



January 10, 2021

Gloria Gray, Chairwoman
Members 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: Board Memo 7-1 – Approve and authorize the distribution of Appendix A for use in the issuance and remarketing of Metropolitan’s Bonds – OPPOSE

Dear Chairwoman Gray and Board Members:

This letter will provide you with our principal concerns and other comments on the 12/22/20 redline draft Appendix A.

Principal Concerns

Our overarching concern remains, that Appendix A as drafted and taken as a whole, does not fairly describe the factors driving the reduced demand for MWD water and the financial impacts on MWD.

Since our last letter of May 10, 2020,¹ MWD's preliminary 2020 Urban Water Management Plan (UWMP) data has been provided and confirms the sales trend we have been concerned about for several years. Our concerns are exacerbated by the current IRP process which has still not completed the first step of identifying the projected demand for supplemental water from MWD; and, 10-year rate projections that do not include estimated costs of the two major projects MWD is relying on for its long term water supply reliability.

In response to our request that staff prepare a long range finance plan, we have been told that the 10-year rate projections are intended to serve as MWD’s long range finance plan. This means we are doing our “long range” financial planning on a two-year, budget-to-budget rate cycle. Recently, our rate review process which had earlier promised to address these long term planning issues in the context of an updated Integrated Resources Plan (IRP) may be limited to a discussion of demand management costs only (or at least for the next several months), which represent less than 3% of MWD costs. In short, we are simply not grappling with the realities we all thought were important and began to discuss last October at our retreat.

Here are some of the statements in Appendix A that are related to this and are, we believe inaccurate or misleading in the context of the overall disclosures and statements

¹ Copies of our January 12 and May 10, 2020 letters on the draft Appendix A have previously been provided and are incorporated by reference, including comments on each and every issue not previously addressed.

contained in the Appendix A:

- *A-5. Water transactions.* While the COVID-19 pandemic may very well impact MWD water sales, there is no reason to believe that MWD's delivery of the Water Authority's QSA water will be impacted by the pandemic.
- *A-12. Local Water Supplies.* The description does not account for known facts regarding development of local water supplies and includes 2015 IRP numbers and "targets" that are substantially outdated, all of which has been the subject of discussion beginning at the Board's October retreat, and reinforced during the 2020 IRP update process by many directors and member agencies.
- *A-66. Summary of Water Transactions and Revenues.* The schedule improperly combines water sales and transportation services—apples and oranges—and then computes an "average dollars per 1,000 gallons," which is a number with no meaning in the context of water or transportation cost.
- *A-66. Ten Largest Water Customers.* The schedule is misleading for the same reasons. The Water Authority is not MWD's largest "water" customer as indicated; correctly stated, it is MWD's largest user of MWD transportation service and its eighth largest water customer. Combining the two in a single calculation does not provide transparency of MWD's water sales and services; at a minimum the chart should be titled Ten Largest Customers and break out water sales and transportation services provided to the Water Authority.
- *A-67. Water Stewardship Rate.* The Court of Appeal has rejected MWD's contention that, "[a]ll users...benefit from avoided system infrastructure costs through conservation and local resources development, and from the system capacity made available by investments in demand management programs like Metropolitan's Conservation Credits Program and Local Resources Program." The Water Stewardship Rate was not invalidated as a charge on MWD water purchases, but was invalidated as a transportation charge. See Appendix A redline draft at p. A-79, fourth full paragraph. Reference to "transactions" again, obscures this important distinction.
- *A-81. Offsetting Benefits.* We disagree with the statement that only the stayed 2018 case had previously included an offsetting benefits claim, however, do not dispute that this is MWD's contention in the litigation on an issue that is yet to be tried. We disagree with a number of MWD's characterizations relating to the litigation, but have only addressed here those in which the Court has already made specific rulings that are inconsistent with MWD's statements, e.g., Water Stewardship Rate, described above.

Other Comments and Questions

- A-6. *General Manager's retirement.* While the General Manager (GM)'s retirement may coincide with the hiring of a successor, there has been no board determination to that effect. The GM submitted his resignation which was accepted by the Board, scheduled to occur at the end of 2020. Due to delays in the GM search process, the timeline has been delayed; however, there has not been any determination by the Board one way or the other as to when Mr. Kightlinger will depart. Without benefit of reviewing Mr. Kightlinger's employment contract, it is unknown what impact if any might result from describing an agreement that does not exist that he will remain the GM until his successor is hired.
- A-12. *Water Conservation.* Please describe how this explanation incorporates the per capita reduction reported in the recent IRP Retrospective Draft, representing a 500,000 acre-foot reduction in demand.
- A-25. *Exchange Agreement Price.* Thank you for making edits requested previously regarding the fact that MWD is not selling water at a discount to the Water Authority when it meets its delivery commitment under the Exchange Agreement.
- A-27. *IID's CEQA lawsuit.* We trust you will update the language to reflect the Court's decision on technical grounds that IID failed to exhaust its administrative remedies but that it also found that MWD's assumption of California's DCP obligation could not be deemed negligible so as to qualify for the CEQA exemption MWD relied on.
- A-36. *Bard Water District Seasonal Fallowing Program.* Please provide data for 2021 cost and acre feet in place of the 2020 data being deleted.
- A-38. *Storage Capacity and Water in Storage.* Staff is deleting the projected operation of storage in terms of drawing on storage in seven of about 10 years and contributing to storage in about three out of 10 years. Please provide the changed projections showing projected contributions to and drawdowns from storage based on projected demands.
- A-43. *Regional Water Resources.* The single greatest and most notable change in regional water resources over the past five and 10 years, having the single greatest impact on the reduced demand for MWD's supplemental water supply, is the more than 300,000 acre feet of water supply developed by the Water Authority—both QSA and seawater desalination, neither of which is mentioned in the description of regional water supply. This supply is delivered year in and year out, unlike the LAA supply which varies, as described in detail in the draft Appendix A, from 141,866 in fiscal year 2018-19 to a high of 332,528 in fiscal year 2015-16. Other MWD agencies and sub-agencies are also reducing demand on MWD, consistent with California law and water policy, which also is not adequately addressed in the draft Appendix A.

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- A-48. *Regional Recycled Water Program (RRWP)*. Thank you for including disclosure that MWD's financial projections do not include future capital costs of the RRWP. Since you have included reference to the \$6 million payment by Southern Nevada Water Authority (SNWA) for planning costs, we recommend you also include disclosure of the total estimated planning costs, estimated capital cost of the RRWP and the fact that SNWA's payment must be refunded if the parties do not move forward with an agreement for the RRWP.

We will as always appreciate your written response to our comments. We look forward to continuing to work with our fellow board members on the IRP and rate review processes and hope to find ourselves comfortable in supporting future bond offerings by MWD.

Sincerely,



Jerry Butkiewicz
Director



S. Gail Goldberg
Director



Michael T. Hogan
Director



Tim Smith
Director

cc: Jeff Kightlinger, General Manager
Water Authority Board of Directors