

From: Gonzales, Joann on behalf of Breaux, Gary M
Sent: Friday, September 07, 2012 1:06 PM
To: 'Doug Wilson (dirdougwilson@gmail.com)'
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Subject: Response to your letter dated August 16, 2012



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

September 7, 2012

Director Doug Wilson
San Diego County Water Authority
4677 Overland Avenue
San Diego, CA 92123

Dear Director Wilson:

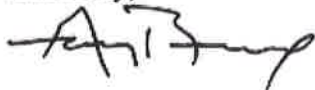
This is in response to your letter dated August 16, 2012 (copy attached), regarding issues related to Metropolitan's finance plan and water rates that you asked be included for discussion at Metropolitan's rate refinement workshop on August 20, 2012.

The issues raised in your letter were discussed at that workshop and have been discussed at various committee/board meetings and public workshops throughout the past year. These meetings, convened by Metropolitan, were open to the public to provide the opportunity for a thorough discussion. The meetings were also available to the public via web-streaming at Metropolitan's webpage: www.mwdh2o.com. In addition to the public meetings, these issues were fully reviewed and discussed with the Member Agency Rate Refinement Workgroup, and also when I met with you in my office following the August 20, 2012 workshop.

To ensure a continued open and transparent process, available to both the public and the full board, the policy debate of these important issues will continue to be discussed at public meetings involving Metropolitan's Finance and Insurance Committee, and/or at full board meetings, and public workshops.

I thank you and the Water Authority for the continued input on these important policy issues.

Sincerely,



Gary Breaux
Assistant General Manager/Chief Financial Officer

Attachment

cc: MWD Board of Directors
J. Kightlinger
M. L. Scully



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San Diego County Water Authority

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August 16, 2012

Gary Breaux
Chief Financial Officer
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 Diego 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: Rate Refinement Workshop

Dear Gary,

I wanted to give you some of my thoughts on the issues the rate refinement board workshop should include on MWD's finance plan and water rates. The "big picture" was described in the July 9, 2012 letter the San Diego board members sent to Chairman Foley requesting the workshop. That letter included concern for MWD financial stability given the high fixed costs versus low fixed revenues and questions how MWD will ensure sufficient revenues to pay its future costs and avoid stranded investments. Chairman Foley indicated that a workshop would be held. To assist in your preparation for the workshop, I went back through some of the other letters we have written to MWD on issues of concern and I thought it might help you to provide a short list of some of the key questions.

1. How can MWD execute a long term contract for the BDCP unless it has an assured source of revenue to make the payments?
2. Are ad valorem tax increases on a regular basis a real possibility? If so, what steps need to be taken to advance that approach? And, could this be the realistic solution to fund the BDCP?
3. Will the member agencies agree to sign take-or-pay contracts? If not, isn't MWD being asked to carry all of the risk of stranding the BDCP and other investments? Is that a reasonable risk for our board to agree to assume?
4. What will happen if MWD's sales continue to decline at the same time we continue to embark on new projects? How will MWD's liabilities be paid? What legal mechanism exists to recover stranded costs? Will MWD be required to sign so-called "step up" agreements on the remaining ratepayers could have to cover if the other State Water Contractors default?
5. Are peaking costs being adequately charged and collected under the current rate structure? With so many MWD costs being incurred to meet dry-year peaking demands (not just for treated water), what mechanisms can MWD put in place in order to send the right price signal to ensure that agencies generating peaking costs are in fact paying those costs? Our calculations show that the current capacity and RTS charges do not fully recover these peaking costs.
6. In light of reduced sales projections, does it make sense for MWD to continue to pay its member agencies to NOT buy MWD water?
7. Given that the 20% by 2020 requirement is a retail requirement, and that MWD sales are down by more than 30%, does it make sense for MWD to continue to make current investments in water conservation? Or, should it defer those investments until sales begin

OTHER REPRESENTATIVE

County of San Diego

to improve? Why hasn't our adaptive IRP adapted to reduced sales?

A public agency providing a safe and reliable water supply to the San Diego region

Mr. Breaux

August 16, 2012

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8. If MWD is going to make additional investments in water conservation, shouldn't it reduce the amount of money it is spending on other water supplies by a like amount?
9. How will MWD ensure that its revenues are in fact sufficient to meet its operating expenses over the next five years? At my local agency at Padre Dam, we call this "living within the household budget". That is to say that expense is reduced to match the long term revenue stream, not the reverse.
10. What are the risks associated with projecting water sales based on "average" pricing? Will groundwater agencies buy as much water from MWD if it isn't discounted? Will other agencies pay more in order to subsidize discounted water sales especially as agencies develop new local supplies reducing their dependence on Met?
11. Given all of the changed circumstances, including the increasing cost of MWD water, is it reasonable to rely on historical data in projecting future water sales?

There are other issues and questions but this is a pretty good list of the issues I see that the Water Authority has raised over the past couple of years. We look forward to working with you and our fellow board members to ensure MWD's future and long term fiscal sustainability.

Sincerely,



Doug Wilson

Director

Attachments (without original enclosures):

1. July 9, 2012 re: Update on Rate Refinement Discussions
2. July 22, 2012 re: Board item 8-3 (LRP)
3. May 7, 2012 re: Board item 8-4 (conservation program)
4. March 21, 2012 re: Recommendation to cap MWD rate increases at 3%
5. March 12, 2012 re: LRPs
6. February 13, 2012 re: Board item 8-2 (draft remarketing statement)
7. February 3, 2012 re: Biennial budget
8. December 13, 2011 re: SB60
9. November 4, 2011 re: Board item 8-8 (discounted replenishment program)
10. October 25, 2011 re: KPMG audit report
11. October 7, 2011 re: WP&S items
12. August 22, 2011 re: Draft official statement
13. August 16, 2011 re: Member agency willingness to sign take-or-pay contracts
14. May 6, 2011 re: Board item 5-2 (sale of discounted water)
15. December 9, 2010 re: Draft official statement
16. September 22, 2010 re Draft official statement