



San Diego County Water Authority

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

December 8, 2014

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

- 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

RE: Board Memo 8-2: Approve adjustments to Metropolitan's Water Supply Allocation Plan --
REQUEST TO DEFER ACTION PENDING A BOARD WORKSHOP or in the alternative,
OPPOSE

Chair Record and Members of the Board:

We write to request that the board defer action on the recommended adjustments to MWD's Water Supply Allocation Plan (Allocation Plan) detailed in Board Memo 8-2 pending an emergency board workshop to review a number of fiscal and policy issues discussed below; should the board decline to defer action to accommodate scheduling of a Board workshop, then we **OPPOSE** the recommended adjustments to the Allocation Plan.

Background: The Water Authority's delegates wrote to this Board on September 9, 2011, regarding adjustments that were then being proposed to the Allocation Plan (a copy of the September 9 letter is attached for ease of reference). Although our delegates voted to support the Allocation Plan adopted in 2008, our 2011 letter noted that the Allocation Plan was based on policy direction given by the Board in 1999. Thus, in 2011, it had already been more than 10 years since this Board of Directors had considered the policies upon which the Allocation Plan is based. We noted in 2011 that MWD's water supply and fiscal conditions had changed dramatically, but that the associated board policies had not been reviewed or updated. Now, three more years have passed without Board deliberation of these vital policies. Instead, we are presented with a list of meetings MWD staff held with member agency staff and are now advised of their conclusory recommendations, while there may be benefits for staff to discuss allocation details with member agency staff, the board must ensure that the recommendations are consistent with board policy; no data or analyses supporting how these recommendations are consistent with the MWD Act have been presented to this board.

OTHER REPRESENTATIVE

- County of San Diego

As stated in our 2011 letter, we question whether a "need"-based approach that does not even require member agencies to achieve statutorily mandated retail conservation targets sends the right signal. Under the MWD Act, we do not believe that the Allocation Plan is enforceable in the absence of a declared water supply emergency or in the event a member agency orders a water

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supply within its preferential rights. Board Memo 8-2 does not reference the statutory authority pursuant to which it is adopted (we assume footnote 1 on page 1 of the Board Memo is not intended as the basis of the proposed MWD board action). MWD Act Section 135 establishes the member agency's respective entitlement to MWD water. It does not contain any additional authority for allocation of water.

The time has long since passed for this Board to review all of the relevant data and modeling that may (or may not) support the policies, assumptions and recommendations for the allocation of water during times of shortage. Consideration by the member agency staff and managers is no substitute for board deliberation. The Board must also consider how the Allocation Plan relates to other board policies and principles and legal requirements.

Separate Allocation for drought-impacted groundwater basins: We oppose adding a separate allocation for drought-impacted groundwater basins because we believe it would necessarily drive MWD into an even higher stage of shortage than currently exists and impede its ability to meet the ordinary demands and requirements of all Southern California water consumers. Instead, the needs of MWD water consumers located in these areas should be factored in to whatever allocation is made to all MWD water consumers.

The board memo confuses issues having to do with water supply allocation during times of shortage with issues associated with long-term planning to meet the replenishment needs of groundwater agencies. We don't believe any studies or consultation with MWD staff is needed to "verify" the need for groundwater replenishment; indeed, if MWD can find a groundwater basin in Southern California (or California generally) that is not in need of replenishment at this time, we would be surprised. But MWD is not charged with meeting the needs of groundwater basins; rather, it is charged with utilizing its available water supplies during times of shortage to meet the legal demand for water by its member agencies, or, take action to distribute water under Section 350 of the Water Code.

Replacing Allocation Plan penalty rates with an "Allocation Surcharge": As noted earlier, it is unclear what statutory authority MWD is relying upon in Board Memo 8-2. In any case, we do not believe that sufficient information has been provided to determine whether or not the penalty or "surcharge" meets legal requirements. We believe the current penalty pricing provision, as well as the proposed surcharge, are inconsistent with Section 135 to the extent that any member agency is assessed a penalty for an amount of water that is within its preferential right.

It is also paradoxical to eliminate the Tier Two "pricing signal," as the Board did last month in adopting changes to the "Purchase Orders," and at the same time declare the Allocation Surcharge is needed to send a "pricing signal." MWD staff and legal counsel need to go back to the drawing board on all of these policies and legal requirements so that MWD's member agencies and Southland water consumers may have more certainty about what imported water supplies they may count on receiving from MWD during times of shortage. We have expressed concerns separately regarding the merits of the turf removal funding (see Board Letter of this

date RE Board Memo 8-1).

Request to give staff additional discretion to allocate water: Board Memo 8-2 recommends giving staff a wide range of discretion to adjust water supplies to be allocated to member agencies.ⁱ We do not support staff having discretion to determine on an ad hoc or case-by-case basis how water supplies should be allocated during shortages.

The data contained in Attachment 2 RE 2014 WSAP Member Agency Base Period and Allocation Year Data is incorrect: Water Authority staff has previously requested correction of this data to eliminate the double-counting of its Colorado River "local supplies" as also being "MWD Purchases." This reporting is not consistent with the manner in which the local water supplies of all other MWD member agencies have been accounted for.

We urge the Board to defer staff's recommendations, and instead, direct staff to schedule a board workshop to discuss changed circumstances and board policies contained in the Water Supply and Drought Management and Allocation Plans. We welcome the opportunity to work with you in preparing an agenda and approach for the Board's consideration.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Fern Steiner
Director



Yen C. Tu
Director

Attachments:

1. Water Authority's Letter to MWD on Water Supply Allocation Plan Adjustment, dated September 9, 2011
2. Water Authority's Letter to MWD on Conservation, dated December 8, 2014

ⁱ Staff recommends (1) that it be allowed to establish a "consultation process" to meet with member and retail agencies regarding adjustments to the Allocation Plan Base Period and only report adjustments to the Board ex post facto; (2) to replace current defined methodology for calculating conservation demand hardening credits with an alternative methodology based on "observed" reductions and adding a new credit for "the member agency's dependence on MWD," which has nothing to do with demand hardening; and (3) a "consultation" process in which staff will decide how much water may be allocated to the "needs of groundwater basins," and including an "appeals process" in which the Board may vote to allocate additional supplies. Aside from creating even more confusion about how much water any agency may obtain from MWD during a time of shortage, MWD does not have staff available that is qualified to make the various determinations about meeting the "needs of groundwater basins," let alone deciding what is a "severe and/or inequitable financial impact."



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September 9, 2011

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

MEMBER AGENCIES

Carlsbad
Municipal Water District

City of Del Mar

City of Escondido

City of National City

City of Oceanside

City of Poway

City of San Diego

Fallbrook
Public Utility District

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Valley Center
Municipal Water District

Vista Irrigation District

Yuima
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OTHER REPRESENTATIVE

County of San Diego

Re: Board Memo 8-3 –
Adjustments to Metropolitan's Water Supply Allocation Plan Formula
REQUEST TO DEFER ACTION PENDING BOARD WORKSHOP

Dear Chairman Foley and Board Members:

We write to request that the board defer taking action on adjustments to the Water Supply Allocation Plan formula as proposed in Board Memo 8-3. Instead, for the reasons described below, we request that the Chairman schedule a workshop to review board policies relating to the Water Surplus and Drought Management Plan (WSDM Plan) and Water Supply Allocation Plan (Water Supply Allocation Plan or Plan).

The Water Supply Allocation Plan was first adopted by the board in February 2008 in response to water supply challenges facing MWD and its service area during 2007, which were then described as raising – for the first time – the possibility that MWD might not have access to the water supplies necessary to meet total firm demands. The 2008 staff recommendation for the Water Supply Allocation Plan states that it was based on board principles that provided policy direction, contained in the Water Surplus and Drought Management Plan (WSDM Plan) adopted by the board in 1999. *Thus, it has been more than 10 years since the board of directors considered the policies upon which MWD's Water Supply Allocation Plan is based.* The WSDM Plan itself states that it was intended to be a 10-year plan. The WSDM Plan should have been scheduled for board review in 2009.

The board's "Guiding Principle," "Supporting Principles" and "Implementation Goals" which are the policy basis of the WSDM plan are not mentioned in Board Memo 8-3. They are included as Attachment 1 to this letter for ease of reference. The board should review and refine these principles and policies in light of the substantially changed conditions that now exist, including, but not limited to mandatory 20% retail water conservation, MWD's declining sales and a water rate environment in which conservation and local water supply alternatives have become cost-effective.

There are significant policy issues associated with how MWD allocates water during times of shortage. For example, does a "need"-based approach that does not require member agencies to achieve statutory retail conservation targets send the right message (and is it even consistent

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Chairman Foley and Board Members

September 9, 2011

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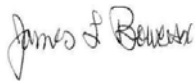
with state law)? There are many who believe that a “need”-based approach actually inhibits, rather than supports sound water supply management because it appears to punish rather than reward those who make local investments to improve water supply reliability. Many retail water suppliers simply want to know how much water they can count on receiving from MWD’s imported water sources during times of shortage so that they may plan these local investments more efficiently. Encouraging such investment at the local level would also reduce the water supply investments MWD would be required to make and thus lower wholesale water rates. There is also a question whether the Water Supply Allocation Plan is enforceable in the absence of a declared water supply emergency in the event preferential rights are asserted by one or more member agencies.

As noted above, the current methodology was developed in response to conditions that were then viewed as extraordinary. But what was then “extraordinary” has become today’s water supply planning reality. Supplies will continue to be constrained for the foreseeable future and water rates will continue to escalate. Although the Water Authority supported the need-based approach over the past few years with the understanding that it was a *transitional plan* to allow retail agencies to responsibly plan for the future, the MWD board must now consider the long-term policy implications of the Water Supply Allocation Plan in light of what we now know are water supply planning realities.

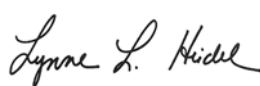
Although the Board Memo describes 12 meetings with the member agency managers, this is the first time the Board will have to consider the policy issues contained in the WSDM and WSAP plans. While it is certainly appropriate for staff to consult with the member agency managers as part of its due diligence in making recommendations to the board – and we do appreciate their hard work in updating the technical details of the formula – the member agency managers’ review process is no substitute for the board’s consideration and deliberation of the many policy issues associated with MWD water shortage allocations

We urge the board to defer staff’s recommendations, and instead, direct staff to schedule a board workshop to discuss issues related to the WSDM and Water Supply Allocation plans. We would welcome the opportunity to work with you and the rest of the board in preparing an agenda of issues for the board’s deliberation.

Sincerely,



Jim Bowersox
Director



Lynne Heidel
Director



Keith Lewinger
Director



Fern Steiner
Director

cc: MWD Board of Directors
SDCWA Board of Directors

Attachment 1: “Guiding Principle,” “Supporting Principles” and “Implementation Goals” (1999 WSDM Plan)

WSDM PRINCIPLES AND IMPLEMENTATION GOALS

The central effort in developing the WSDM Plan was a participatory process involving Metropolitan and its member agencies. Metropolitan staff and member agency representatives coordinated the Plan's development during a series of meetings of the Rate Refinement Team and the Integrated Resources Planning Workgroup. To lay a foundation for the WSDM Plan, participants in the Rate Refinement Process developed a set of "WSDM Principles and Implementation Goals."

Guiding Principle

- Metropolitan will encourage storage of water during periods of surplus and work jointly with its Member Agencies to minimize the impacts of water shortages on the region's retail consumers and economy during periods of shortage.

Supporting Principles

- Maintain an ongoing coordinated effort among Metropolitan and its Member Agencies to encourage efficient water use and cost-effective local resource programs and to inform the public on water supply and reliability issues.
- Encourage local and regional storage during periods of surplus and use of storage during periods of shortage.
- Manage and operate Metropolitan's regional storage and delivery system in coordination with local facilities to capture and store surplus water in local groundwater and surface reservoirs.
- Arrange for secure sources of additional water from outside the region for use during periods of shortage.
- Call upon sources of additional water from outside the region and water stored locally to meet the needs of consumers and protect the economy during periods of shortage.

WSDM Plan Implementation Goals

- Avoid mandatory import water allocations to the extent practicable.
- Equitably allocate imported water on the basis of agencies' needs.

Considerations to create an equitable allocation of imported water may include:

- Impact on retail consumers and economy
- Reclamation/Recycling
- Conservation
- Population and economic growth
- Investment in local resources
- Change and/or loss of local supply

- Participation in Metropolitan's Non-firm (interruptible) programs
 - Investment in Metropolitan's facilities.
- Encourage storage of surplus supplies to mitigate shortages and improve water quality.



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Municipal Water District

**OTHER
REPRESENTATIVE**

County of San Diego

RE: Board Memo 8-1: Authorize: (1) increase of \$40 million for conservation incentives and (2) increase to contract authority of the five-year agreement with Electric and Gas Industries Association for administration of Metropolitan's regional conservation rebate program – **OPPOSE**

Chair Record and Members of the Board:

The Water Authority and its member agencies strongly support and have an outstanding record of leadership in water conservation planning, programs and implementation. Through our collective efforts, the San Diego region's per capita water use has been reduced by almost 25 percent since 2007. In response to the current drought, we launched our *When in Drought, Save Every Day, Every Way* campaign in order to further increase public awareness. As a result of these efforts, a recent poll shows that more than 80 percent of San Diegans now believe saving water is a civic duty. While we continue to support the Governor and State Board's call to increase conservation, we must oppose staff's recommendation due to the manner in which ratepayer dollars are being spent and the absence of any accountability or demonstration that the expenditure of these funds is actually achieving the intended purpose.

Staff's recommendation is to spend five times more than its adopted budget on conservation programs in this fiscal year alone (leaving no conservation funding for the following fiscal year).ⁱ Funding would come from money MWD has over-collected from ratepayers over the last two fiscal years. This money could have been invested directly at the local level, on water conservation and supply programs that would not only alleviate the impacts of drought, but also provide long term water supply benefits. Instead, MWD is proposing to spend a significant portion of this money, over-collected from all ratepayers, on turf replacement on commercial properties including private golf courses. At MWD's \$2 per square foot rebate, this costs MWD ratepayers more than \$1,500 per acre-foot.

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Against this backdrop, we find it ironic that the MWD board just last month adopted a purchase order policy that allows MWD member agencies to increase purchases of low priced Tier 1 water (and avoid the higher Tier 2 rate on an annual basis as costs are incurred), completely eliminating the pricing signal Tier 2 was originally intended to send. MWD's "pricing signals" and behaviors - including this water conservation program - are completely upside down and inconsistent.

MWD is simply burning through ratepayer dollars irresponsibly in the name of water conservation. It could accomplish much more by structuring its rates according to its cost of service and sending true price signals about the value of water. At a minimum, before approving any further funding, MWD should redesign this program to place a cap on the amount of rebate applicants may receive so that conservation rebates are possible involving the general public and a wider range of applicants.

Given the proposed unprecedented level of spending associated with money being paid to private business, we request the General Auditor conduct a financial audit of all rebate programs, starting with a specific emphasis on the turf removal program. For the same reason, we request that the contract authority for EGIA be extended only to match the biennial budget, rather than through 2017. We believe this is absolutely essential to ensure that the MWD board of directors is being a responsible steward of ratepayer dollars.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Fern Steiner
Director



Yen C. Tu
Director

ⁱ The staff letter states that the current proposed increase is "intended to address immediate issues in the conservation program for the current fiscal year." MWD's adopted biennial budget for conservation for fiscal years 2014/15 and 2015/16 was \$40 million. With the addition of \$20 million in February and this request to add another \$40 million, the conservation budget for the current year alone would total \$100 million.