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

November 7, 2015

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

RE: Board Memo 8-6: Authorize entering storage and exchange agreements with Antelope Valley-East Kern Water Agency; and approve payment of up to $16.6 million for funding the agreements – **Request to Postpone Action; Request for Additional Information; in the alternative, OPPOSE**

Chair Record and Members of the Board:

We have reviewed Board Memo 8-6, proposing storage and "uneven exchange" agreements with Antelope Valley-East Kern Water Agency (AVEK). The net effect of the uneven exchange is that MWD may purchase 30,000 acre feet (AF) of water over a period of ten years, with an obligation to "return" half of the water to AVEK upon the call of AVEK, while the storage component may provide MWD with 30,000 AF of storage capacity. It is not possible from the information provided in the Board Memo to understand the extent to which these agreements will actually provide reliability benefits; why the unusual form of transaction is superior to other alternatives; or, the cost of the respective water supply and storage rights being acquired. Here are our specific comments and questions:

<u>Water Supply Reliability</u>. The Board Memo claims that the proposed "uneven exchange" will improve water supply reliability for the region. However, the Board Memo does not provide any data or analysis to demonstrate that this will occur; or, that the "uneven exchange" transaction provides more reliability than a purchase of water. The provisions allowing AVEK to decide when to make water available and when to call it back are significant limitations that could require MWD to return the water to AVEK when MWD most needs it. Staff should provide an analysis how these agreements provide more reliability than the acquisition of water and use of existing MWD storage.

<u>Storage Needs Assessment</u>. According to MWD's most recent Water Surplus and Drought Management report, MWD currently has more than 6 million AF of storage capacity, of which more than 1.8 million AF is located in the State Water Project system. Please explain why additional storage capacity is needed.

"Uneven Exchange." Half of the water "exchanged" to MWD (it is unclear exactly what meaning is associated with this terminology in this context) must be returned to AVEK within 10 years. AVEK has the right to "call" the water at any time in order to meet its own consumptive needs. Although the Board Memo states that, “the exchange is initiated by mutual agreement,” that is not an accurate characterization because the same sentence goes on to say, "AVEK would have discretion on how much of its SWP Table A supplies would be available in a given year." A more accurate description of the draft terms is that AVEK has the right to decide how much water is available in any given year and also to call the water if it needs it. In the event MWD exercises its “discretion” to return the water when AVEK does not need it, MWD will incur at least $300/AF for the returned water, which means not only does MWD return the water; it must also pay AVEK for the water it is returning. There is no explanation in the Board Memo why MWD wouldn't simply buy AVEK's excess Table A entitlement water. This would appear to be both more cost-effective and give MWD more operational flexibility and supply reliability.

Pricing. In addition to the factors noted above, the pricing schedule listed on the term sheet for the "uneven exchange" is 50 percent higher than the pricing schedule under DWR’s Multi-Year Water Pool Demonstration Program. What is the rationale for staff's recommendation given the availability of water at a lower cost? Since the actual price MWD pays for water under the proposed agreement varies depending on SWP allocation, staff should model the likelihood of various SWP allocations over the life of the agreement and provide that information as part of its analysis of the comparative benefits of these agreements.

Fiscal Impact. This is yet another unbudgeted expenditure. In addition, staff is asking for another blank check if program costs exceed the estimated costs (see Option #1c, "approve additional payments from the Supply Program Budget should the exchange or storage programs exceed the initial allocated 30,000 AF"). Staff should not be given a blank check; if more funds are needed then staff should come back to the Board for approval.

The proposed "uneven exchange" appears to make sense for AVEK; however, it is not apparent that the same is true for MWD and its ratepayers. Although we understand the desire for MWD to secure additional imported supplies, its actions must be intelligible and financially responsible. We request that the questions contained in this letter be addressed before the Board takes an action; otherwise, we must OPPOSE the action based on the incomplete information and analysis provided by staff.

Sincerely,

Michael T. Hogan Keith Lewinger

Michael T. Hogan Director	Keith Lewinger Director	Fern Steiner Director	Yen C. Tu Director