



San Diego County Water Authority

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January 10, 2016

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 8-3: Adopt the 2015 Integrated Water Resources Plan Update - REQUEST TO DEFER BOARD ACTION ADOPTING 2015 IRP UPDATE, OR IN THE ALTERNATIVE, OPPOSE

Dear Chairman Record and Board Members:

The Water Authority supports action by the Board to **receive and file**, and defer adoption of, the Draft 2015 Integrated Water Resources Plan (IRP) Update and Appendices (Attachments 1 and 2 to Board Memo 8-3), presented to the Board at its December 2015 board meeting, as well as the 2015 IRP Technical Update Issue Paper Addendum, presented to the Board at its October 2015 board meeting (collectively, these documents are referred to in this letter as the staff "Technical Report"). This action would be consistent with the 2015 IRP update process that has previously and consistently been described by MWD staff to the Board as a "two-part process" that would include not only the Technical Report from staff (but instead now presented as the final proposed 2015 IRP Update), but also a subsequent board process that would include "resource policy issues discussion" prior to adoption of the 2015 IRP Update.ⁱ

We do not support adoption of the Draft 2015 IRP Update at this time because the MWD Board of Directors is only now *beginning* the Phase 2 process of reviewing the technical data prepared by staff and deliberating the core planning and policy issues associated with the update and adoption of the IRP. At the board policy level, this review should certainly include deliberation of MWD's reliability and water supply development "targets," *because those targets greatly impact the cost and affordability of MWD Water*. The purpose of the Board's review should be to ensure that the IRP accomplishes the six objectives established by the Board in 1996, and carried forward since that time, namely,

OTHER REPRESENTATIVE

County of San Diego

- Acknowledge environmental and institutional constraints; and ensure:
- Reliability;
- Affordability;ⁱⁱ
- Water quality;
- Diversity; and
- Flexibility

With this set of policy objectives in mind, we wanted to share some preliminary observations at the "50,000 foot view," before the Board reviews the technical data and has an opportunity to discuss policy issues and the assumptions staff has made in the draft 2016 IRP Update, at a workshop or next board meeting. Except where otherwise specifically noted, all analyses contained in this letter are based on the data included in the IRP or taken from other MWD documentary sources. These preliminary observations do not signify agreement with all of the stated assumptions, conclusions and recommendations by staff in the Technical Report, which should more properly be within the province of the Board of Directors during this Phase 2 process.

We request board discussion, and further staff analysis as directed by the Board, of the following issues:

1. Demand for MWD Water. The Technical Report projects an increased demand for MWD Water that is not supported by the underlying data, which evidences instead a declining demand for MWD Water. See Attachment 1. It is critical that the Board consider the near and long term implications of the declining demand for MWD Water over time and how the IRP should be adapted now to plan for it.ⁱⁱⁱ

2. Likelihood of success of member agency projects. The Technical Report understates existing and near-term local water supply development that will further and permanently reduce demand for MWD Water. See Attachment 2. The supply "gap" in the Technical Report^{iv} is driven in large measure by the assumption for planning purposes that all but 20,000 acre-feet (AF) of local water supply projects that are not currently under construction will fail to be implemented. This includes projects that are currently in the full design phase with funds appropriated or at the advanced planning stage with completed certified environmental review. In addition to seven projects within the Water Authority's service area which will be implemented, MWD assumes projects being developed by the following agencies will fail:
 - City of Beverly Hills;
 - City of Torrance;
 - Los Angeles Department of Water and Power;
 - Inland Empire Utility Agency;
 - Upper San Gabriel Valley MWD;
 - Eastern MWD;
 - Municipal Water District of Orange County (MWDOC)/Orange County Water District; and
 - Calleguas MWD

The Technical Report and proposed IRP should "adapt" now to account for the likely success of these projects, or, at a minimum, factor in some percentage of the yield that will be developed.^v If only 50% of the yield from these projects - currently at the advanced planning stage with completed design, funding and/or certified environmental review - is realized, the Technical Report understates local water supply coming on line by more than 100,000 AF annually. This number does not take into account the almost 500,000 AF of additional yield from projects currently under feasibility investigation or in the conceptual planning phase. See Technical Report at Attachment 2, Appendix 5 at pages A.5-1-A.5-13.

3. State Water Project. The Technical Report hardwires a "worst case" assumption regarding the yield of the State Water Project (SWP) that is premature at best, assuming a sudden 400,000 AF reduction of SWP supplies in 2020 based on speculation what regulatory action may be taken (and which MWD would presumably object to). It is, again, the staff's assumption that drives creation of a supply "gap." MWD should identify the factors driving the potential magnitude and timing of a potential SWP export reduction, monitor these factors to see if and when they may occur and define thresholds that when reached would trigger action -by MWD and/or its member agencies to address the risk.
4. Colorado River. MWD has made substantial investments in Colorado River supplies recently; however, only a small portion of the supplies have been included in The Technical Report's forecast of Colorado River Aqueduct supplies. See Technical Report, Attachment 1 at page 3-27, stating that "flexible" supplies including the PVID program and Intentionally Created Surplus are not included in the forecast. As with the SWP, the IRP should present a risk assessment identifying the factors that will impact the magnitude and timing of restrictions on the availability of Colorado River water and the risk of the factors being triggered.
5. LACSD project. The Technical Report has not included or accounted for the water supply proposed to be developed by MWD and the Los Angeles County Sanitation Districts (LACSD) to meet groundwater replenishment demand in Los Angeles, Orange counties and San Bernardino. MWD's groundwater production numbers should be updated to include this water supply which staff has indicated is being developed to meet the water replenishment needs of the Los Angeles, Orange County and San Bernardino groundwater agencies.
6. Reliability objective. The Technical Report continues to use an outdated reliability goal, planning to meet 100% of retail water demands under all hydrologic conditions; this objective is outdated at best and should be changed now by the Board as part of the 2015 IRP Update to be more in line with the state's and MWD's own water conservation ethic, state law and standards.
7. Affordability objective. The Technical Report's "do nothing" approach to analyzing MWD Water demand, coupled with its "do everything PLUS" water supply planning strategy, fails to take the Board's affordability objective into account. The IRP's "belt and suspenders" planning strategy which the Technical Report "builds on," should be reconsidered by the Board against declining MWD Water sales and increasing local water supply development. Can our ratepayers afford for MWD to plan 100% water supply reliability (under "core resources" strategy or "IRP Approach") plus 500,000 or 200,000 AF ("uncertainty" or "buffer" supply) plus "Foundational" or "Future Supply Actions"? At the very least, the Board should be presented with an affordability analysis.^{vi} If the IRP is truly adaptive, as it should be, there is no justification for spending ratepayer money now on projects and programs that may never be necessary and may ultimately end up as stranded investments.
8. Adaptive management. Although the Technical Report calls for an "adaptive management strategy," there is no consideration of phasing investments or identifying "triggers" (for example, a planned local project fails to be developed) that would allow MWD to truly "adapt" in order to avoid unnecessary costs, expenditures, and stranded assets. The strategy described in the

Technical Report is a "do-everything-and-more" strategy that is inconsistent with the Board's affordability objective.

9. Impact of higher MWD Water rates. The Technical Report's discussion of MWD Water demand fails to take into account the inevitable impact of higher MWD rates and charges across a shrinking sales base due to declining sales and demand for MWD Water. Significant MWD Water rate increases are inevitable given the approach recommended in the Technical Report and those higher rates increases will continue to dampen demand for MWD water sales. Higher MWD rates will increase the economic incentive for the development of local water supplies such as is already occurring. See Attachment 2.
10. Stranded costs. The IRP Update should analyze and factor in the risk of stranded investments resulting from the reduced demand for MWD Water and rising MWD Water rates being spread across a shrinking ratepayer base.

Conclusion

An IRP that does not consider and incorporate actual available data and affordability creates a material risk that MWD investments will be made on illusionary foundations. Ultimately, this Board of Directors will be accountable to the public and ratepayers we serve. We sincerely hope that the Board will insist upon having an opportunity to deliberate these and many other issues and questions that should be addressed in the previously planned Phase 2 of the IRP process.

Sincerely,



Michael T. Hogan
Director



Keith Lewinger
Director



Fern Steiner
Director



Yen C. Tu
Director

Attachment 1: Demand for MWD Water

Attachment 2: Examples of member agency water projects not included by staff in calculation of demand for MWD Water

ⁱ From the beginning of the 2016 IRP Update process, MWD staff said that it would be a two-part process, with the Technical Report scheduled for adoption in January 2016. See April 8, 2015 Member Agency Kick-off Workshop RE 2015 Integrated Water Resources Plan Update ("final IRP Technical Update Report" for Board consideration scheduled for adoption in January 2016 [not the IRP itself]). More recently, see <http://edmsidm.mwdh2o.com/idmweb/cache/MWD%20EDMS/003736313-1.pdf>, where several of the policy issues raised by the Board are outlined for future board discussion. The Board's policy discussion should not be limited to issues relating to "implementation" of the staff's IRP. Nor is there any reason why the IRP needs to be adopted now, prior to the Phase 2 board deliberations.

ⁱⁱ Affordability is not addressed anywhere in the Technical Report or Attachments 1 and 2 to the 2015 Draft IRP and Appendices.

ⁱⁱⁱ The Technical Report notes the importance of identifying and accounting for "changed circumstances" (e.g., Technical Report at Attachment 1, page v: "The 2015 IRP Update focuses on

ascertaining how conditions have changed in the region since the last IRP update in 2010"), but fails to identify or account for the most material change that has occurred, namely, the fact that local water supply development is widely viewed as both more reliable and now, cost-effective when contrasted with the present and anticipated future cost of MWD Water. See Attachment 2 statements by various member agencies seeking support for local projects. The Technical Report appears to acknowledge this, at least indirectly, by noting that if the California WaterFix is implemented, it may need to seek "new markets" for this water supply. Technical Report at Attachment 1, page vi ("[t]he potential completion of the California WaterFix and a modernized water system in the Delta, for example, would create a new physical ability to move additional supplies in average and above-average years. In addition to providing water for storage management, this could also create opportunities for new markets and partnerships." The Water Authority questions this premise and believes that MWD's legal obligation and mission is to provide its own service area and ratepayers with supplemental water, not to develop it for sale to others and not to protect unidentified "broad public interests" that do not pay MWD's rates and charges (see Technical Report at Attachment 1, page vii ("MWD's baseline imported supplies has proven to be a highly cost-effective investment that protects broad public interests as well as Southland ratepayers"). This is also an issue that warrants further examination in the context of the LACSD project where MWD proposes to pay 100% of project costs and assume substantial risks in order to develop a water supply with respect to which member agencies of the LACSD would have a right of first refusal. See Board Memo 8-3, November 2015 MWD Board meeting. Ultimately, MWD must link its rates to the agencies that are benefitting from the costs MWD is incurring (i.e., it must show "cost causation").

^{iv} The Technical Report states that, "[t]hrough the 2015 IRP Update process, foreseeable challenges and risk scenarios were identified that point to the potential of 200,000 AF of additional water conservation and local supplies needed to address these risks." Technical Report at Attachment 1, page iv. However, this "gap" results in part from the planning assumption that more than 200,000 AF of local projects and conservation measures will fail to be implemented (see Technical Report, Attachment 1, Table 3-5 making clear that supply projections only include projects that are currently producing water or are under construction). The "gap" is also the result of the planning assumption that SWP supplies will be reduced by 400,000 AF; and, because the analysis also fails to include the 168,000 AF of supply for groundwater replenishment from the LACSD project.

^v The Technical Report emphasizes MWD's engagement with member agencies but does not explain why or if member agency staff and Board members agreed that it is reasonable to assume for planning purposes that the local projects listed on Attachment 2 would likely fail to be implemented. It isn't possible to reconcile this assumption with the presentations member agencies have made to their respective communities and ratepayers seeking approval and funding of these local projects and the actual progress that is being made toward implementation.

^{vi} The Technical Report describes Future Supply Actions spending as including "exploring the feasibility of new local supply options, investing in water-saving technologies, acquiring land and proposing ways to reduce regulatory impediments to supply development." Staff needs to explain why these actions and spending projects would not already be included in the 100% supply reliability PLUS "buffer" supply. Given this lack of definition or any standard for triggering Foundational Actions spending, it is apparent that the Technical Report isn't a "plan" at all, but is rather, a blank check that could not possibly be a rational basis for establishing MWD's revenue requirements.

Attachment 1 - Demand for MWD Water

The IRP's projection of increased demand for MWD Water is not supported by MWD's own data, which evidences instead, a declining demand for MWD Water

IRP Projections (million AF)¹

	2016	2020	2025	2030	2035	2040
Retail Demand after Conservation²	3.84	4.12	4.19	4.22	4.26	4.27
Local Supply³	2.20	2.31	2.36	2.39	2.41	2.43
MWD Water Demand	1.64	1.81	1.83	1.83	1.85	1.84
Cumulative Increase MWD Demand		0.17	0.19	0.19	0.21	0.20

¹ The retail demand and local supply numbers are taken from the Technical Report, Attachment 1, Draft 2015 IRP Update, Table ES-1. The resulting calculation of MWD Water Demand is simply a mathematical calculation.

² Retail demand as calculated by MWD assumes only 50% compliance with Model Water Efficient Landscape Ordinance (MWELO).

³ MWD does not include in its calculation of local supply any of the Water Authority's independent Colorado River water supplies (280,000 AF over time); it also assumes only 20,000 AF of member agency local projects will be successfully implemented.

IRP Projections (million AF) adjusted only for San Diego's Colorado River water

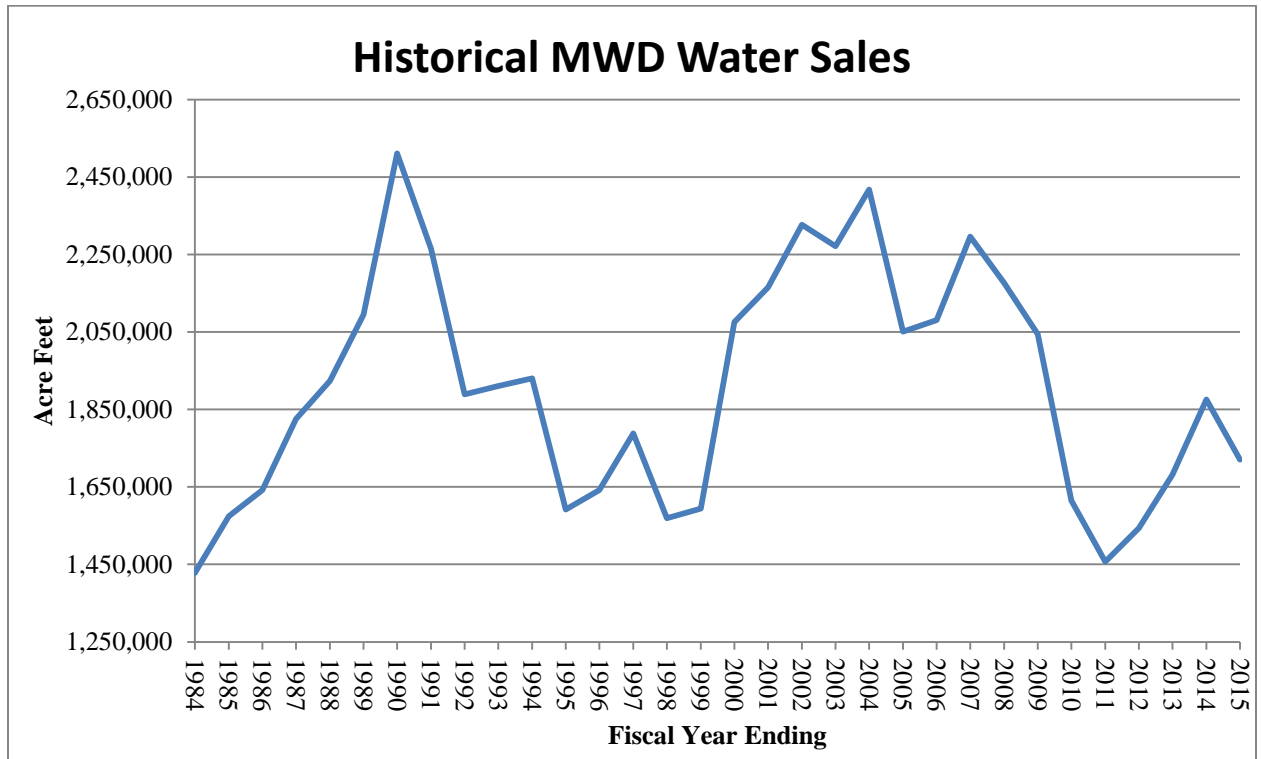
	2016	2020	2025	2030	2035	2040
Retail Demand after Conservation	3.84	4.12	4.19	4.22	4.26	4.27
Local Supply⁴	2.38	2.59	2.64	2.67	2.69	2.71
MWD Water Demand	1.46	1.53	1.55	1.55	1.57	1.56
Cumulative Increase MWD Demand		0.07	0.09	0.09	0.11	0.10

⁴ Local supply corrected to include Water Authority's actual independent Colorado River supplies over time pursuant to fully executed agreements.

IRP Projections (million AF) adjusted for San Diego's Colorado River Water and 50% yield from member agency projects that are currently in full design with funds appropriated or at the advanced planning stage with certified environmental review complete

	2016	2020	2025	2030	2035	2040
Retail Demand after Conservation	3.84	4.12	4.19	4.22	4.26	4.27
Local Supply	2.38	2.59	2.64	2.67	2.69	2.71
50% yield of Member Agencies		0.08	0.10	0.10	0.10	0.10
MWD Water Demand	1.46	1.45	1.45	1.45	1.47	1.46
Cumulative Increase MWD Demand		-0.01	-0.01	-0.01	0.01	0.00

The Technical Report and other historical MWD documents confirm that MWD Water sales are on a long-term declining trend that is no longer based on hydrology but on the development of local water supplies that will permanently replace and reduce demand for MWD Water



Attachment 2

Examples of member agency projects not included by staff in calculation of demand for MWD Water

Member Agency	Status of Member Agency Project
City of Beverly Hills	<p>Feasibility Project Groundwater development- 2,000 AF</p> <p>Status: Water Enterprise Plan- Adopted July 2015 Through a variety of projects and measures including groundwater development, <i>“the City has the potential to decrease its MWD purchases from the current 12,495 AFY to approximately 8,485 AFY by 2024/25.”</i> This amounts to a 4,010 AF (32 percent) reduction of the City's demand for MWD Water.</p> <p>http://www.beverlyhills.org/cbhfiles/storage/files/13699920851488612043/FINALPsomasCBHWEPRreport_08102015V2.pdf</p>
Calleguas MWD	<p>Advanced Planning (EIR/EIS Certified) Projects North Pleasant Valley Desalter- 7,300 AF</p> <p>Feasibility Projects 2 projects 7,800 AF</p> <p>Status: Calleguas is working with several agencies and the City of Oxnard to develop additional water supplies and reclaim brackish groundwater. These projects are in various stages of development with the largest being the EIR certified North Pleasant Valley Desalter. It is also building a regional salinity management pipeline in phases. Phase 1 is completed and Phase 2 is in design and, according to the Los Angeles Regional Water Quality Control Board, <i>expected to be completed within the next permitting cycle in 2018.</i></p> <p>http://www.waterboards.ca.gov/rwqcb4/board_decisions/tentative_orders/individual/npdes/Calleguas_Municipal_Water_District/PublicNoticeCalleguasRSMPLAmendment.pdf</p>
Eastern MWD	<p>Full Design & Appropriated Funds Project Perris Desalter II, 4,000 AF</p> <p>Feasibility Project Indirect Potable Reuse- 24,070 AF</p> <p>Status: <i>Perris Desalter scheduled for bid advertise, November 2016 (9/8/2015 Eastern Presentation)</i></p>

	<p><i>IPR shown to be less expensive than MWD supplies, according to 8/20/2014 Eastern MWD presentation.</i> http://www.emwd.org/home/showdocument?id=13335 page 15</p>
Inland Empire Utility Agency	<p>Advanced Planning (EIR/EIS Certified) Projects IEUA Regional Recycled Water Distribution System- 20,000 AF Status: IEUA's Ten-year Capital Improvement Plan identifies immediate and long term capital projects (including pipelines) needed to <i>"utilize 100% of the region's projected recycled water supplies, increasing recycled water deliveries from approximately 37,000 to 55,000 by 2025."</i> http://www.ieua.org/wp-content/uploads/2015/04/TYCIP-Final-Amended-project-list-3-30-15.pdf</p>
LADWP	<p>Full Design & Appropriated Funds Projects Terminal Island Water Reclamation- 7,880 AF Advanced Planning (EIR/EIS Certified) Projects Downtown and Sepulveda Expansion- 2,600 AF; Tujunga Well Treatment- 24,000 AF Feasibility Projects 9 projects-32,865 AF Conceptual Projects 4 projects -38,270 AF Status: From 11/20/2015 Presentation by David Pettijohn to Los Angeles Chamber of Commerce: <i>Plans to reduce MWD purchases by 145,000 AF</i> Increase Groundwater by 45,535 AF 40,000 AF Water Transfers 25,000 AF Stormwater Capture 50,451 Increased Water Reclamation http://www.lachamber.com/clientuploads/EWE_committee/11.20.15_LADWP%20-%20LA%20Chamber%20Presentation%2011.20.15%20final.pdf</p>
MWDOC	<p>Advanced Planning (EIR/EIS Certified) Projects Huntington Beach Seawater Desalination Project- 56,000 AF Status: <i>Decision from Coastal Commission expected within 2 months</i></p>
City of Santa Monica	<p><i>Plans to eliminate the purchase of MWD Water</i> Status: The following is the first two paragraphs of the City's Water Sustainability Master Plan: The City of Santa Monica (City) supplies imported and local water to approximately 91,000 residents</p>

	<p>covering an area of approximately 8 square miles. Looking to its future, the City hopes to eliminate its reliability on imported water by addressing the challenge of existing groundwater quality, identifying new sources of local water supply, and more effectively reduce and manage its water demands.</p> <p><i>With an adopted goal of water self-sufficiency achieved by eliminating reliance on Metropolitan Water District of Southern California (MWD) supply by 2020</i>, the City of Santa Monica retained Kennedy/Jenks Consultants to develop an integrated Sustainable Water Master Plan (SWMP).</p> <p>This SWMP combines relevant components of existing plans with an evaluation of a broad range of water supply and demand management options to assist the City in meeting its goals.</p> <p>This plan has been prepared with the objective of developing a comprehensive document to define supply and demand management options to cost effectively reduce future water demands and enhance local water supply production capabilities.</p> <p>https://www.smgov.net/uploadedFiles/Departments/Public_Works/Water/SWMP.pdf</p>
City of Torrance	<p>Full Design & Appropriated Funds Projects Madrona Desalter Expansion- 2,400 AF Status: Received \$3.9 Prop 84 funds and \$3.0 M Prop. 50 funding. <i>Estimated Completion 2018</i> http://bondaccountability.resources.ca.gov/Project.aspx?ProjectPK=12317&PropositionPK=4</p>
Upper San Gabriel Valley MWD	<p>Full Design & Appropriated Funds Projects Direct Reuse- 2 projects 730 AF Indirect Reuse Replenishment- 10,000 AF Status: Upper District adopted an Indirect Reuse Action Plan in 2011 which set forth specific tasks to complete the Indirect Reuse Replenishment Project. It has received \$790,000 in grants to date to further the project. <i>According to MWD the project is scheduled to be on-line in 2018.</i></p> <p>http://upperdistrict.org/wp-content/uploads/2012/11/FY-15-16-Budget.pdf</p>
Western MWD	<p>Feasibility Projects Rancho California Reclamation Expansion/Demineralization Western AG- 13,800 AF Status: <i>Scheduled for 2018 completion, according to MWD.</i></p> <p>Link to Rancho California Water Facilities Master Plan: http://www.ranchowater.com/documentcenter/view/1802</p>

