



San Diego County Water Authority

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

December 9, 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
Vista Irrigation District
Yuima
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Brian Thomas
Assistant General Manager/Chief Financial Officer
Metropolitan Water District of Southern California
700 N. Alameda Street
Los Angeles, CA 90012

Dear Mr. Thomas:

We reviewed Appendix A of MWD's Draft Official Statement, distributed to members of the Board of Directors on November 24, 2010 for an upcoming bond sale. We have a number of concerns. A principal concern is that the Draft Statement does not disclose MWD's present and future reduction in water sales due to a variety of key facts.

2010 Integrated Resources Plan

The recently adopted 2010 IRP articulated a new untested business strategy for MWD that is different than the historical role it has played in importing supplemental water supplies to Southern California. The implementation of this strategy would result in an overdevelopment of supplies by at least 200,000 acre-feet in 2020 and as much as 500,000 acre-feet per year through the overdevelopment of local supplies – either by MWD directly, or developed in concert with MWD subsidies. This new strategy has significant cost implications that have not been adequately described in the IRP or disclosed in the Draft Official Statement and could result in reduced sales rather than increased sales by MWD in the future. We described our concerns in our October 11, 2010 letter to MWD (copy attached and incorporated herein by reference). The 2010 IRP showed an MWD demand ranging from 1.67 million acre-feet to 1.75 million acre-feet in 2015, depending on how aggressively MWD would pursue local resources development. MWD demand is projected to be even lower in 2035 at between 1.35 million acre-feet and 1.65 million acre-feet. These are significant projected reductions in MWD sales. The Draft Statement fails to adequately disclose this fact.

Moreover, a month after MWD's board adopted the 2010 IRP, MWD staff released new water sales projections as part of its Long Range Finance Plan that show even lower potential sales by 2020, in a range from of a low of 1 million acre-feet, a high of 2

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

million acre-feet and a “projected expected” sales of 1.6 million acre-feet. The financial impact on MWD of 400,000 to 500,000 acre-feet of lower sales represented by the “projected expected” forecast is significant, and MWD must reconcile this major discrepancy in its Appendix A.

In addition to these concerns, MWD must analyze and disclose applicable limitations on its ability to fund local projects anticipated by the IRP under its existing rate structure, and, subject to the new Constitutional limitations under Proposition 26 as recently passed by California voters.

Projected Water Sales

The projected sales for the near term are overstated given current and reasonably anticipated water sales. After a series of steep rate hikes (increasing Tier 1 Treated Rate by 55 percent between 2008 and 2012), water management actions including aggressive conservation messaging, cessation of discounted replenishment water sales, phasing out of the agricultural program rate, and the implementation of M&I water allocation, MWD has significantly lowered its water demand. For the 10-year period of 2000-2009, MWD’s annual water sales averaged 2.17 million acre-feet. This calendar year, MWD’s sales are projected to equal a multi-decade low of about 1.5 million acre-feet – nearly 700,000 acre-feet below past decade’s average (and 1 million acre-feet below its peak sales year) and importantly, 250,000 acre-feet below MWD’s budgeted amount. Staff reported just last month that MWD’s current year revenue is expected to be \$120 million less than budgeted due to declining sales. This will put ever-increasing pressure to raise rates even higher, if not in CY 2012, then in following years.

We do not believe it is reasonable to assume MWD water sales will return to the 2 million acre-feet level in the time frame noted in the Official Statement, or, that it has the water supplies available to sustain sales in this range continuously. Moreover, as noted above, the implementation of the IRP could actually result in further reduction in MWD’s own water sales.

Use of Bond Proceeds and Need for Funds

Given today’s extraordinary upward rate pressure, and downward water sales trends, it is unclear why MWD is considering selling bonds at this time. We were informed by staff just last month due to lower water sales, MWD would be drawing down about \$100 million from its Rate Stabilization Fund to help cover the impacts of low sales, resulting in reserves that are lower than the Board’s established minimum level. We should be reviewing all expenditures, including scrubbing the Capital Investment Program, to reduce rate pressure. Selling the bonds now would result in MWD needing to expend the money within the specified time – that does not make sense. MWD needs to first figure

Mr. Brian Thomas
December 9, 2010
Page 3

out what its new CIP expenditures should be in the current fiscal situation, and sustained lower water sales before committing itself to spending additional funds.

In conclusion, we believe MWD's exposure to sustained lower water sales is significant due to factors such as challenges to MWD's supplies, implementation of SBX7-7, the adoption of the 2010 IRP, and high water rates' impact on consumer demand; these factors must be disclosed in detail. As such, we request that the Draft Statement be modified to ensure MWD provides adequate disclosure to potential investors.

Thank you.

Sincerely,

A handwritten signature in black ink, appearing to read "Keith Lewinger". The signature is fluid and cursive, with the first name "Keith" and last name "Lewinger" clearly distinguishable.

Keith Lewinger
Director

Attachment

Cc: MWD Board of Directors
Jeff Kightlinger, General Manager
MWD Member Agency Managers



San Diego County Water Authority

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

October 11, 2010

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

MEMBER AGENCIES

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

OTHER REPRESENTATIVE

County of San Diego

Re: Adoption of 2010 Integrated Resources Plan Update – OPPOSE

Dear Chairman Brick:

We reviewed the final draft 2010 Integrated Resources Plan Update (Final Draft), made available by MWD on October 1, and proposed to be adopted at the October 12, 2010 board meeting. We regret to inform you that we cannot support the Final Draft. Although the Final Draft corrected certain data inconsistencies in the prior draft, it fails to address the Water Authority's substantive concerns stated in its September 10, 2010 letter, a copy of which is attached and incorporated by reference. We renew the comments described in our September 10 letter and offer the following brief supplemental comments on some of the key issues.

Reliability Objective. The supply reliability objective is proposed to be expanded from meeting 100% of full-service demands at the retail level under all foreseeable hydrologic conditions to include an additional 500,000 acre-feet of water supply to be developed as an "Uncertainty Buffer." Despite the report stating that the 2010 IRP reliability is "true" to the reliability goal established under the prior IRPs, the implementation of an Uncertainty Buffer raises the reliability objective far beyond the prior IRPs. We do not believe that this reliability objective would be adopted by the board if it had been provided with accurate information regarding the cost for exceeding 100% reliability, and how high water rates will have to go to achieve this objective.

Cost. We have previously commented on the dearth of information provided to the board regarding the true cost of IRP implementation. The board memo transmitting the Final Draft says only that a reliable water supply will "come at a cost" and states that, historically, the *national* cost of water and sewer maintenance has increased at a rate of 2 percent above inflation. It goes on to state that projections in the IRP "show that MWD's future rate increases would be at or below these historic norms for the industry." This statement is misleading at best and is inconsistent with *actual rate increases* MWD has experienced over the past few years – when it was not embarked upon the kind of spending program described in the IRP.

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

October 11, 2010

Mr. Brick

Page 2

Over the last five years alone (2008-2012), MWD has increased its rates by almost 55% -- or an average of 11% per year. With these rate increases, MWD has put its water rates in uncharted territory, where it is completely disconnected from historical CPI averages. In a presentation on MWD's Long Range Finance Plan just one week ago (Oct. 4), MWD staff projected rate increases averaging 6 percent per year over the next 10 years -- but that figure does not include any spending associated with implementing the local Uncertainty Buffer water supply projects contemplated in the IRP. Moreover, many of the cost assumptions used to develop the rate impact analysis are conspicuously low. From 2008 to 2020, MWD projects that it will more than doubled its water rates (increasing its untreated Tier 1 rate from by 144 percent, from \$351 to \$857 an acre-foot), and again, those projections do not include any costs for implementing IRP local Uncertainty Buffer water supply projects. In its public outreach on the IRP, MWD staff did not inform the public or stakeholders that it expects to more than double water rates by 2020, and that those water rate increases will be further exacerbated by the additional over-investment in IRP supply projects. Because this information was not accurately disclosed in the IRP, it also does not provide a substantive analysis of the impact these rate increases will have on demand and MWD sales. Again, we reiterate that this IRP is not a financially sustainable plan for MWD's future.

Conservation and Water Use Efficiency. The Final Draft includes within the Core Resources Strategy retail compliance with water use efficiency targets mandated by SBX 7-7. However, it relegates the 200,000 acre-feet of regional water use efficiency to the "Uncertainty Buffer." Both conservation targets should be included as part of the Core Resources Strategy. The Final Draft mischaracterizes the 200,000 acre-feet of increased regional water use efficiency as an "Uncertainty Buffer." Increasing conservation should not be a "buffer," but rather, it should be foundational to the plan. Because of the mischaracterization, the Final Draft proposes to over-develop 200,000 acre-feet more of Core Resources Strategy projects than would be necessary to meet projected demands. If MWD indeed plans to immediately begin implementing the 200,000 acre-feet of regional water use efficiency programs (and the Final Draft states it will be fully implemented by 2020), then it must reduce the dry-year demand target in the Core Resources Strategy on an acre-foot for acre-foot basis. This would mean reducing the dry-year demand target in the Core Resources Strategy from 1.81 million acre-feet per year (in 2035) to 1.61 million acre-feet. Consistent with this action, investments in supply projects identified in the Core Resources Strategy could be reduced to account for the 200,000 acre-feet of lower demand, resulting in a lower forecast for water rates. In order to develop programs for the procurement of cost-effective efficiency supplies, MWD must send accurate pricing signals regarding the cost of its current water supply and future water supply resources. A thoughtful consideration of this subject would require substantial revisions to the IRP as it is now proposed for adoption.

Water Supply Allocation and Long-Term Conservation Plan Development and Coordination. The Long Term Conservation Plan (LTCP) draft recently distributed to member agency staff states that it will establish a new direction for MWD conservation programs and be amended to conform to the IRP. The LTCP draft further anticipates that the IRP would specify MWD and member agencies' respective roles in achieving the conservation targets. The Final Draft,

October 11, 2010

Mr. Brick

Page 3

however, does not suggest any substantive changes in MWD conservation programs, nor does it address MWD and member agencies' respective responsibilities in meeting the target.

MWD must also change its Water Supply Allocation Plan so that water conservation is verified, recognized and rewarded as part of the supply allocation. In spite of past opposition at MWD, measurement and verification are essential components of successful water use efficiency programs. A fresh look at MWD's water conservation programs might also be tied into the IRP targets for the Bay Delta and other water supply resources within the core resources strategy. We hope to work with MWD staff and stakeholders to reform MWD's long term conservation program to support these outcomes. A copy of our August 16, 2010 letter on the subject of MWD's LRCP is attached and incorporated herein by reference.

CEQA. MWD staff has stated that CEQA review of the IRP Update is not required because the IRP is not a document that controls future decision-making in a manner that could result in the possibility of a significant effect on the environment. However, MWD staff has also stated that it intends to take immediate action to implement projects and programs identified in the draft IRP should it be adopted by the Board.

The Final Draft makes it apparent that MWD views the IRP as a controlling policy document that is the first step in the implementation of a major new direction for MWD, including a new water supply program, which warrants full environmental review before the MWD board votes to approve the IRP. This is a point we previously made to Brian Thomas in our September 22 letter regarding the draft official statement and we reiterate it here. A copy of our September 22, 2010 letter is attached and incorporated herein by reference.

Lack of MWD Response to Comments on the IRP Provided in Letters and Stakeholder Forums. MWD received numerous comment letters from other agencies and stakeholders whose questions have not been answered, nor their concerns addressed by the Final Draft, including a host of questions asked by the Water Authority's member agency managers during the Stakeholder Forum conducted in San Diego. We seriously question the need to move forward now with adoption of the Final Draft when answers to important questions have not been provided. Moreover, no time has been allowed for its distribution to, or consideration by the hundreds of cities, counties, agencies, taxpayers and water ratepayers who will be affected by the IRP.

In closing, we would like to reiterate that the San Diego County Water Authority fully supports investments in water supply reliability for Southern California. However, a real plan is needed for MWD that reflects the ongoing efforts of MWD member agencies and others to develop cost-effective local water supplies to replace imported water supplies previously available from MWD. MWD should focus its efforts on what should be its core competency – finding workable solutions for a Delta Fix as soon as possible. MWD's recently announced intention to venture into the local water supply development business will unnecessarily drive up costs for all purchasers of MWD imported water supplies and invite controversy at every step of the way.

October 11, 2010

Mr. Brick

Page 4

On behalf of the San Diego delegation, and for the reasons stated in this letter, we do not support the Final Draft 2010 IRP, or its adoption by the board of directors at the October board meeting.

Sincerely,

A handwritten signature in black ink, appearing to read "Fern Steiner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Fern Steiner

Attachment 1: Water Authority's comment letter on 2010 IRP Update dated September 10, 2010

Attachment 2: Water Authority comment letter on MWD Water Conservation Program dated August 16, 2010

Attachment 3: Water Authority's comment letter on MWD's draft official statement dated September 22, 2010

cc: MWD Board of Directors
Jeff Kightlinger, General Manager
Water Authority Board of Directors
Mayor Jerry Sanders
San Diego County Taxpayers Association
Industrial Environmental Association
San Diego County Farm Bureau
San Diego Regional Chamber of Commerce
San Diego Regional Economic Development Corporation



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 Diego 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,

A handwritten signature in black ink, appearing to read 'Maureen A. Stapleton', with a stylized, cursive script.

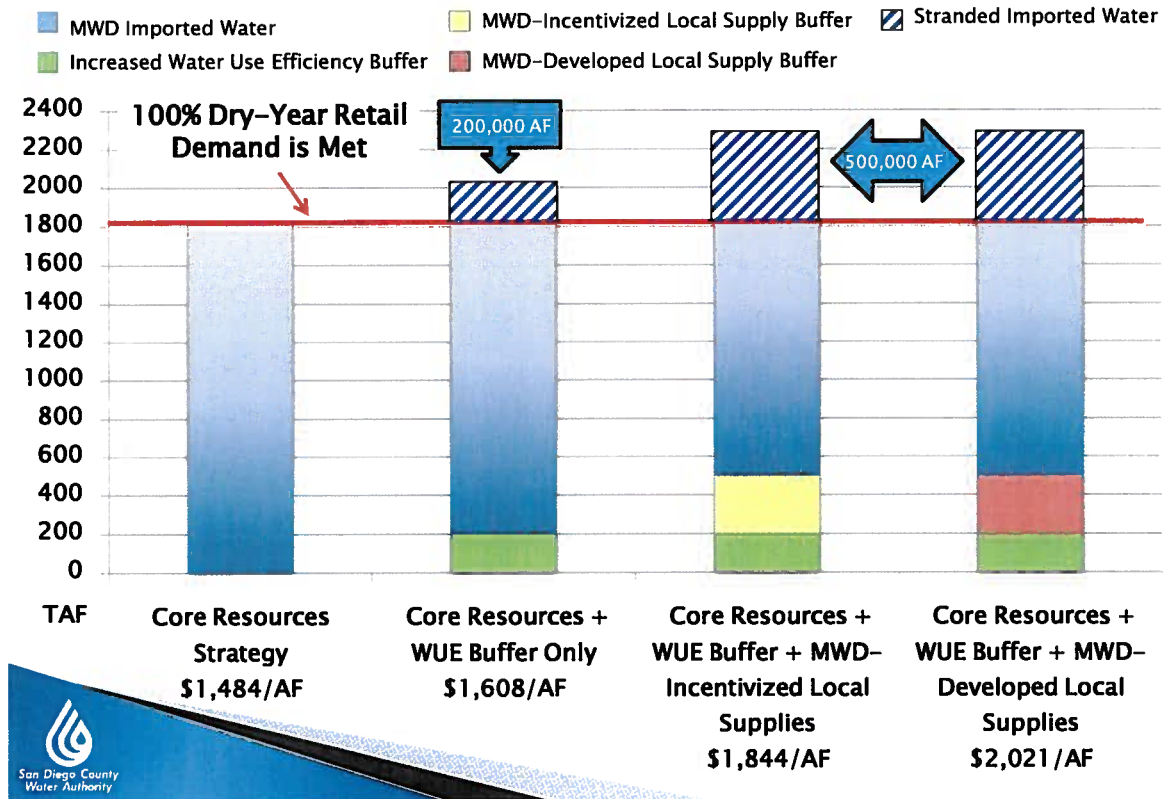
Maureen A. Stapleton
General Manager

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.

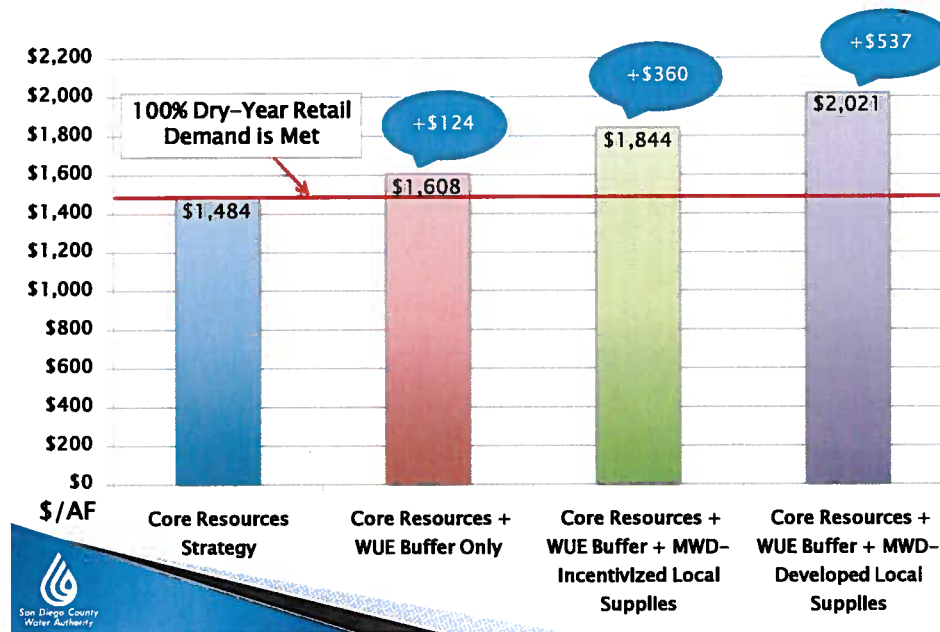
STRANDED COSTS

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.

Figure A

Stranded Dollars /AF in 2035



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 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

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 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: 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

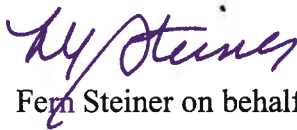
Turning to some of the other key issues, we believe that changes in MWD's water shortage allocation plan are necessary to encourage further conservation. The City of Long Beach has presented a number of ideas and approaches to address this concern. We also believe that MWD's wholesale price structure 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 22, 2010

Brian Thomas
Assistant General Manager/Chief Financial Officer
Metropolitan Water District of Southern California
700 N. Alameda Street
Los Angeles, CA 90012

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

Dear Brian:

On the afternoon of September 16, you distributed to members of the Board of Directors Appendix A of MWD's Draft Official Statement for an upcoming refunding bond sale and asked for comments to be submitted by noon today; given the tight deadline, we limit our comments in this letter and the attachments to only the most significant issues and concerns with Appendix A. These comments are presented to you by the four of us as directors representing the San Diego County Water Authority. We request that you respond to the questions presented in this letter and make the necessary modifications to Appendix A of the Official Statement before it is finalized and issued. We believe additional time is warranted to schedule a full board review of the issues noted in this letter and in our IRP Comment Letter discussed below.

2010 Integrated Resources Plan

On page A-3, fourth paragraph, MWD makes only passing reference – and does not disclose key facts – about its 2010 Integrated Resources Plan Update. The document states that the IRP "...is expected to be completed in late 2010." In fact, the IRP is expected to be presented by MWD staff to the Board of Directors for adoption at its October 12, 2010 meeting – only 13 days after the initiation of bond sales covered by this Official Statement. Appendix A fails to disclose material facts about the 2010 IRP that should be disclosed to potential investors, including but not limited to MWD's plan to develop so-called "buffer" water supplies in the amount of up to 500,000 acre-feet per year, at a cost of billions of dollars over the next 25 years. On September 10, 2010, the Water Authority submitted to MWD extensive comments on the IRP. A copy of that letter is attached and the questions and comments incorporated herein (IRP Comment Letter). We request that MWD provide a substantive discussion in Appendix A regarding potential legal and financial implications from the shift from MWD's historic role as a supplemental imported water supplier to local water supply developer; that identifies the breadth of the IRP implementation strategies under consideration, and the extent of costs and future water rates that would be necessary to implement the IRP recommendation. Appendix A should also include a discussion – here and elsewhere – on the effects higher water rates are expected to have on MWD sales. Experience over the past several years clearly shows a nexus between sharply higher water

rates and conservation (demand reduction) by customers (ratepayers). MWD should disclose the impacts of its IRP strategies that would lead to water rates exceeding \$2,000 an acre-foot by 2035 if not sooner and the impacts increasing water rates would have on water demands on MWD. Further, as discussed at length in the IRP Comment Letter, how will MWD ensure that there will be customers to pay for its regional local water supply projects when so many agencies are in the process of developing local water supply projects of their own for which their retail customers will pay through retail water rates. This concern should also be discussed in connection with the renewal of purchase orders at page A-1.

We are also concerned that the discussion is misleading about the purpose and importance of the IRP in the development and implementation of the "Preferred Resource Mix." Responding to questions about the necessity of CEQA review prior to adoption of the draft IRP update, MWD staff has stated that such review is not required because the IRP is not a document that controls future decision-making in a manner that could result in the possibility of a significant effect on the environment. However, MWD staff has also stated that it intends to take immediate action to implement projects and programs identified in the draft IRP should it be adopted by the Board. When viewed in its entirety, the discussion of the IRP and the Preferred Resource Mix suggest the IRP is viewed by MWD as a controlling document that would be the first step in the implementation of a major new supply program and would be subject to CEQA. If this is not the case, MWD must make that clear and should also provide assurance that CEQA compliance will be accomplished before any actions are taken to implement any of the programs or projects contemplated as part of the draft IRP's Supply Buffer.

Seawater Desalination Project Subsidies

On page A-4 and again on page A-31, under *Seawater Desalination*, MWD mischaracterizes the Carlsbad seawater desalination project and the status of the incentive payment agreement with MWD relating to this project. MWD also fails to disclose the fact that MWD has initiated termination proceedings on incentive payment agreements with the Water Authority and its member agencies, and, that it is MWD that has refused to sign the Carlsbad Seawater Desalination Project agreement approved by its own board on November 10, 2009.

In the Seawater Desalination Sections of Appendix A on Pages A-4 and A-31, Metropolitan addresses the status of member agency agreements for incentive funding for seawater desalination projects, including the Water Authority's incentive funding agreement. Metropolitan states that "SDCWA has not executed the proposed agreement." This statement would mislead the reader to conclude that but for SDCWA's execution, the agreement would be in effect today. That is not true. The Water Authority's incentive funding agreement, approved by the Metropolitan Board on November 10, 2009 and by the Water Authority Board on December 17, 2009, includes rate structure integrity language that allows Metropolitan to terminate the agreement should the Water Authority file litigation to challenge Metropolitan's rate structure. Following the Water Authority's initiation of litigation in June 2010 (briefly discussed on page A-47) challenging Metropolitan's rates and charges, Metropolitan's Board initiated termination of existing Water Authority funding agreements that include rate structure integrity language. On August 25, 2010, in a letter to the Water Authority from Metropolitan's General Manager (attached), the Water Authority was notified that "Metropolitan's Board of Directors also directed staff to defer execution" of the Water Authority's seawater desalination incentive funding agreement "...as termination proceedings would begin

immediately upon execution.” These facts regarding the Carlsbad Seawater Desalination Project agreement should be stated on pages A-4 and A-31.

Near-Term Delta Actions

On page A-25, under *Near-Term Delta Actions*, MWD discusses the potential supply benefit of the proposed Two-Gate System and other “near-term” actions to improve water supply and ecosystem of the Delta. However, MWD does not provide a timeline estimate of when it expects the Two-Gate project to be in place and producing improved supply reliability of approximately 150,000 acre-feet per year in certain years. We request an estimated operational date for the Two-Gate project be added to this discussion.

Five-Year Supply Plan

On page A-26, under *Local Resources*, MWD projects that 122,000 of additional, new supply could be online by 2014 from recycled water treatment plants, groundwater recovery plants, desalination plants and new hookups to existing recycled water plants. This figure seems optimistic based on the experience. If MWD indeed projects this level of implementation, it is not our belief that the costs associated with such level of local resources development have been included in the budget or water rates adopted for 2011 or 2012. We request that the estimated costs and associated water rate increases be added to this discussion. In addition, given the long lead time generally associated with the development of such projects, we believe MWD should describe the process by which it will be able to implement local projects of this magnitude within the timeline described in the O.S.

Significant Exposure to Reduced Sales

On page A-29, Appendix A describes a construction project that will provide an interconnection between the Antelope Valley-East Kern Water Agency and the Los Angeles Aqueduct. Under an agreement with MWD, the City of Los Angeles will be able to acquire and move into the LA Aqueduct supplies obtained independently of MWD. This section notes that the annual quantity of supplies moving into the LA Aqueduct through the interconnection is “...not to exceed the supplies lost to the City as a result of its Eastern Sierra environmental obligations, including water for the Lower Owens River Project and Owens Lake Dust Mitigation Project....” That amount, Appendix A notes, was 98,000 acre-feet from April 2009 to March 2010. However, MWD does not disclose that the City of Los Angeles currently purchases water used to offset the use of its own Eastern Sierra supplies for environmental purposes from MWD, and that the interconnection with AVEK will allow LA to reduce its purchase from MWD on an acre-foot-for-acre-foot basis. Reduction of sales by approximately 100,000 acre-feet per year will have a material effect on MWD revenues and on MWD’s water rates. And yet, on page A-30, MWD asserts that the City of LA’s “future reliance on Metropolitan supplies may increase with implementation of these (Eastern Sierra environmental) projects.” The motivation for LA to pursue the interconnection with AVEK in the first place is its apparent belief that it can acquire independent supplies at a lower cost than MWD’s supply cost. Therefore, in contrast to the statement on page A-30, it is more likely LADWP will acquire any additional environmental offset water needed from sources other than MWD.

Future Water Sales and Receipts

On Page A-69, and again at A-71 to A-72, MWD projects steady growth in water sales over the next five years from 1.77 million acre-feet in the current fiscal year (2011), to 2.11 million acre-feet in FY 2015, “...reflecting a return to average weather conditions.” This projection appears to attribute the current low water demands on MWD (and reduced sales) to a single factor: weather. A return to

Mr. Brian Thomas
September 22, 2010
Page 4


normal weather, the report implies, will result in returning sales to pre-shortage levels. No discussion or consideration is provided to what effect other factors –most notably higher water rates – have had, and continue to have in suppressing water demand and sales. The O.S. also fails to discuss or take into account the recently passed 20x2020 legislation requiring 20% conservation at the retail level. Appendix A should provide an analysis of the impacts higher water rates and conservation requirements are having on demand and sales, and factor those impacts into projections of future water sales (e.g. the next five fiscal years and beyond).


Page A-72 notes that because of lower-than-budgeted water sales in the current year (160,000 acre-feet lower than budgeted), MWD will make a draw of \$34 million from its Water Rate Stabilization Fund. However, on September 17, 2010, at the MWD Member Agency Managers meeting, MWD management reported that the net draw from the Water Rate Stabilization Fund this year is projected to be \$100 million. MWD should reconcile these two figures and ensure the number reflected Appendix A is the correct one.

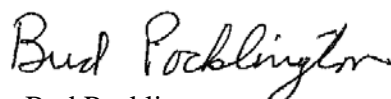
We believe the comments contained in this letter and the attachments must be addressed through substantive modifications to Appendix A and request those changes be made to ensure MWD provide accurate and adequate disclosure to potential investors.


Thank you.

Sincerely,


Lynne Heidel
Director


Keith Lewinger
Director


Bud Pocklington
Director


Fern Steiner
Director

Attachments

Cc: MWD Board of Directors
Jeff Kightlinger, General Manager



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 Diego 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,



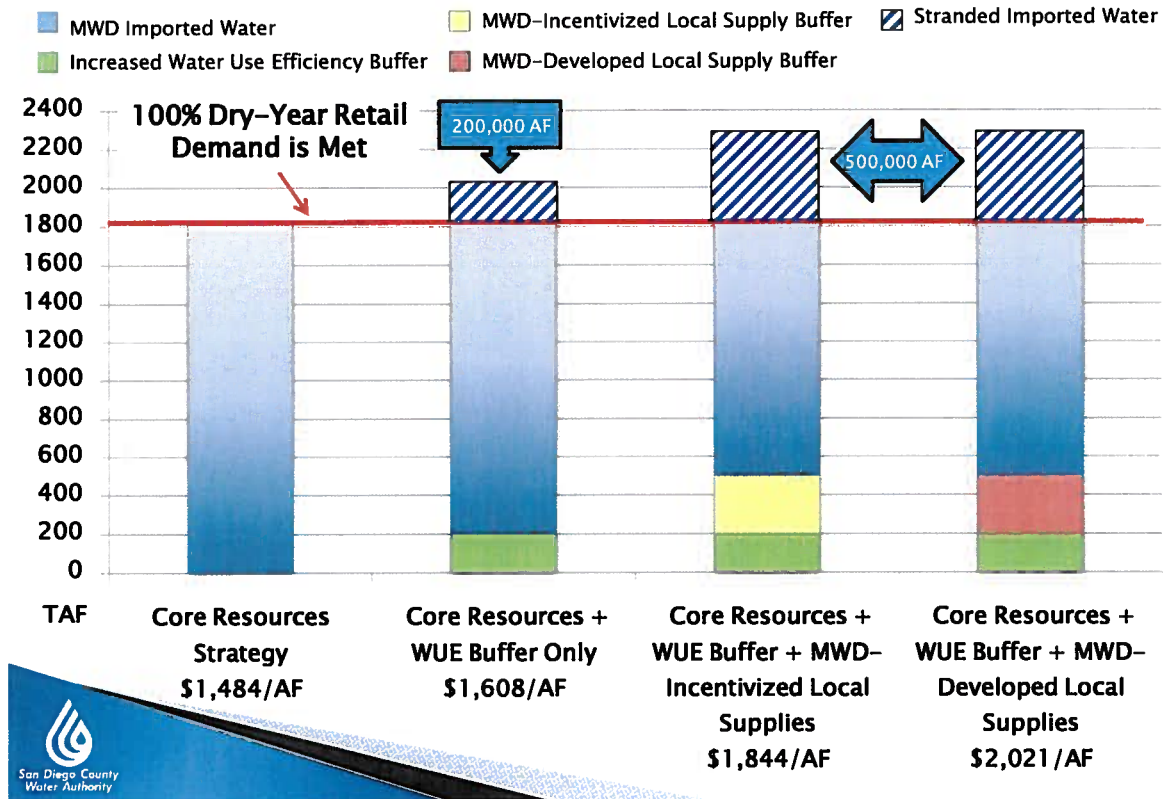
Maureen A. Stapleton
General Manager

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.

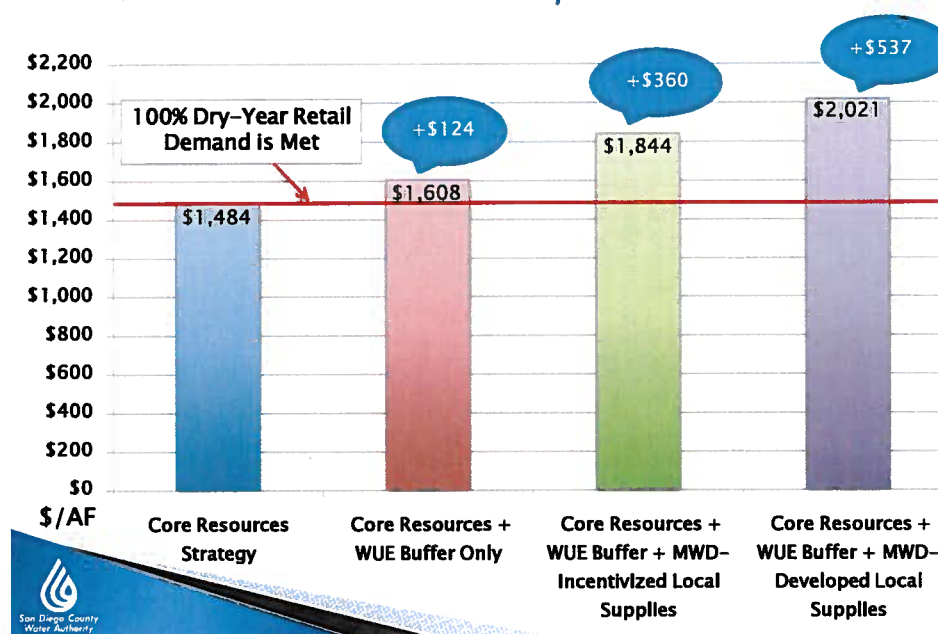
STRANDED COSTS

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.

Figure A

Stranded Dollars /AF in 2035



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 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?



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

RECEIVED

AUG 30 2010

GENERAL MANAGER

Office of the General Manager

August 25, 2010

Ms. Maureen A. Stapleton
General Manager
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Dear Ms. Stapleton:

Notice of Intent to Initiate Process to Consider
Termination of Incentive Agreements with the Water Authority

The agreements listed below between Metropolitan and the San Diego County Water Authority (Water Authority) contain provisions allowing The Metropolitan Water District of Southern California (Metropolitan) to file a 90-day notice of intent to consider terminating agreements should the Water Authority file litigation challenging Metropolitan's rate structure. In June 2010, the Water Authority initiated litigation challenging Metropolitan's water rates and charges for fiscal year 2010/11. Consequently, Metropolitan's Board of Directors at its August 17, 2010, meeting directed staff to initiate the process outlined in the rate structure integrity provisions.

Incentive Program	Existing Agreement	Number
Conservation	Regional Commercial Program	66654
Conservation	Regional Residential Program	78189
Enhanced Conservation	Landscape Auditor Interns	011-2006
Enhanced Conservation	Smart Landscape Grant Program Expansion	024-2007

This letter is the official 90-day notice of Metropolitan's intent to consider termination of the above listed agreements between Metropolitan and the Water Authority.

Within 30 days of receipt of this notice, the Water Authority has the right to request, in writing, mediation of the dispute by a neutral third party with expertise in finance and rate setting. The request for mediation would serve to stay the 90-day notice of intent to terminate, but for no more than 90 days beyond the filing of the notice of request for mediation. If the termination process advances, Metropolitan's Board of Directors will ultimately make the decision on whether to terminate the agreements. Payment of the incentives for this program will continue pending the decision by the Board following the 90-day notice period.

Ms. Maureen A. Stapleton

Page 2

August 25, 2010

Metropolitan's Board of Directors also directed staff to defer execution of the following three agreements currently pending with the Water Authority, as termination proceedings would begin immediately upon execution:

Incentive Program	Pending Agreement	Number
Conservation	Agricultural Conservation Program	113401
Innovative Conservation	Flow control valve research project	91694
Seawater Desalination	Carlsbad Seawater Desalination Project	70025

If you have any questions, please contact me at (213) 217-6211 or via email at jkightlinger@mwdh2o.com.

Very truly yours,


Jeffrey Kightlinger
General Manager

WAT:jc

o:\a\s\c\2010\WAT_SDCWA Agreement Termination_Notice v3.doc

cc: Board of Directors
Executive Secretary