



San Diego County Water Authority

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May 6, 2011

Jeff Kightlinger, General Manager
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MEMBER AGENCIES

Carlsbad
Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook
Public Utility District

Helix Water District

Lakeside Water District

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

Board Memo 5-1 – Sale of Discounted Water

Dear Jeff,

Thank you for responding to our April 25, 2011 letter regarding MWD’s proposed sale of discounted water to selected member agencies. We appreciate that water supply conditions in 2011 have improved significantly; however, the question before the board is what to do with the water that is now available to MWD.

You state in your letter that MWD will maximize the use of its storage assets in 2011 to store available supplies. Director Steiner has requested and you have agreed to provide detailed information how MWD will do that. *Past MWD board reports show that MWD has ample storage and put capacity available to store all of the available water in MWD storage facilities.* Indeed, by our calculation, even if all of the available water is stored by MWD – as we believe it should be – MWD’s storage will remain less than half full.

You also state that MWD will likely end the year with its regional storage reserves at the “highest levels in history”; however, this observation fails to take into account the *fundamental shift in MWD’s water supply reliability planning which – unlike past history – now relies heavily upon the withdrawal of water from storage in dry years.* That is why the Water Authority has supported MWD’s multi-billion dollar investment in storage facilities and agreements, which provide more than 5 million acre feet of storage capacity. Given this water supply strategy and investment, it is difficult to understand why MWD now has no intention of maximizing its investment in storage in a year like this, when water is available. MWD is barely out of a multi-year allocation, yet instead of filling its storage reserves, it wants to sell it at a discount.

The problems with the replenishment program have been previously documented and we will not repeat them here. MWD has been well aware of these concerns for many years but has failed to address the problems in any revised board policy or otherwise. Suffice it to say that the program does not provide benefits to MWD commensurate with the cost to MWD of the program. If MWD is intent on selling discounted water, then it should be made available to all MWD member agencies equally, not just to select agencies on the purported basis of a clearly flawed water supply management program.

On the financial side, the board memo and your letter are clear that under the discounted sales

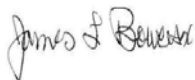
A public agency providing a safe and reliable water supply to the San Diego region

proposal, MWD will not recover its fixed costs. This month's staff report shows MWD's FY 2011 sales have further dropped to 1.6 million acre feet (MAF), from the budgeted 1.93 MAF. Although short term cash flow may be improved by the proposed sale of discounted water, it has a deleterious effect on MWD's financial position overall. We believe you know that MWD's fiscal crisis is real – we would welcome the opportunity to work with you on finding real solutions.

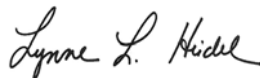
Regarding your comments on the member agencies' willingness to pay for current and future fixed costs, our comments were taken directly from the MWD board memo citing the member agencies' "budgetary and fiscal constraints" as the reason they are not buying MWD water now at the full price that was assumed in the current fiscal year budget. Clearly, the sale of water at full price would be the preferred option because the region would achieve the same storage and water supply benefits and MWD would come closer to hitting its own budget, which is more than \$150 million short that also threatens to leave reserves precariously low.

Finally, we believe you know that the Water Authority's litigation has nothing to do with challenging State Water Project costs – the only question is how those costs should be allocated between supply and transportation. The Water Authority expects to remain one of MWD's largest customers and to pay its fair share of MWD's costs under its State Water Project supply contract. Indeed, to our knowledge, the Water Authority is the only MWD member agency that has actually offered to enter into a long-term contract with MWD for the purchase of State Water Project water and other supplies and services. With firm contracts, MWD could count on being able to cover its fixed costs, now and in the future. We would be happy to make a presentation to the board on the history of that offer as well as make a proposal for the future. We agree that MWD is in a fiscal crisis and the gimmicks being employed this year – including a "fire sale" of discounted water – will not solve or even address the real problem.

Sincerely,



Jim Bowersox
Director



Lynne Heidel
Director



Keith Lewinger
Director



Fern Steiner
Director

cc: Jack Foley, MWD Board Chairman