

December 30, 2020

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

Barry Pressman, Chair, Integrated Resources Plan Special Committee

Members of the Board

Metropolitan Water District of Southern California

P.O. Box 54153

Los Angeles, CA 90054-0153

RE: Integrated Resources Plan Board Issues

Dear Chair Pressman and Board Members:

Per Chair Pressman's request at the December 15 Integrated Resources Plan (IRP) Special Committee meeting, we provide the following comments, questions and requests for board discussion in January and later IRP meetings, focusing on what we believe are the major issues (not technical detail). Water Authority staff will be providing detailed updated comments on the most recent preliminary analysis assumptions and retrospective of the 2015 IRP under separate cover.

A. Major policy questions proposed for Board discussion.

1. Should we continue using a "scenario planning" methodology for the 2020 IRP update, or instead, complete a first draft using the same process as in the past (with a scenario planning exercise to follow if necessary)? Many board members have expressed continuing frustration and confusion over the scenario planning process selected by staff for the 2020 IRP update. At our December Committee meeting, staff explained for the first time that scenario planning represents a "policy shift," changing prior IRP single forecast planning to an approach that evaluates "a range of future conditions." Given that more than 3,700 potential scenarios were examined as part of the last IRP, it is difficult to understand how the prior process failed to account for a wide range of future conditions.¹ In any case, given that the use of scenario planning represents a policy shift, the board needs to understand how staff perceives the policy drivers and implications of the policy shift and then decide whether it is a policy change the board in fact wishes to make at this time.

2. Are MWD member agencies and sub-agencies willing to incur fixed charges in order to pay for MWD services? As board members well know, MWD has historically relied primarily on volumetric sales for revenue recovery, and there are strong reasons to continue this if possible (user pays). However, given the reduced average demand forecast for MWD water—700,000 AFY less since 2015²—the need to increase fixed charges could be *inevitable* unless MWD's budget and spending are reduced to reflect this lower demand, or, its water rates are increased substantially beyond

¹"Metropolitan deployed the robust decision-making approach to examine three questions: (1) how will the IRP resource mix perform under a wide range of plausible future conditions? (2) to which future conditions is the IRP resource mix most vulnerable? and (3) what conditions should Metropolitan monitor over time to adapt its IRP? The modeling study results suggested that the IRP resource mix could meet its goals in about two-thirds of the more than 3,700 futures examined." Draft Retrospective Report at page 38.

² See preliminary results for Urban Water Management Plan (UWMP) presented at MWD member agency managers' December meeting (Attachment 1).

those indicated in current 10-year projections.³ Logically, as local water supplies are developed, MWD's need to import water from the Bay Delta or elsewhere to provide supplemental water supplies should also be reduced. From a statewide vantage point, this is not a "problem," of course as it is consistent with state policy, but must also be accounted for in MWD's long term planning as water sales revenues are reduced.

The Board began a discussion of this mission critical issue at our October 2019 retreat, but it has not been taken up since that time in any meaningful way as part of the IRP process. Staff has identified the potential need to increase fixed charges only in the context of discussing "insurance" and demand management funding (discussed below). Updated modeling using real data is essential in order to establish a baseline for MWD projected water sales now, and over time, in order to assess how much water MWD may reasonably expect to sell within a range of anticipated and potential variables.

Some board members have focused on the importance of knowing how MWD will pay the bills, but only in the limited context of MWD's demand management costs, *which represent at best less than 5 percent of MWD's total revenue requirement. We believe it is imperative that the IRP and rate review processes consider all MWD revenue requirements and how they will be paid for.*

Answering this question will serve as an important cross-check to IRP choices to be made once key resource data, planning assumptions and analyses are available.

3. Do member agencies and sub-agencies need or want to pay for MWD "insurance" service?

Historically, MWD has served as a supplemental water supplier for its member agencies, planning via its IRP (since 1996) to have available for sale the amount of water expected to be needed to fill the "gap" between member agency local supplies and demand. Following adoption of the 2015 IRP, MWD staff began to characterize MWD's role as an "insurance provider."⁴ This change of service function was never defined or adopted by the board of directors and is not accounted for in MWD's cost of service; however, water supply service and water insurance are not the same thing and do not come at the same cost.

Later, staff described that the purpose of the "insurance" was to provide *100 percent redundancy for all retail water use throughout MWD's service area* by providing "protection of [all] existing local resources [from future risk]."⁵ Again, the Board did not define or approve this particular service being

³ We fully appreciate the important role of fixed charges in an overall cost of service strategy. However, the Water Authority's wheeling and exchange revenue currently serves as a significant source of fixed revenue for MWD, which we believe obviates the need for additional fixed charges unless and until this source of revenue is eliminated (MWD would have five-years' notice in any case pursuant to the terms of the agreement). On a separate note, we believe the board should also reconsider the suspension of tax limitation strategy employed in recent years, which has become increasingly risky as the dollar amounts have escalated. This has already been requested to be part of the rate review process.

⁴ For example, Brandon Goshi stated at the [June 14, 2016 IRP meeting](#): "So I'm going to summarize some of the key themes and discussions that you all took part in and the messages that I think we took out of that as staff for further discussion ... one was the concept of Metropolitan being a supplier of water, a backup to reliability and an insurance provider."

⁵ Page 4.5, [2015 IRP](#). The Water Authority does not believe it is prudent or affordable under any circumstances to plan and pay for 100 percent redundancy of all retail water sales in Southern California. That having been said, there may be a lower level of "insurance" some member agencies want and are willing to pay for.

offered or consider whether it is an affordable standard. By definition, water supplies to provide “insurance” against *risks not already accounted for in the IRP* are over and above the amount of water needed to meet projected “gap” demand, for which there is no anticipated buyer. This may be the intent of “scenario” planning, i.e., to meet unknown, unidentified risks which may be a reasonable exercise to engage in *after* the IRP baseline and range of anticipated future conditions and scenarios that can be identified have been analyzed.

Further, MWD’s diverse member agencies are unlikely to have the same need or desire to pay for MWD “insurance.” Given a robust IRP analysis and planned supporting water supply, some member agencies may not need or want to pay for any “insurance.” In fact, some might even prefer a lower level of reliability even before the cost of any “insurance” is taken into account (see discussion below about reliability objective). Some agencies, like the Water Authority, have already invested in highly reliable supplies and may have little need to pay more to “insure” these local supplies. The bottom line is that a “one-size-fits-all” approach does not work and may actually result in a plan that is unnecessarily and potentially prohibitively expensive for all agencies, which may lead to the necessity for the imposition of fixed charges to recover what would traditionally be considered stranded costs.

Finally, we believe that the issue of *preferential rights* must be analyzed in the context of long term planning options and “insurance.” Again, member agencies are different. Central Basin MWD, for example, is preferential rights “rich,” with no apparent need to make any further investments to protect its customers, many of whom are disadvantaged communities for whom the cost of water is a major concern long before consideration of water “insurance.” It may be useful to discuss preferential rights generally, so that all board members are operating on the same basic set of assumptions and information for purposes of long term planning, even while there may be differing views. Further, rather than continuing to increase costs for all member agencies, we would like to focus first on how MWD might work more closely and collaboratively with the member agencies to promote better integration, regional resiliency, cost savings and revenue generating opportunities.

Again, discussing these questions will serve as an important cross-check to IRP choices.

4. Update MWD’s reliability objective and offer member agencies options with regard to the purchase of supplemental and insurance water supplies. The IRP reliability objective has not been updated since 1996; it calls for *100 percent reliability 100 percent of the time under all hydrologic conditions*. This reliability objective is clearly out of step with California law and water policy and should be revised accordingly. Member agencies should be given an option to implement deeper conservation or employ other strategies during times of water shortage rather than be required to pay MWD insurance costs.

5. Need to define and implement meaningful adaptive management strategies to respond to changed circumstances and avoid unnecessary costs. The 1996 inaugural IRP and every subsequent IRP has called for the employment of adaptive management strategies to adjust planning and expenditures to respond to changed circumstances—but implementation has been lacking. The IRP process must be designed to address “today,” “tomorrow” and the future and be prepared to make meaningful changes in MWD’s planning strategies accordingly. If more local projects successfully come on line, then there will be less demand for MWD water; if local projects do not materialize, then MWD may respond accordingly to meet the water supply needs of those member agencies. Adaptive management by nature requires real time adjustment to changed circumstances not blind adherence to outdated targets.

B. Process concerns for board discussion.

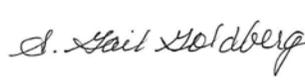
1. With due respect to the efforts of MWD staff, for which we are grateful, the current scenario process has been very time-consuming and confusing with little to show after nine months of effort. We hope the board and staff will consider moving forward expeditiously now, with the preparation of a draft 2020 IRP update prepared in a manner that is consistent with past methodology. Given that the IRP is integral to the rate review process that is now starting, time is of the essence.
2. It is imperative for multiple reasons noted here and by LADWP and other board members that data gathering and analysis reflect the myriad differences and nuances between and among MWD member agencies, which collectively comprise regional circumstances. MWD member agencies are not all the same and a one-size-fits-all approach does not work for our 26 member agencies and more than 19 million ratepayers we serve.
3. We do not believe that SCAG or SANDAG population and other forecasts are responsible for any major discrepancies between what was projected by MWD in 2015 (and earlier) and what actually occurred. We are very comfortable using SCAG and SANDAG forecasts for purposes of the 2020 IRP and suggest that MWD staff do the same.
4. We want to reiterate and support the requests by board members that future IRP staff reports and presentations be provided at least one week in advance of committee meetings. This will greatly facilitate the Board's ability to study, engage and deliberate the critical issues before us.

Chair Pressman, we appreciate this opportunity to provide comments on the IRP process going forward. We truly believe that our future is stronger together, and that all of Southern California will benefit from a truly collaborative effort among MWD's 26 member agencies on behalf of Southern California ratepayers.

Sincerely,



Jerry Butkiewicz
Director



S. Gail Goldberg
Director



Michael T. Hogan
Director



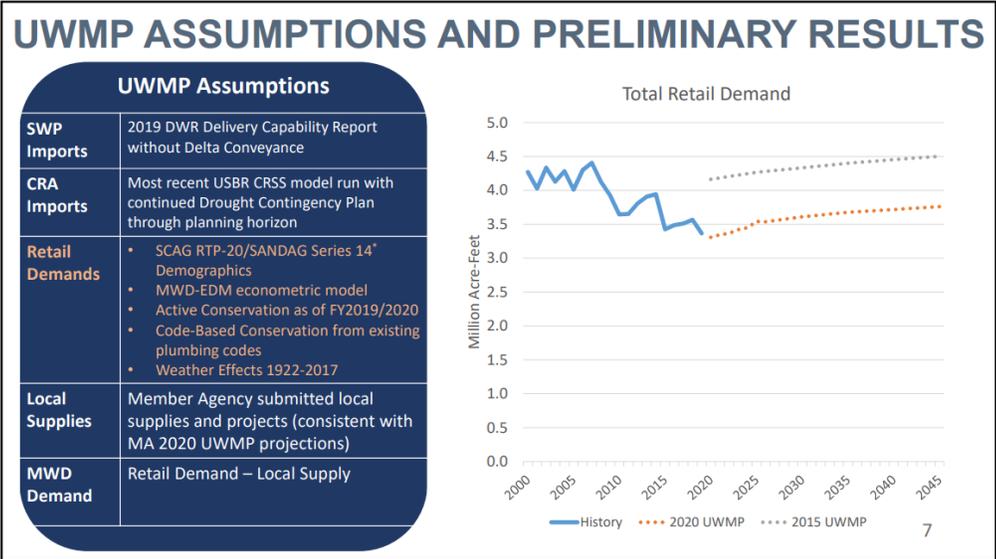
Tim Smith
Director

Attachment

cc: Jeff Kightlinger, General Manager

Slide 7, Preliminary Results for UWMP, presented at the December 11, 2020 MWD Member Agency Manager’s Meeting

12/10/2020



7