



San Diego County Water Authority

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

September 6, 2017

Jeff Kightlinger, General Manager
Metropolitan Water District
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

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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

Yulma
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

Re: California WaterFix

Dear Jeff:

This letter responds to your August 31 email to the MWD Board of Directors and member agency managers soliciting input in order to prepare a summary of key questions asked by MWD board members and member agencies, and the status of MWD's responses. To this end, we have prepared and attached a summary of the questions previously posed by the Water Authority's MWD Delegates, and the status of MWD's responses.

As you know, Roger Patterson made a presentation at our last Water Authority Board meeting on August 24, and some additional questions were asked at that time (we have added them to the attached matrix). In general, while we appreciated the broad overview based on MWD's stated assumptions of the project's supply benefits and cost, the main concern our Board has is that at this point, there are too many assumptions and not enough concrete information to make a decision. For this reason, our Board officers have joined other MWD member agencies in asking that a decision be deferred until more information is available.

In the meantime, it would be extremely helpful if MWD staff would conduct a risk analysis of what happens, within a range of potential outcomes, if MWD's assumptions do not come to fruition. This would include modeling various scenarios of supply benefits and costs, including but not limited to impacts based on the number of contractors that ultimately choose to participate in the project, or not. This is particularly, but not exclusively important with regard to the \$7.5 billion share of Central Valley Project (CVP) contractor participation assumed in MWD's white papers, as well as the State Water Project contractors' ability to absorb the additional cost if CVP contractors' participation falls below 45 percent. There should also be some demonstration, tied to MWD's current Urban Water Management Plan and IRP, how much additional supply benefit MWD actually requires or will even be able to absorb to either meet annual demands or to replenish its own water storage from the project.

September 6, 2017

Mr. Kightlinger

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Finally, our Board would like to know if any state or federal contractor other than MWD has expressed a willingness to absorb the share of water supply and related costs of other contractors that may choose not to participate. Also, how the baseline of non-participating contractors will be measured and agreed upon.

Please let me know if you have any questions about the information the Water Authority board is seeking.

Sincerely,



Maureen A. Stapleton
General Manager

cc: Water Authority Board of Directors

Attachment 1: Summary of Questions Previously Posed by the Water Authority

Attachment 2: Water Authority's Delegates June 9, 2017 Letter to MWD Re California
WaterFix Board Review – Request for Adequate Time to Review and
Distribute Information

Water Authority Delegates' Questions (6/9/2017)	Status of MWD Response
<p>Supply benefit. Please describe all the assumptions made to calculate projected supply benefits of WaterFix as identified in the MWD Board reports and any underlying planning documents.</p> <p>At times, MWD has stated that WaterFix will not produce more water per se, but that it is expected to stabilize the supply decline MWD staff is projecting as a result of future environmental restrictions. Please include the specific assumptions MWD staff utilizes about the scope of anticipated environmental restrictions affecting the water supply from a completed project.</p> <p>We note that in its 2015 Integrated Resources Plan, MWD states that the supply benefit is 376,000 AF, while in its 2015 UWMP, MWD states that the supply benefit is 248,000 AF. In his draft economic analysis of WaterFix, Dr. David Sunding described the water supply benefit as 291,000 AF.</p>	<p>Incomplete response. White paper No. 2 described certain assumptions made in projecting the supply benefits, but did not explain why different operating criteria were used to project WaterFix supply benefits as reported in the 2015 IRP and UWMP, nor did MWD explain why its water supply benefit differs from that in Dr. Sunding's report. MWD has not presented any risk analysis associated with its assumptions including risks associated with key permits that project still requires but does not yet have.</p>
<p>Status and timing of legal proceedings. Please describe the status and anticipated timing of resolution of the State Board proceedings to change the point of diversion and Bay Delta Plan update, and court approval of the Delta Stewardship Council amendments addressing the court's prior invalidation of the Delta Plan.</p> <p>How might these and any other pending and anticipated legal proceedings impact the implementation schedule, projected yield and cost of WaterFix?</p>	<p>Not addressed. White paper No. 2 did not answer how various proceedings may impact WaterFix yield.</p> <p>It is our understanding from third party sources that while the project has received initial approvals from fishery agencies, additional reviews and approvals are still required before the project can be operated, but these have not been described and the risks have not been addressed. The State Board's change in diversion points process is also ongoing and could have impacts that have not been described or assessed. And while the State Board's Bay Delta Water Quality Control Plan update is a separate process and encompasses broader areas, its potential outcome may also change the assessment of WaterFix cost and benefits. MWD must provide a risk assessment on how these different proceedings may impact the WaterFix implementation schedule, projected yields and cost.</p>

Water Authority Delegates' Question (6/9/2017)	Status of MWD's Response & WA Follow-up Question
<p>Financing plan and cost allocations. Please describe in detail how WaterFix costs and benefits will be allocated including a) as between state and federal contractors; b) as between state contractors; c) as between MWD member agencies.</p> <p>Please provide copies of any and all draft documentation confirming these cost allocations and commitments to pay them, along with any guarantee, "step up" or other agreements, or provisions that could result in any party's share being increased by the failure on the part of any other party to agree to pay, or pay its assumed or allocated share of costs.</p> <p>Please address specifically how the \$4 billion Dr. David Sunding identified as being necessary for Central Valley Project (CVP) participation has been addressed, including how it impacts, if at all, the cost allocation percentage as between CVP and SWP contractors.</p> <p>Finally, please also describe the terms of the proposed joint powers authority now under discussion, as described in the attached AP news article and provide a copy of the draft JPA.</p> <p>Please describe how MWD will allocate its WaterFix costs between and among its member agencies, under both these scenarios: a) MWD ultimately loses on the SWP cost-allocation issue (i.e., inclusion of SWP costs in the wheeling rate) in the currently pending litigation; or b) MWD ultimately prevails on the SWP cost-allocation issue in the litigation. It is important that MWD's member agencies, their ratepayers and public have a very clear understanding of these potential outcomes and associated cost implications - win or lose.</p>	<p>Not addressed. White paper No. 3 listed assumptions on which its financial analysis is based, without any information supporting the assumptions or even assessing a range of potential outcomes.</p> <p>No documents (draft or otherwise) on cost allocation agreement, financial funding arrangements have been provided. While the U.S. Bureau of Reclamation made clear that it will not participate financially to address the \$4 billion funding gap Dr. Sunding identified and which has not been disputed by MWD, MWD continues to assume CVP contractors will participate at 45 percent and thus cover the \$4 billion funding gap.</p> <p>Given MWD is proposing to vote on the project based on the assumptions it has made, it is imperative that it conduct an assessment of WaterFix feasibility assuming a range of CVP contractors' participation (20 - 45 percent); similarly, SWP contractors' ability and willingness to absorb up to 80 percent of WaterFix cost should be assessed.</p> <p>As requested by Water Authority Board members, MWD must determine if there a point at which WaterFix no longer is feasible due to lack of contractors' participation. MWD has suggested that it may be willing to assume other contractors' share of WaterFix and receive the associated supply benefit based on a "costs follow water" methodology. As part of its risk assessment, MWD must also provide an analysis of how much more water its member agencies need from WaterFix and whether MWD itself has adequate put capacity to store any additional water that may actually be needed by individual member agencies that want MWD to buy additional shares of the project in order to meet their water supply needs.</p> <p>MWD has not yet disclosed the terms of the amended or new SWP contracts, and/or the new finance Joint Powers Authority Agreement or whether they include "step-up" provisions that protect bondholders but could significantly increase MWD's financial liability and risk exposure as a result of the project.</p> <p>Additionally, the cost analysis in white paper No. 3 indicates MWD plans to recover the WaterFix cost via its transportation rates. Please confirm that is staff's intent.</p>

Water Authority Delegates' Question (6/9/2017)	Status of MWD's Response & WA Follow-up Question
<p>Taxing Authority. Please describe the assumptions and/or agreements made or proposed regarding the applicability of MWD's taxing authority as related to the expanded State Water Project costs associated with WaterFix. We understand past comments by the General Manager that the current plan is to use the existing (highly volumetric) rate structure to recover these costs; does MWD believe it has the legal authority to recover all or some of these additional costs via a parcel tax if necessary for the fiscal integrity of MWD? Under the proposed agreements, will the State have the right to require MWD to place all or part of these costs on the tax roll on the same terms as the existing SWP contract?</p>	<p>Not addressed. We renew our request for information.</p>



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June 9, 2017

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

MEMBER AGENCIES

Cajalmar
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
Oliver-Hahn
Municipal Water District
Oray 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
Yuma
Municipal Water District

OTHER REPRESENTATIVE

County of San Diego

RE: California WaterFix Board Review – Request for Adequate Time to Review and Distribute Information

Chairman Record and Members of the Board,

We are pleased to learn that MWD staff is now planning to provide written board reports on the proposed physical infrastructure, operations, financing plan and cost allocations of the California WaterFix. However, we are troubled by the extremely short time schedule for review of this information by the public, member agencies and MWD's Board of Directors. The Water Authority Board was assured by Resources Secretary Laird and his staff that it would not be asked to support the project without having been provided a financing plan and other information necessary to have a complete understanding of project benefits and costs it would be expected to pay. Obviously, this commitment must include a reasonable amount of time after all the information is provided so that it can be thoroughly analyzed by our staff and presented to the Water Authority's Board of Directors for its review. Included with this letter is a copy of the Delta Policy Principles adopted by our Board (Attachment 1).

MWD Staff's proposed schedule allows only one week from the time the finance plan and cost allocation information is made available (August 14), to the date of the board workshop (August 22), and then less than 30 days before the MWD Board action proposed to be taken on September 12. This schedule does not provide sufficient time for MWD's member agencies and sub-agencies to properly analyze the data provided, inform the public, or seek input from their governing boards as to the project. Given the complexity and enormous price tag of the project at more than \$15 billion, we request that the schedule be extended by at least one month, for MWD Board action no earlier than the October Board meeting. There is no urgency we are aware of dictating an MWD Board vote in September, on such a tight schedule.

A list of the issues we request be covered in the MWD Board memos follows, consistent with the questions and concerns our Board members have had and previously expressed about the project. We hope to be in a position to answer our Board members' questions after the MWD white papers and workshop.

Sincerely,

Michael T. Hogan
Director

Keith Lewinger
Director

Elsa Saxod
Director

Fern Steiner
Director

cc: Water Authority Board of Directors

Attachments

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

Issues to be Addressed Re California WaterFix

1. **Supply benefit.** Please describe all the assumptions made to calculate projected supply benefits of WaterFix as identified in the MWD Board reports and any underlying planning documents. At times, MWD has stated that WaterFix will not produce more water per se, but that it is expected to stabilize the supply decline MWD staff is projecting as a result of future environmental restrictions. Please include all the specific assumptions MWD staff utilizes about the scope of anticipated environmental restrictions affecting the water supply from a completed project. We note that in its 2015 Integrated Resources Plan, MWD states that the supply benefit is 376,000 acre-feet, while in its 2015 Urban Water Management Plan MWD states that the supply benefit is 248,000 acre-feet. In his draft Economic Analysis of WaterFix, Dr. David Sunding described the water supply benefit as 291,000 acre-feet.
2. **Status and timing of legal proceedings.** Please describe the status and anticipated timing of resolution of the State Board proceedings to change the point of diversion and Bay Delta Plan update, and court approval of the Delta Stewardship Council amendments addressing the court's prior invalidation of the Delta Plan. How might these and any other pending and anticipated legal proceedings impact the implementation schedule, projected yield and cost of WaterFix?
3. **Financing plan and cost allocations.** Please describe in detail how WaterFix costs and benefits will be allocated including a) as between state and federal contractors; b) as between state contractors; c) as between MWD member agencies.

Please provide copies of any and all draft documentation confirming these cost allocations and commitments to pay them, along with any guarantee, "step up" or other agreements or provisions that could result in any party's share being increased by the failure on the part of any other party to agree to pay or pay its assumed or allocated share of costs. Please address specifically how the \$4 billion Dr. David Sunding identified as being necessary for Central Valley Project (CVP) participation has been addressed, including how it impacts, if at all, the cost allocation percentage as between CVP and SWP contractors. Finally, please also describe the terms of the proposed joint powers authority now under discussion, as described in the attached AP news [article](#) and provide a copy of the draft JPA¹.

Please describe how MWD will allocate its WaterFix costs between and among its member agencies, under both these scenarios: a) MWD ultimately loses on the SWP cost-allocation issue (i.e., inclusion of SWP costs in the wheeling rate) in the currently pending litigation; or b) MWD ultimately prevails on the SWP cost-allocation issue in the litigation. It is important that MWD's member agencies, their ratepayers and public have a very clear understanding of these potential outcomes and associated cost implications - win or lose.

4. **Taxing Authority.** Please describe the assumptions and/or agreements made or proposed regarding the applicability of MWD's taxing authority as related to the expanded State Water Project costs associated with WaterFix. We understand past comments by the General Manager that the current plan is to use the existing (highly volumetric) rate structure to recover these costs; does MWD believe it has the legal authority to recover all or some of these additional costs via a parcel tax if necessary for the fiscal integrity of MWD? Under the proposed agreements, will the State have the right to require MWD to place all or part of these costs on the tax roll on the same terms as the existing SWP contract?

¹ The news report is included as Attachment A.

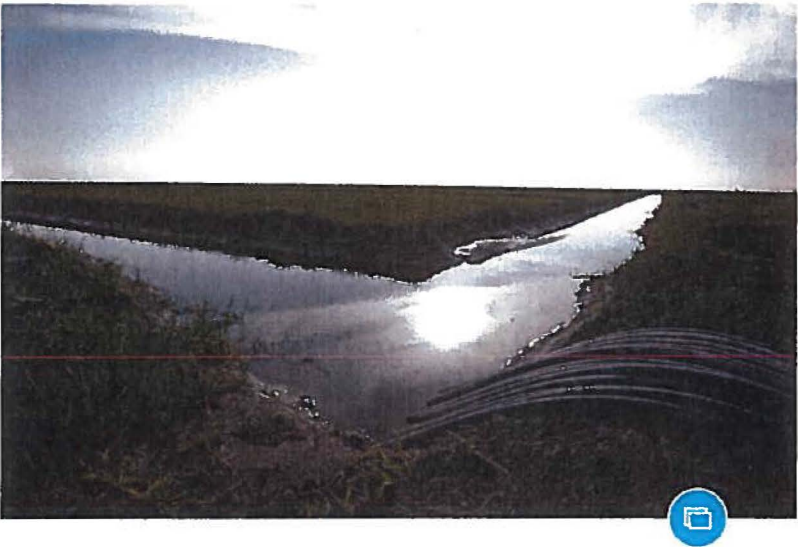
APNewsBreak: Water agencies push bigger role in tunnel plan

By ELLEN KNICKMEYER
and SCOTT SMITH
Jun. 02, 2017

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FRESNO, Calif. (AP) — California’s powerful regional water districts are working alongside Gov. Jerry Brown to take on more responsibility for designing, building and arranging financing for a \$15.7 billion twin tunnel project that would ship water southward from Northern California as they push to finally close the deal on the controversial plan, two officials working closely on the project told The Associated Press.

Talks among Brown’s office, state agencies and the water contractors have been under way since May that could lessen the state’s hands-on role in one of California’s biggest water projects in decades, according to the two sources, one a senior official involved in the project, the other an employee working closely on the project.

AP

Some water district officials say California water agencies in what would speed up the mega-project California's existing north-south

Critics who oppose the tunnels water districts to cut corners on environment.

Asked for comment, state spokes were under way between the state regional water agencies "on the build WaterFix," which is the new proposed tunnels.

"Details have not been finalized, but our shared goal is a structure that assures the best design and construction talent and protects state oversight," Vogel said. Brown's press office did not immediately respond to an email seeking comment.

Brown long has pushed projects that would streamline the delivery of water from the delta of Northern California's biggest rivers, the Sacramento and San Joaquin, southward to water districts selling water to cities and farms, mostly in Central and Southern California. The current plan calls for 35 miles (55 kilometers) of two 40-foot (12-meter) high tunnels.

The group of water agencies, which includes the biggest urban and agricultural water suppliers in the United States, has engaged in years of talks on the tunnels, but the current proposal as described by the two people involved would give the agencies a substantially bigger role in shaping the final outcome.

"The water contractors don't believe DWR is capable of delivering a \$15 billion project," said the employee working on the project.

The water agencies forming the JPA for financing and construction is something that they think makes sense, said the senior official. He said the state would still play a role.

Patricia Schifferle, an environmental consultant who opposes the proposed

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"It's an outrageous takeover of a public process and public resources," Schifferle said.

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This spring, Brown's administration has pushed especially hard for the water districts, which want the tunnels in theory but fear the costs, to commit to a plan for paying for the project so construction can get under way before Brown leaves office next year.

Many see it as a legacy project in the vein of Brown's father, Gov. Pat Brown, who built much of California's existing water infrastructure, and Brown has mocked critics, telling an audience in 2015: "Until you've put a million hours into it, shut up, because you don't know what the hell you're talking about."

Advocates for the tunnels say they would provide more reliable water to the 25 million Californians to the south who get some or all of their water from California's north-south water delivery systems. Opponents say the project would harm the delta and the San Francisco Bay, and the communities and already struggling native species that get their water there.

Delta residents have accused the state Department of Water Resources of already delegating too much decision-making to the water contractors that would benefit from them financially.

The aim is for water districts that would take part in the tunnels project, mainly in Central and Southern California, to make a final decision by September if they are on board with the project or not, the official said. Water districts then would sign an agreement with the state giving them a greater role in financing, design and construction. Officials would break ground on the years-long project in summer of 2018, assuming state and federal regulators give all the needed approvals.

Tom Birmingham, general manager for Fresno-based Westlands Water District, one of the water agencies in the talks, denied that the proposal under consideration now would give water agencies a bigger role in the design and building of the tunnels.

But he acknowledged water districts have concerns about how well the state DWR can take on the complex tunnels project given other pressing jobs, including repairing two dam spillways that ruptured this winter at one of the state's most vital water reservoirs.

"It's not a question of DWR not being able to get it done," Birmingham said. "It's a question of how are we able to move this forward."

Knickmeyer reported from San Francisco.

San Diego County Water Authority Delta Policy Principles

The San Diego County Water Authority Board of Directors supports a Bay Delta solution that will meet the co-equal goals and provide San Diego County with a reliable, high-quality supply of affordable, imported water consistent with the Water Authority's Urban Water Management Plan and Regional Facilities Optimization and Master Plan. The adopted policy principles will guide staff in evaluating projects and actions concerning the Bay-Delta.

Water Supply Reliability

- Continue to support the co-equal goals of water supply reliability and environmental restoration embodied in the 2009 Delta bill package.
- Support deliberative processes that are designed to ensure a meaningful dialogue with all stakeholders in order to reduce future conflicts and challenges to implementation of a Bay Delta solution.
- Provide regulatory certainty and predictable supplies to help meet California's water needs in the long-term.
- Encourage a Bay Delta solution that acknowledges, integrates and supports the development of water resources at the local level including water use efficiency, seawater and brackish water desalination, groundwater storage and conjunctive use, and recycled water including direct and indirect potable reuse.
- Improve the ability of water-users to divert water from the Delta during wet periods, when impacts on fish and ecosystem are lower and water quality is higher.
- Encourage the development of a statewide water transfer market that will improve water management.
- Support improved coordination of Central Valley Project and State Water Project (SWP) operations.

Ecosystem Restoration

- Restore the Bay-Delta ecosystem consistent with the requirements established under the state Natural Community Conservation Plan and the federal Habitat Conservation Plan, taking into account all factors that have degraded Bay-Delta habitat and wildlife.
- Work with all stakeholders to ensure a meaningful dialogue and that ecosystem restoration issues are addressed in an open and transparent process.

Finance and Funding

- Encourage and support a Bay Delta solution and facilities that are cost-effective when compared with other water supply development options for meeting Southern California's water needs.
- Require the total cost of any Bay Delta solution be identified before financing and funding decisions are made. The total cost must include the cost of facilities, mitigation and required or negotiated ecosystem restoration.
- Allocate costs of the Bay-Delta solution to stakeholders in proportion to benefits they receive.

- Seek and support independent financial analyses of Bay-Delta solution including the ability of all parties to pay their proportional costs.
- Require a firm commitment and funding stream by all parties to pay for the fixed costs associated with the proportional benefits they will receive from a Bay Delta solution, through take-or-pay contracts or legal equivalent.
- Condition financial support on provisions allowing access to any water conveyance or storage facilities that are included in the Bay Delta solution.
- Support the use of public funds to support specific projects and actions with identified costs that protect and restore the environment and provide broad-based public benefits.
- Oppose water user fees to fund ecosystem restoration and other public purpose, non-water-supply improvements in the Delta that benefit the public at large.

Facilities

- Require independent technical analysis of proposed key elements of the Bay-Delta solution, including forecasting future urban and agricultural demands and size and cost of any proposed conveyance facility, to ensure the solution realistically matches statewide needs.
- Support “right-sized” facilities to match firm commitments to pay for the Bay Delta solution.
- Allow access to all SWP facilities to facilitate water transfers.

Governance

- Support continued state ownership and operation of the SWP as a public resource.
- Support improved efficiency and transparency of all SWP operations.
- Oppose any transfer of operational control of the SWP or any of its facilities to MWD, the State Water Project Contractors, Central Valley Project Contractors, the State and Federal Contractors Water Agency, any entity comprised of MWD or other water project contractors, or any other special interest group.