MWD's service territory will elect to report as part of MWD's regional water management group, MWD must account for that as the regional program is being developed. MWD must carefully assess how a regional program can fairly integrate with the individual programs its member agencies, and their respective retail agencies, choose to implement to ensure that each retail agency and group of ratepayers is carrying its legally required, fair share of the cost.

Changes will also be necessary to MWD's water shortage allocation plan in order to encourage conservation. The City of Long Beach has presented a number of ideas and approaches to address this concern that should be thoroughly evaluated and considered. We also believe that MWD's wholesale price structure discourages conservation by disguising the true cost of alternative water supplies. By continuing to offer regional subsidies to retail agencies to meet water use efficiency targets that are legally required of them, MWD is actually discouraging water conservation – unless, that is, MWD pays for it. Any regional program must start where the legal requirement on the retailers ends, otherwise, MWD is simply robbing Peter to pay Paul and rewarding free riders. And, by subsidizing compliance with the retail 20x2020 targets, funds that MWD collects from some of its member agencies will be benefitting (subsidizing) compliance of other member agencies while providing no commensurate benefit to the “donor” agencies, because those donor agencies do not receive “credit” toward their own 20x2020 compliance goals for spending money (via the MWD subsidies) in other retailers' service areas.

These donor agencies must additionally spend their own rate money to meet their own compliance requirement.

As noted earlier, we believe that measurement and verification are essential to any water use efficiency program, and is in fact, required for compliance. We would note that the data MWD uses to support the conservation section of the IRP is, except for the current demographic data from SCAG and SANDAG, outdated (Attachment A.1, Attachment C-2) (1997). One of the recommendations in the 1997 report was that MWD expand the coverage of its conservation data base to include the many MWD member agencies with respect to which conservation data was not available. (See IRP Attachment A-1 at Attachment C-40)

We believe there is an important role for MWD in water conservation but that its programs must change in order to address the concerns described above. The draft IRP fails to address these important considerations.

COMMITMENT TO THE DELTA

Many agencies and stakeholders are reading the draft IRP recommendation to “immediately” and “aggressively” implement 500,000 acre-feet of Buffer Supply as a signal that MWD is abandoning, or does not believe that it will be successful in fixing the Delta. This comes as a big surprise to our community, which worked tirelessly on the 2009 water bill package and water bond. We do not support changing course and believe that we must diligently pursue and protect our investment in the Delta and State Water Project. The Delta Community is also counting on our continued support. It is our understanding from the information provided by MWD that the Core Resources Strategy includes both a Delta Fix and continuation of existing Colorado River programs contemplated by the Quantification Settlement Agreement. We believe this is the correct approach and consistent with MWD’s core mission.

This having been stated, the Water Authority is open to having a candid discussion with MWD, the Delta Community and all interested parties about the nature and extent of the Delta “Fix,” if MWD has grown skeptical of the prospects for success in the Delta. In the meantime, and unless and until a *conscious decision* is made – with the benefit of analysis and input from all affected parties – we believe the call for a Buffer Supply sends the wrong message vis-à-vis MWD’s intentions in the Delta – and an expensive message at that.

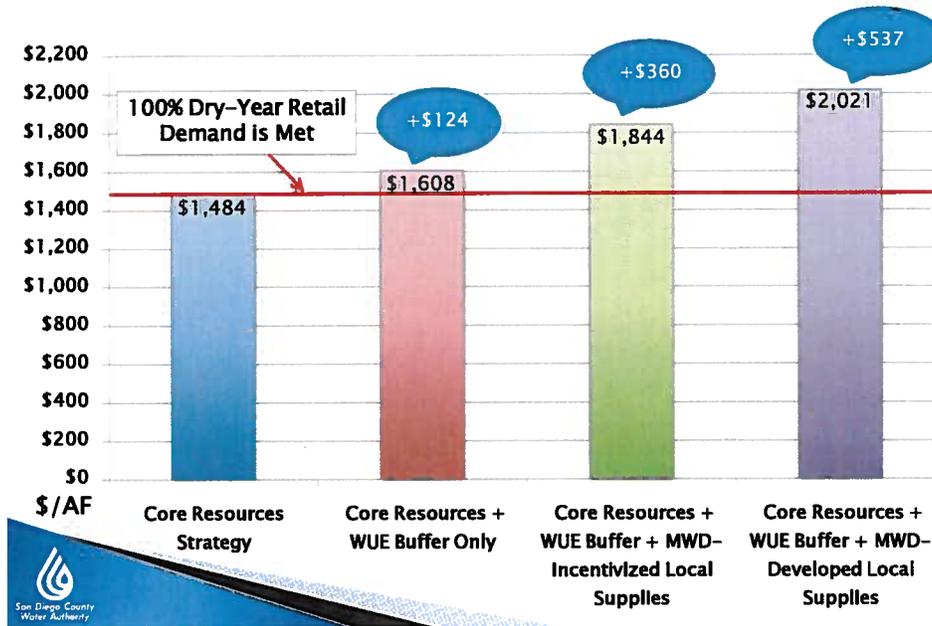
STRANDED COSTS

Since the drought in the early 1990’s, MWD’s water management strategy has been to invest in storage to take advantage of the hydrologic cycles to best utilize low-cost, available water. Today, this investment, which stands in excess of 5 million acre-feet of storage capacity, has served the region well during the current supply challenges. But, rather than continuing this management strategy to optimize the historic investment in the State’s water supply infrastructure and MWD’s own low-cost imported water, the draft IRP proposes to shift course in favor of MWD developing local water supplies at a high cost to its ratepayers.

The development of the Buffer Supplies would lead to a similar outcome. If these supplies are not needed – and the draft indicates that demands for the Buffer Supplies will not exist – then the costs to develop them are truly in excess of need and stranded and, therefore, will be stranded costs. A graphic illustration of the stranded costs is shown below in Figure A.

Stranded Dollars/AF in 2035

Figure A



It is important that MWD integrate its planning with those of its member agencies so that it does not find itself with stranded investments and future unexpected rate increases due to poor planning.

WHY ABANDON HISTORIC INVESTMENTS AND LOW COST WATER?

Staff's rate analysis released in mid-August sheds light on the following facts: the immediate implementation of Buffer Supply, whether limited to regional consistency Water Use Efficiency of 200,000 acre-feet or the entire 500,000 acre-feet inclusive of local projects would result in abandonment of like amounts of lower-cost imported water, even after it has obligated its share of the Delta Fix improvements. Case in point, in 2035, with Buffer Supply inclusive of Water Use Efficiency only, MWD's own rate analysis showed it would forgo a like amount of imported water due to reduction in sales. The situation worsens if MWD implements the entire 500,000 acre-feet of Buffer Supply, under both MWD-Incentivized and MWD-Developed Buffer Supply scenarios, 500,000 acre-feet of imported water is forgone. Why would MWD spend billions of dollars to develop new supplies and, at the same time, plan to forego use of those supplies?

RESPECT FOR LOCAL AUTONOMY

The key question addressed in the draft IRP focuses on the "role" of MWD. But, with due respect, we believe it's the wrong question. The focus should not be on MWD's "role," but on how the most reliable, cost-effective water supply can be provided to water ratepayers, being

mindful that not every retail water supplier or even every “region” within the vast MWD service territory will answer that question the same way. MWD’s “top-down, all-in” planning model in which it will assume responsibility over local water supply development fails to take into account the many cities, local agencies and groundwater managers who grapple with local water supply development issues every day. It is an open question what role these agencies and water suppliers would like MWD to play, but it is certainly important to ask. Historically, the answer to that question would be easy: they want funding to help support local water supply development. We believe that there *is* a role MWD can play in helping to support local projects including funding mechanisms for local supply development. But the rules must be firm and fair, laid out in advance, and equitable to all parties.

DEFINITION OF REGION

Given the dramatic shift in the draft IRP from imported water supplier to local supply developer, MWD should take a step back and ask itself, its member agencies and, critically – the hundreds of cities, counties, water suppliers, groundwater managers and other local districts – how they define their “region” for purposes of local water supply development. MWD has been Southern California’s principal “regional” *imported* water supplier. That does not mean that it will be efficient or even logical for MWD to become Southern California’s “regional” *local* water supplier. The State, for example, recognizes nine separate IRWM planning groups that are wholly or partially within the MWD service territory. What makes sense for “regional” local water supply development needs to be discussed between and among all interested parties, not just MWD and its member agencies, and be defined in a manner that is practical, workable and equitable to all parties. It is likely that not all local and regional agencies desire to be under the planning umbrella of MWD and its member agencies – whose member agencies often have goals, priorities and objectives that are different than their own.

OUTDATED RELIABILITY GOAL

By declaring allegiance to the 1952 Laguna Declaration, the draft IRP misses a critical opportunity to signal that it is no longer “business as usual” in Southern California or at MWD. Indeed, where and how to establish the reliability goal was not even discussed as part of the IRP process. In today’s water-scarce, high-rate environment, our customers want a choice about the level of “regional” reliability they want to pay for.

But the draft IRP goes even further, it advocates a reliability goal of developing core supplies to meet full-service dry year demands at the retail level under all foreseeable hydrologic conditions, *plus* developing a Buffer Supply of 10% of retail demand, *plus* completing project planning for an array of additional projects based on undefined “uncertainty” (the Foundational Actions). This “Laguna Declaration-*Plus*” approach is excessive, impractical and fiscally imprudent. It also flies in the face of California’s changed circumstances and Southern California’s conservation ethic.

Before staff recommends the highly aggressive supply development outlined in the draft IRP, it should communicate with each of its member agencies to determine the extent to which those

agencies intend to rely upon MWD to meet their future supplemental water supply needs. As aptly noted in the 1994 Blue Ribbon Task Force Report,

“[It was troubling] to learn, for example, that some of the member agencies most strongly supporting big-ticket projects...also had the most aggressive plans to reduce their future MWD water purchases and develop independent supplies. In effect, such agencies appear to want MWD to develop costly backup capacity-or insurance-for their local supply strategies, while seeking to shift the costs for these benefits on to Metropolitan and other agencies and customers.” -- BRTF Report at page 23.

Just as in the past, it is clear that some of the MWD member agencies most strongly supporting the draft IRP are doing so precisely because they believe that it will allow them to become less dependent upon MWD.

NEED TO INTEGRATE MEMBER AGENCY AND LOCAL PLANNING DATA

The draft IRP identifies the need for only 16,000 acre-feet of local projects to achieve the Core Resources Strategy target in 2015 and only 46,000 acre-feet by 2025 and through the end of the planning horizon (2035). According to the draft IRP, this will result in 100% supply reliability under all hydrologic conditions to meet dry-year demand. It is important to note that in reaching the 100% reliability assessment, the plan has taken into account regulatory and environmental constraints on supplies from the Bay-Delta in the years before mid- and long-term Delta improvements are completed.

Based upon review of the limited data included in Appendix A.5 of draft IRP, it appears that as much as 750,000 acre-feet of local water supply is already being planned by MWD member agencies. It is unclear whether this list includes all supply projects that are being planned by cities, groundwater managers, replenishment districts, utilities and other agencies and water suppliers throughout Southern California. Given that the draft identifies only 46,000 acre-feet of local projects is needed to achieve Core Resources strategy’s 100% reliability goal, the draft IRP fails to grapple with the reality that MWD sales will be reduced, not increased in the future. If properly coordinated, this trend can be a positive outcome for MWD and all of Southern California. But MWD threatens to disrupt the positive economic impacts of this shift by proposing to over-invest in new water supplies in an ill-fated and illusory attempt to increase its own sales. Failure to coordinate with the many cities, water districts, and utilities beyond MWD member agencies places all Southern California water ratepayers at risk.

The draft IRP also does not provide projected supplies under average- and wet-year hydrologic conditions and their frequencies of occurrence. The draft shows only how MWD’s storage would fare under “average” conditions. Figures 4-5 and 4-6 reflect very healthy storage conditions for MWD, but lack data for member agencies to assess how their surface reservoir or groundwater basins could be augmented for dry year use.

In summary, although the IRP by definition is intended to be an *integrated* plan that takes member agency and retail supply plans into account as part of MWD’s regional planning, the

IRP draft fails to do so. This presents grave risk to MWD and Southern California water ratepayers.

Finally, MWD's historic and principal role has been to deliver water to Southern California imported from the Colorado River and State Water Project. The subsidy programs were originally created to "encourage" conservation and development of local water supplies that were otherwise not cost-effective, and, in order to "send the right message" to Northern California where it was seeking to maintain its State Water Project entitlement. The rationale was that by supporting these local water supply investments, the costs of securing additional imported water supplies and/or infrastructure were "avoided," and thus the payment of MWD subsidies benefited the region as a whole. MWD should take the time now as part of the IRP planning process to consider the appropriate role of subsidies generally, and including whether subsidies are encouraging or impeding desired outcomes.

FAILURE TO IDENTIFY KEY ISSUES TO MAXIMIZE SURFACE STORAGE, GROUNDWATER STORAGE AND CONJUNCTIVE USE

The draft IRP says that Metropolitan has "gradually shifted from being exclusively a supplier of imported water to collaborating with its member agencies on regional water supply planning issues." This statement does not capture the momentous change that is being recommended for adoption in the draft 2010 IRP, which will place MWD in control of planning, outreach, all state and federal funding and decision-making about local project development. While the draft promises that MWD will "collaborate" with agencies outside of their own member agencies, it appears that it has not collaborated with them in proposing this new role for MWD in the first place. Willingness to allow MWD to become the regional master facilities planner may also vary by region.

MWD's principal, historic role has been as a supplemental, imported wholesale water supplier to its member agencies. While "collaboration" with its member agencies is indeed important, MWD is announcing in the draft IRP a substantially different and enhanced role for itself in the future, including "master planning" for significant local water supply resources over which it has no legal jurisdiction or expertise. The draft IRP does not so much represent a "gradual shift" as a takeover strategy for local water supply development in which MWD will be in charge of local water supply development through its regional master planning process. For example, MWD is declaring that it will be in charge of "master planning" for the following activities:

1. Recycled water development, including creation of a regional finance committee that will determine how all state and federal funding dollars are best spent (Table 5-5);
2. Preparation of salt management plans and groundwater basin management plans (Table 5-7);
3. Seawater desalination "integration" (Table 5-10) and funding mechanisms (Table 5-13); and,
4. Stormwater capture, including regional master planning, implementation of pilot projects and development of subsidy programs (Table 5-19).

MWD's newly announced role as "master planner" for all Southern California local water supply development goes far beyond the function of "collaboration" described above. Given that it has little expertise in groundwater and developing local projects, staffing and budget increases will undoubtedly be on the horizon. These efforts will duplicate those of the many local water suppliers, replenishment districts and groundwater managers who are already engaged at the local level.

In lieu of these proposed changes, MWD should follow the same, more cautious guidelines it suggests for graywater (see page 5-36), namely,

1. Do not establish subsidies to pay for graywater;
2. Focus instead on reviewing and suggesting standards and pursuing changes to legislation and regulations to support graywater development;
3. Work with local entities to create model guidelines for permitting processes; and,
4. Assist with public information efforts as requested and appropriate.

Finally, the draft IRP fails to address the most fundamental questions that must be addressed by MWD at the wholesale level, including: 1) how available imported water supplies will be managed; and 2) what policies are needed to assure fair access to facilities in order to move water stored in groundwater basins in and out of, and within the MWD distribution system.

THE PROBLEM WITH WATER INSURANCE, AKA "BUFFER SUPPLY"

The draft IRP recommends implementation of the Buffer Supply as an insurance policy against uncertainties, but does not provide a quantitative analysis or risk assessment to show how the 500,000 acre-feet of supply development was derived. For this reason, the Buffer Supply is purely speculative.

The Buffer Supply is also financially unsustainable under the current rate structure, since agencies would only pay for the "insurance" when they file a "claim" for the water. The cost of maintaining a large "standby" supply will be extraordinarily expensive, force MWD rates to increase exponentially, and, drive water purchasers away from MWD in search of lower cost supplies that they can control. Here again, the 1994 Blue Ribbon Task Force had it right:

"Reliability, quality and other water supply specifications cannot be made independently from the willingness of MWD customers to pay for such services. Member agencies may want, for example, the insurance provided by major investments to increase MWD standby capacity, but if forced to commit funds for such capabilities, they may actually prefer far lower levels of protection than a hypothetically "costless" water supply guarantee." -- BRTF Report at page 9.

While the draft IRP itself is silent on the cost of the Buffer Supply, MWD's mid-August rate analysis showed startling costs of the Buffer Supply, in terms of sky-high water rates, stranded water supply and stranded costs. The two charts included with these comments were developed based upon this mid-August rate analysis.

Furthermore, the draft IRP appears to ignore the fact that MWD already has a substantial “Buffer” in which it has invested, namely, MWD’s vast storage program. MWD has 5 million acre-feet of storage, which the draft IRP indicates will be full on average. The draft IRP also says that if the Core Resources Programs are implemented, the region could have an excess of 1 million acre-feet of water during dry years, when storage and transfers are factored in. If the 500,000 acre-feet Buffer Supply is implemented, *without* MWD taking any water from its storage, the region will have more water than required to meet demands including filling all available storage. The bottom line is that the draft IRP fails to factor in that the very purpose of the existing storage is to provide the same dry year assurance that is proposed to be filled by the new Buffer Supply.

“ADAPTIVE MANAGEMENT” INADEQUATELY DEFINED

Although the draft IRP says that MWD will employ an “adaptive management” strategy, the draft also concludes that an aggressive approach to immediately implement the Buffer Supply is required. In general, it is not possible to discern from the draft IRP what the timing or “triggers” are for any of the “adaptive” actions. The draft IRP is also inconsistent with statements made by MWD staff at the August 10 San Diego Stakeholders Forum with regard to timing of adaptive management actions described in the draft IRP.

At its own August 20 member agency managers’ meeting, MWD staff stated that it plans to only recommend immediate implementation of the regional consistency Water Use Efficiency Buffer, and leave the implementation of the Local Resources Buffer to occur only when certain trigger events take place, such as failure to obtain the environmental documentation for a Delta conveyance facility by a date-certain (yet to be specified). This is a very different position than the draft’s aggressive approach to implement local projects as delineated within the draft IRP as follows:

Page 4-20, “Implementing a Supply Buffer,” states, in part: “...a ‘planning’ Buffer was introduced during the 2004 Update. The 2010 IRP Update proposes to expand the concept of a planning Buffer and create an actual hedge against demand uncertainty, by implementing a supply Buffer equivalent to 10 percent of total retail demand. Metropolitan will collaborate with the member agencies to implement this Buffer through complying with the 20X2020 legislation, and by implementing aggressive adaptive actions to meet any remaining portion of the 10 percent Buffer.” (Emphasis added.)

On page ES-8, the draft states: “Maximizing regional benefits through economies of scale and minimizing the cost of redundancy is important to adaptability. The 2010 IRP Update will hedge against demand, supply and environmental uncertainties by implementing a supply Buffer equivalent to 10 percent of total retail demand. This Buffer will be implemented through meeting 20X2020 water use efficiency goals, and by implementing aggressive adaptive actions to meet the remaining portion of the 10 percent Buffer through local supplies and transfers. This approach is consistent with maintaining reliable baseline supplies and advancing local and regional solutions.” (Emphasis added.)

In its outreach materials used at the IRP Public Forums, MWD has an executive summary, page ES-10, that states the Buffer Supply will be "...developed through collaboration with the member agencies on aggressive actions." And, on Figure ES-4, Component 2 box reads "aggressive adaptive actions for the remainder." (Emphasis added.)

It is impossible to reconcile the oral comments made by MWD staff at the August 10 Stakeholder Forum and the August 20 MWD Member Agency Managers meeting with the conflicting verbiage in the draft IRP document.

It is also completely unclear what "adaptive management" means or how it will be employed by the MWD staff once the IRP is adopted by the board. Substantially more detailed planning and transparency is required before board adoption so that the member agencies can better understand what is intended by the draft IRP.

INACCURATE AND INCOMPLETE DATA

The Core Resources Strategy is the heart of MWD's current water supply planning. It is essential that the draft IRP provide a full description of the components of the Core Resources Strategy. And yet, it is not possible to discern the details of the Core Resources Strategy due to the fact that there is inconsistent data presented throughout Sections 4 and 6 of the draft IRP. These are the key sections of the report that present analyses of the available water supplies and need to develop additional supplies.

To ensure a sustainable resource plan that clearly outlines a path for long-term reliability, it is fundamental that the draft IRP start with a more comprehensive evaluation of the Core Resource Strategy. The Core Resource Strategy serves as the foundation of the plan. The analysis should include an identification of what actions can be taken to strengthen the core strategy in order to maximize investments already made in imported supplies. The evaluation should include an assessment that clearly identifies the risks associated with implementation of the core strategy and takes adaptive measures to mitigate those risks. This assessment would provide a linkage between the Core Resource Strategy and the timing and type of adaptive management strategies recommended. Transparency in the process is critical to providing the member agencies the data and information needed to plan accordingly in their UWMP and resource plans.

In addition to the internal inconsistencies, the data included in the draft IRP is also inconsistent with data included in MWD's recently released draft Regional Urban Water Management Plan (RUWMP). The Water Authority suggests that MWD staff conduct a workshop with the member agency managers to work through this detail so that MWD's Core Resources Strategy can be presented in a manner that may be better understood and inconsistencies with MWD's RUWMP can be reconciled.

To cite just a few examples, seawater desalination is listed as existing production on Table 4-6 but as a yet-to-be-developed Core Resource on Table 4-8. There is no indication how the groundwater, local surface water and Los Angeles Aqueduct (LAA) supplies listed in Table 4-7 were projected. And, it is unclear why there is an increase in groundwater supplies during this

planning horizon, but a decrease in surface water. The data for LAA also differs between the IRP and RUWMP. These and other inconsistencies and lack of foundational data are not “details” to be “worked out later” – rather, this is foundational information required in order to meaningfully assess MWD’s current supplies and the need to develop additional supplies.

Beyond the internal inconsistencies in the draft IRP, there is also insufficient information provided on the plans of cities, groundwater agencies, replenishment districts, utilities and water suppliers throughout the Southland to implement conservation and other local water supply programs that will substantially reduce the amount of water purchases from MWD in the future. While the draft notes that there are approximately 250 retail agencies that supply water to the public, the draft IRP analysis has failed to account for the plans and timing of plans that many of these 250 retail agencies have to both conserve water and develop local resources. Although Appendix A.5 includes a list of member agency area projects, it does not provide analysis to show how these projects will reduce the demand for MWD supplies. It also does unclear whether it includes projects of the many agencies, sub-agencies and utilities who presently buy water from MWD member agencies. MWD must work with its member agencies to develop an accurate and agreed upon list of projects as well as project timing, and eliminate inconsistencies before it finalizes the draft IRP.

Moreover, MWD’s methodology limits its accounting of local supplies to existing, under construction and “committed” projects (a term not defined in the draft IRP). All other planned local projects are included as part of MWD’s own “regional” target, with the explanation that, “... [t]his recognizes the uncertainty in local supplies and avoids over and under allocating local supply targets to individual agencies” (see Appendix A.1-22, “Projected Active Conservation: A New Approach). This approach appears grounded in MWD’s past experience and the notion that local water suppliers cannot be relied upon to develop local supplies and, therefore, MWD must step in and take over responsibility for local supply development. This assumption fails to take into account the substantially changed circumstances and that many local water supply projects that were once uncompetitive with the price of imported water are now cost-effective – without any subsidies from MWD – when compared to even the conservatively projected cost of MWD water. There are also better mechanisms to hold local water suppliers accountable to the region for completion of projects than the theoretical no-cost or low-cost water supply Buffer “insurance” recommended in the draft IRP.

The realistic regional demand “gap” cannot reasonably be estimated without taking into account the existing and planned actions of MWD’s member agencies and other local water suppliers. The draft IRP notes that Metropolitan has historically provided between 45 and 60 percent of the municipal, industrial, and agricultural water used within its service area. However, enhanced conservation and development of local water supplies will result in a dramatic reduction in water demand on MWD. Implementing any of the Buffer Supply strategies in the draft IRP will lead to unavoidably higher rates and inversely declining sales.

PROCESS CONCERNS

While there have been a large number of meetings and IRP-related “processes,” the process overall has been both “top down” and “disintegrated,” with no meaningful opportunity for non-MWD member agency participants to shape the outcome. This shortcoming is all the more important given the draft IRP proposes that MWD become responsible for, or compete with many local projects that are currently within the jurisdiction of cities, local agencies and groundwater managers. The 1994 Blue Ribbon Task Force made similar observations about the then-pending IRP process:

“Although both the IRP and rate structure efforts largely involve member agencies in setting functional objectives, performance standards and the development of background materials such as the Strategic Resources Assessment-and to some extent, other outside participants-the precise role of non-MWD participation in IRP and rate structure discussions often seems limited to commenting on Metropolitan-generated objectives rather than considering de novo functional objectives and performance standards.” -- Blue Ribbon Task Force Report (BRTF Report) at page 8.

“As different resource, reliability and operational goals are considered, IRP participants are not presented with fully articulated alternative models. The current practice is to make marginal changes in an assumed base resource mix in response to new, cost, technological, political or other concerns. This practice may limit the participants’ understanding about the implications of different options, and artificially constrain the range of choices they take into account.” -- BRTF Report at page 12.

“Despite a heavy meeting schedule, and numerous specialized committees and subcommittees, the Board often seems to be presented with limited options and choices for final approval largely defined and developed by MWD staff, rather than conduct an independent inquiry of relevant matters.” -- BRTF Report at page 74.

These observations are as accurate regarding the current draft IRP and IRP process as they were more than 15 years ago. The 2010 draft IRP has been available for public review only recently, and although voluminous, contains limited information. The revised draft IRP will apparently not be available until later in September, with board adoption scheduled for October. This schedule and process does not allow for meaningful distribution or review of the draft IRP by those who are impacted through the adoption of the IRP. MWD staff has been portraying the draft IRP as implementation of the will of the people, rather than as a recommendation of MWD staff. But, of the almost 19 million people who live and work in Southern California, less than 350 people attended the four stakeholder workshops combined – and, many of those participants were MWD and member agency staff and consultants. Moreover, the stakeholders were being asked to comment on a draft report in which fundamental questions remain to be answered.

Given that MWD is proposing to change its historic role as imported water supplier – which is the principal responsibility most local agencies now associate with MWD – it is vitally important that sufficient time be allowed for distribution to city councils, county board of supervisors, groundwater managers, replenishment districts, water districts, utilities, and other local entities which will bear the expense of, or otherwise be impacted by MWD’s new role. MWD and its member agencies should not simply assume that all agencies and stakeholders will welcome this new role for MWD or the associated rate increases that will be necessary to implement this course of action.

RECOMMENDATIONS

MWD uses the IRP as a foundation for its RUWMP. Thus, the draft IRP should reflect the clear professional recommendation of MWD staff. Is that the case? If so, we recommend you say so when the revised draft IRP is released. As it stands in the draft IRP, this is unclear.

At a minimum, we recommend that MWD provide a full 60-day review period between the release of a revised draft IRP, including responses to all comments and questions, and the first MWD board meeting to consider the revised draft. We also recommend at least two public meetings of the board to consider and deliberate the revised draft IRP. This time frame would still allow adoption of the IRP in advance of the RUWMP. Although the update process stated more than a year ago, the recommendations were made available for the first time in July 2010 when draft report was posted online. We were quite surprised with the recommended strategy, especially since the draft’s own data indicates the excessiveness of such a recommendation. The draft recommends an adaptive strategy that included three components: Core Resources Strategy, Buffer Implementation, and Foundational Actions.

The draft IRP clearly indicated that the implementation of the Core Resources Strategy would meet projected dry-year demands under all foreseeable hydrologic conditions, with MWD’s 5 million acre-feet of average storage capacity above 60 percentile and probability of dry-year shortage diminishing to zero past 2015 (with only than less than 1 percent shortage in 2015). Yet, it recommends moving forward with all three components concurrently, including aggressively pursuing Buffer Supply implementation (in contrast to 2004 IRP’s planning buffer) and at the same time developing large-scale projects so they are “ready to proceed” under Foundational Actions.

The forthcoming revised draft IRP must integrate member agency plans and projects into the discussion, and before implementation of projects that exceed demand, member agencies’ commitment to pay for these supplies must be obtained and proper choice and structure be set in place to ensure MWD does not strand water nor investments under the new supply strategy.

ATTACHMENT 3 – QUESTIONS POSED AT SAN DIEGO IRP FORUM

RELIABILITY GOALS

- Doesn't the IRP's reliance on the almost 60 year old Laguna Declaration – drafted at a time when Southern California was almost completely dependent on imported water – send the wrong message in today's limited resource and escalating cost environment? Is that a smart message in the water bond campaign?
- Why didn't MWD reconsider the central question of the where the regional reliability goal should be set?
- Why should everyone have to pay for the same reliability standard if they want to conserve more and pay less?
- How has MWD accounted for the dampening effect higher prices will have on water demand?

SUPPLY AND PLANNING BUFFER

- Has MWD done a survey of each of its member agencies and other local agencies and utilities to determine what projects they are developing now or plan to develop in the near future? Don't you need this kind of information in order to determine what supply "gap" exists?
- Will MWD staff agree to collect this information about local projects development and make it available before asking the board to adopt this IRP?
- What is the rationale for an MWD Buffer Supply equal to 10% of retail demand? What is that number based on?
- What is MWD's assumption in the IRP about who will pay for the core and Buffer supplies? Is there a breakdown of this by region or project? Isn't this information necessary to define even broad parameters of a real plan?
- Is staff recommending the implementation of both core and Buffer supplies because it does not believe it will be successful in the Delta Fix? If not, why does this draft recommend moving forward now with implementation of both supplies?
- Can you be more specific about the risks and uncertainties you believe justify the expenditure of current ratepayer dollars? What are the "trigger points" that would warrant increased spending?
- What is the level of commitment to developing the resources identified in the Buffer? And is there a certain date by which those resources will be developed?
- Why are recycled water and seawater desalination identified as part of the Buffer supplies?
- What is the size and composition of the Buffer?
- What is the process by which the region will make the decision to deploy elements of the Buffer? And are there risks associated with each trigger level?

MWD'S ROLE

- Isn't our current water supply allocation the result of challenges to our imported supplies? Since this has been MWD's historical role, shouldn't MWD focus its efforts and regional dollars on securing the Delta Fix and filling the Colorado River Aqueduct?

MEMBER AGENCY'S ROLE

- Does the IRP assume and recognize that the 20x2020 requirement is a retail obligation? Given that, why should MWD subsidize member agencies to meet this local mandate? Isn't this rewarding bad behavior?
- What is the IRP assumption about the project cost that would qualify for a financial "incentive" from MWD?
- Won't MWD by definition be investing in the most expensive sources of supply? [*Comment: If not, why would the local agency need an "incentive"?*]
- How does Met intend to ensure fairness among its member agencies in the collection and redistribution of incentive money for conservation and local projects?

PROJECT ASSUMPTIONS

- What is MWD's assumption on who will implement the 20x2020 mandate?
- What are MWD's planning assumptions for the on-line dates for the member agency projects described in the Appendix?
- What are MWD's assumptions for supply conditions under normal and wet years?
- What assumptions does the report make about how surplus water in any given year will be used? Will it go first to refill MWD's storage? Do you assume that discounted replenishment rates will be available at any time in the future? If so, under what conditions?

COST ANALYSIS

- What are the cost assumptions for core and Buffer Supply projects?
- What is the estimated rate impact as a result of implementing the core strategies? Is this impact based on an assumption the current rate structure remains unchanged?
- What would the implementation of Buffer Supply add to water rates?
- What about the Foundational Actions? How much would those activities add to water rates?
- Will MWD do a new rate structure analysis and cost of service study for IRP programs and projects before adopting the IRP?
- How does MWD ensure its core supply investments would not be stranded?
- Is MWD going to require firm contractual commitments from each of its member agencies to pay for all of this supply development?
- How do preferential rights relate to the availability of Buffer Supply water? Are they enforceable if a member agency claims them?
- Do you have any analysis available to show the "balancing" between resource investment and cost considerations?

TIMING

- IRP sets forth MWD's policy for future supply development and is an especially important document given changed water supply environment. Why the rush to get the report adopted so quickly?
- Are you willing to recommend extending the time for MWD staff to answer our questions before we are required to comment further on the report?



San Diego County Water Authority

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November 29, 2010

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
Visita Irrigation District
Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Carolyn Schaffer
Associate Resource Specialist
Metropolitan Water District
700 N. Alameda Street
Los Angeles, CA 90012

RE: Metropolitan's Draft Long Term Conservation Plan

Dear Ms. Schaffer:

Thank you for the opportunity to provide comments on Metropolitan's Draft Long Term Conservation Plan. The Water Authority's comments are attached.

I look forward to discussing these comments and those of the other Metropolitan member agencies at the meeting on Wednesday, December 1, 2010.

Sincerely,

William J. Rose
Water Conservation Program Executive

WJR:tp

Enclosure: Long Term Conservation Plan Comments
cc: Amy Chen, MWD Program Chief

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

Summary Comments on MWD's Long Term Conservation Program (LTCP)¹

The LTCP must recognize that conservation is a core supply

- The LTCP should clearly state that the *20% water use efficiency target is a core water supply* and not part of the “uncertainty buffer.” MWD should also reduce its target of alternative water supplies to be developed by the amount of water included in the water use efficiency target.
- The LTCP should reflect that retail agencies have choices of compliance options to meet the 20x2020 requirements. After taking into account the cumulative conservation of the retail agencies within its service territory, *MWD should develop additional “water use efficiency” supplies as part of core water supplies.* The cost of these supplies should be competitive with the avoided cost of alternative water supplies available to be developed by MWD. As a *supplemental, wholesale water supplier* – and particularly in the current high rate environment – MWD must develop lower cost supplies first.

Metropolitan's wholesale conservation programs should be grounded on a requirement that each retail agency pay for its own state-mandated 20 x 2020 compliance

- The LTCP should account for the 20x2020 compliance target as determined by the member agency, or by the retail subagencies served by the member agency. The MWD target cannot be established until the retail agencies have selected their respective compliance targets and methodologies. MWD should make it clear that retail agency compliance with statutory requirements is the foundation of the LTCP.
- The LTCP should provide a *structure to integrate retail compliance with 20x2020 requirements and allow for trading of conservation credits.* MWD should not pay subsidies to retail agencies to meet compliance requirements. MWD can facilitate retail compliance by creating a structure to allow for voluntary trading of conservation credits among member agencies.
- *MWD's LTCP as drafted encourages free riders and creates disincentives to water conservation in Southern California.* Wholesale pricing that understates the true cost of water sends a contrary price signal and obstructs market transformation at the retail level
- *MWD must determine whether it has authority to grant subsidies.* Before adopting the LTCP, MWD must evaluate its legal authority to pay subsidies to member agencies or retail sub-agencies to pay for 20x2020 compliance. This analysis is

¹ This Summary is intended to provide general comments and recommendations on the LTCP rather than respond in detail to the most recent draft. It is difficult to provide meaningful comments on the draft due to the draft's failure to define key terms or distinguish between conservation mechanisms that have widely differing costs and implementation features.

particularly important because of the recent passage of Proposition 26 by California voters.

- *Retail agencies are in the best position to implement market transformation.* Consumer conservation measures are imposed and implemented at the retail level. MWD can support implementation at the local level by working with industry groups and statewide retail suppliers like Home Depot and Rainbird. But MWD does not have the authority to regulate conservation at the retail level, and retail agencies need to have maximum flexibility as conservation programs make short term water use reductions more challenging.

Measurement and verification are essential components of conservation

- Sound conservation programs require *measurement and verification of conservation savings*. Measurement of water conservation solely by reference to average per capita water use throughout the MWD service territory as proposed by the LTCP is an insufficient foundation to support the expenditure of regional dollars and does not recognize the legal obligation all retail agencies have under current state law.
- MWD must implement a *system to account for MWD water supplies* that are available to each of its member agencies in order to have a baseline against which to measure conservation. MWD's *water supply allocation plan* should accommodate voluntary trading among member agencies.

MWD must send correct pricing signals in order to lay the foundation for conservation

- Price to the end user is a significant factor affecting conservation – *as the price of water goes up many consumers will choose to use less*. Significant research on retail price elasticity has already established this premise. MWD must *reform its wholesale rate structure* to send correct pricing signals to its member agencies to develop local supplies or increase conservation efforts. Wholesale pricing is an important component of market transformation at the retail level.
- MWD should *eliminate subsidies* for water conservation. Instead, MWD should *create and manage a "grid" through which retail conservation can be valued and traded*. This is a more appropriate and productive role for MWD and truly represents something it has the unique ability to do as a regional agency serving all of Southern California

MWD must rewrite the LTCP to define key terms and distinguish conservation options

- The LTCP must *define key terms and distinguish various conservation approaches* in order to assess which programs are better implemented by MWD at the wholesale level and which programs are better implemented at the retail level. As drafted, the LTCP does not distinguish regulations, subsidies, devices and full scale water reclamation projects, even though these various methods of conservation have

dramatically different costs and implementation considerations at the wholesale and retail level.

- In its current form the LTCP essentially says that MWD will make the conservation plan up as it goes along and essentially do “more” of what it has been doing in the past. This approach fails to grapple with problems of the past or provide creative leadership for the future of California water supply planning and management.