



San Diego County Water Authority

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December 12, 2011

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

MEMBER AGENCIES

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Municipal Water District

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Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Re: Board Memo 9-1 –
Review options for updated Replenishment (Discounted Water) Program

Dear Chairman Foley:

Board Memo 9-1 fails to justify the sale of discounted water. There is no showing that the proposed replenishment program provides any service or benefit to Metropolitan as a whole and the alternative justification for replenishment as a “storage” or “water management” program is also lacking. Merely stating that discounted water pricing is a necessary incentive to “encourage” member agencies to store water is not sufficient. Rather, the need for such a program must be demonstrated by a shortage modeling analysis, storage operating plan, and detailed explanation of how the program enhances Metropolitan’s overall service capabilities. Assuming this can be shown, the pricing differential must be justified by a cost-of-service analysis that correlates the discounts and corresponding subsidies with the services, costs and benefits. The evaluation should include all of the storage Metropolitan has available under existing programs and the enhancements to that storage provided by the proposed program. If this analysis is not done, Metropolitan risks challenge to the discounted water programs as merely creating another cost subsidy that will have to be funded from higher fees charged to other member agencies – all in violation of current California law, including Proposition 26, which established new requirements for local and regional agencies. By continuing to avoid the type of analyses we have repeatedly requested – and renew herein -- Metropolitan is putting its already tenuous finances further at risk.

We enclose another copy of our November 4, 2011 letter to you and Metropolitan staff on this subject, outlining the history and questions we have asked regarding the basis of Metropolitan’s current and proposed programs for the sale of discounted water. From a purely economic and business perspective, at a time when Metropolitan water rates have increased more than 75% over the past five years, and water sales falling hundreds of thousands of acre-feet below budget, we continue to question the wisdom of Metropolitan selling water at a discount. We also question the need for such a program when Metropolitan’s core planning documents – both the 2010 Integrated Resources Plan and 2010 Regional Urban Water Management Plan – clearly state that Metropolitan has adequate storage capacity to meet current and future water demands under all planning scenarios. Metropolitan runs the economic and business risk of stranding existing and future storage investments.

We are disappointed that we have not received any written response to our many letters on this

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subject, listed at the end of our November 4 letter, either in the form of response via board memorandum or otherwise. Whether or not Metropolitan continues to ignore the questions and concerns raised by its largest member agency, Metropolitan's many problems will not simply "go away." Regardless, we request to be provided with a copy of any and all data or analyses that have been used by, referred to or relied upon by Metropolitan staff in the preparation of the recommendations set forth in Board Memo 9-1. We request this information be provided promptly so that our staff may analyze the recommendations contained in the board memo in advance of the January board meeting, when staff proposes board adoption of the new program. Specifically, we request all documents and data used in connection with the workgroup discussion and preparation of the board memo reflecting:

- How the program will provide regional water management benefits in dry years;
- The assumed frequency and magnitude of surplus conditions in the future;
- The assumptions regarding increased size and diversification of MWD's regional storage portfolio;
- The assumed operating benefits of the program; and
- The linkage between the benefits of the program and the financial incentive being paid.

In closing we note that the program proposed in Board Memo 9-1 fails to address the very concerns raised by MWD's staff itself in its April 26, 2011 Board Memo (5-1) that, notwithstanding those concerns, first recommended reinstating the sale of discounted water. MWD's staff's concerns included – and remain:

- Questionable and unquantifiable performance criteria for a discounted water program (we note that two of the three storage levels now proposed by staff do not require *any* performance by the member agency);
- Loss of full service sales due to availability of discounted water;
- Unequal distribution of costs and benefits among member agencies; and
- Cash flow and budget issues associated with availability of discounted water.

Sincerely,



Lynne Heidel
Director

Keith Lewinger
Director

Fern Steiner
Director

cc: MWD Board of Directors
Jeff Kightlinger, General Manager
San Diego County Water Authority Board of Directors

Attachment:

November 4, 2011 letter to Jack Foley re: Approve policy principles for replenishment (discounted water) program