June 28th Board Workshop Outline
Outline of Presentations

- Purpose of Workshop
- Review of Board Activities Timeline
- Focus on the Future
- Discussion Issues
  - Bay Delta
  - Communication and Education
  - Colorado River
- Informational Updates
  - Infrastructure and System Operations
  - Regional and Local Supply
  - Legislative and Regulatory Issues
- Pending current rate cases and issues
The Officers have been working on the development of this follow-up to our April 26 Board Workshop

- Very positive feedback from Directors
- Good opportunity to engage in extended dialogue on the issues

Desire to focus on the essential issues the Water Authority faces going forward - taking care of our region’s needs and priorities

Gary Croucher will outline the issues we’re going to focus or discussions upon today

Brief closed sessions on the rate cases this afternoon, but besides that, today is not going to focus on MWD or the rate litigation
Based upon feedback from April workshop, officers identified three key issues for focused discussions today:

- Colorado River;
- The Bay-Delta;
- Communication and education.

Approximately 30 minutes allotted per issue

Brief staff informational presentations on three additional issues:

- Regional and local supplies;
- Infrastructure and system operations,
- Legislative and regulatory issues.

Goal - open and frank discussion and exchange of ideas and opinions
Based upon Board feedback - strategic focus is needed for the years ahead

Great discussion on April 26th largely focused on our issues with MWD

To control our region’s destiny, must address other big policy and program issues that will define this region’s future, while working with our member agencies to accomplish their part

And that is really the focus today -- our focus on the future
Board Activities Timeline

Sept. 27, 2017
Court of Appeal decision in rate litigation becomes final

Oct. 12, 2017
Water Authority Board holds workshop focused on MWD litigation; extends offer to meet to resolve litigation and other issues; suspends outreach campaign as good faith gesture

November 2017-April 2018
Separate Water Authority non-litigation and litigation teams hold series of meetings to attempt to settle rate litigation and find common ground

April 26, 2018
Water Authority Board of Directors holds day-long workshop focused on outcome of six-month effort to settle rate litigation and resolve other issues

June 28, 2018
Water Authority Board holds Special Board Workshop
<table>
<thead>
<tr>
<th>Time</th>
<th>Session</th>
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<tbody>
<tr>
<td>10:30 a.m.-11:45 a.m.</td>
<td>Bay-Delta/WaterFix Communications &amp; Education</td>
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<tr>
<td>11:45 a.m.-12:30 p.m.</td>
<td>Lunch and Video</td>
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<tr>
<td>12:30 p.m.-1:15 p.m.</td>
<td>Rate Case: LRP/WSR (Part in Closed Session)</td>
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<td>1:15 p.m.-1:45 p.m.</td>
<td>Colorado River</td>
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<td>1:45 p.m.-2 p.m.</td>
<td>Rate Case: Status (Closed Session)</td>
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<td>2 p.m.-2:30 p.m.</td>
<td>Informational Updates-Infrastructure &amp; System Operations</td>
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<td>Regional &amp; Local Supplies</td>
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<td>Legislative and Regulatory Issues</td>
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<tr>
<td>2:30 p.m.-3:00 p.m.</td>
<td>Member Agencies’ GMs Feedback</td>
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Bay Delta
Challenges:

- Climate change and dwindling precipitation in the Northern Sierra
- Balancing water supply reliability with ecosystem restoration
  - Lack of identified funding sources for restoration
- Ensuring that those who directly benefit from the water supply created by the WaterFix Project pay its costs
  - Lack of financial participation by federal Central Valley Project contractors in WaterFix
- Escalating Bay-Delta costs at MWD to pay for WaterFix and how it charges its member agencies
Ramp-up of MWD’s Annual WaterFix Costs

Updated 10-Year Financial Forecast

- **Unrestricted Reserve**
- **Target Reserve**
- **Minimum Reserve**

### Fiscal Year Ending

- **2017**
- **2018**
- **2019**
- **2020**
- **2021**
- **2022**
- **2023**
- **2024**
- **2025**
- **2026**
- **2027**
- **2028**

### Million Dollars

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<th>Overall Rate Inc.</th>
<th>4.0%</th>
<th>4.0%</th>
<th>3.0%</th>
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<td>Water Transactions (MAF)**</td>
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<td>1.65</td>
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<td>Fixed Chg Cvg</td>
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<td>1.5</td>
<td>1.4</td>
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<td>CA WaterFix, $M</td>
<td>4</td>
<td>13</td>
<td>51</td>
<td>82</td>
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<td>186</td>
<td>245</td>
<td>303</td>
<td>368</td>
<td>438</td>
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</table>

(1) Adopted FY2018/19 and 2019/20 Budget plus updated forecast w/adopted CA WaterFix at 4% interest rate

* Revenue Remainder and Water Rate Stabilization Fund
** Includes water sales, exchange and wheeling

Finance & Insurance Committee  
Item 6b  
Slide 3  
May 7, 2018
Opportunities

- Support WaterFix costs being charged as water supply and conservation facilities
  - State Water Project Contract (Art. 1(f), (g)2), DWR Bulletin 132, and Water Code 12934(d)(3)
- Pay no more than an equitable share of WaterFix costs
Board approved motion at its May 24, 2018 meeting:

“Direct staff to return at the next Board meeting with a position statement and policy principles that support current design and construction plans to complete the California WaterFix and provide for actual costs incurred by DWR to be categorized as envisioned by DWR Bulletin 132.”

Vote: unanimous (91.09% present)
Bay Delta

Action Plan:

- Adopt updated policy principles to guide Water Authority’s efforts on Bay Delta and WaterFix cost allocation issues (July)
- Engage Water Authority Board and member agencies in comprehensive State-focused education effort
- Develop coalition of stakeholder interests in achieving desired outcomes
- Seek favorable stipulation in DWR validation case with DWR that issues of concern to Water Authority are not part of DWR’s validation action
Key Policy Questions

- How should the policy describe our support of the WaterFix project:
  - Unconditional?
  - Be conditioned upon how the State and MWD allocate the costs of the project?
  - Should the policy address how the State and MWD allocate WaterFix costs in their rates/charges?
    - What allocation methodology would the Board consider acceptable?
Communications & Education
Communication & Education

Challenges:

- Improve understanding of water supply and water system reliability challenges and opportunities within the San Diego region
- Build and maintain support for Water Authority policies, programs and projects among a broad cross-section of stakeholders throughout the State
- Strengthen the Water Authority’s reputation as the region’s trusted source for water related issues
Communication & Education

Opportunities:

- Engage with others to seek understanding, share information
- Listen to our partner Southern California agencies and seek common ground
- Maintain the integrity of relationships with our member agencies, other public agencies, stakeholders and the public through communication that is clear and accurate
- Disseminate ideas, facts and viewpoints to aid informed public debate
- Aid informed, transparent and deliberative processes by providing all information needed for responsible public policy debate and decision making
- Utilize the Brought to You by Water outreach program
Communication & Education

Communication Protocol:
- Adhere to highest standards of accuracy and truth
- Respect all opinions support rights of others to express views
- Act promptly to correct erroneous communications or errors for which Water Authority is responsible
- Safeguard confidential information
Communication & Education

Action Plan:

▪ Within San Diego County:
  ▪ Increase and broaden the reach of the Water Authority’s outreach and education efforts to a diverse range of stakeholders in the San Diego region
  ▪ Utilize “Brought to you by Water” program
  ▪ Reprioritize existing staff resources to expand communication and education activities within the region

▪ Within Southern California
  ▪ Develop coalitions of interests on issues of common interest among civic, business, labor and environmental interests within the MWD service area
  ▪ Listen to issues and concerns of others; develop stronger partnerships

▪ Coordinate with educational efforts in Sacramento, seven Basin States and Washington, D.C.
  ▪ Reprioritize resources to expand communication and education activities
Key Questions

- Who and what are the Water Authority’s key relationships?
  - What regions, agencies, organizations, interest groups, stakeholders have similar issues and concerns?
- What steps should we take to build and strengthen our key relationships?
Claims Review: Water Stewardship Rates On MWD Supply

Mark J. Hattam, General Counsel
## Litigation Overview

<table>
<thead>
<tr>
<th>Main Claims</th>
<th>2010 &amp; 2012</th>
<th>2014, 2016 &amp; 2018</th>
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<tbody>
<tr>
<td>1. WSR on Exchange</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>2. WSR on Supply</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>3. Offsetting Benefits</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>4. Preferential Rights</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>5. Legality of RSI</td>
<td>Yes</td>
<td>No</td>
</tr>
<tr>
<td>6. Cost of Service Issues</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>7. Interest/Attny Fees</td>
<td>Yes</td>
<td>Yes</td>
</tr>
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</table>
WSR Claims

- Rate litigation includes two challenges to MWD’s Water Stewardship Rates (WSR): (a) on Exchange Agreement water; and, (b) on supply purchases.

- We won the Exchange Agreement WSR claim in 2010-12 cases. The WSR supply claims are still pending in stayed 2014-2018 cases (rate years 2015-2020).

- Today, we discuss the WSR supply claims that are pending.
What Are The WSR Claims?

- MWD charges a separate Water Stewardship Rate on all supply purchases. It is currently $55 AF.

- MWD has a Local Resource Program ("LRP") for local water development. LRP is funded, at least in part, from WSR rates. LRP can exceed WSR revenues.

- Water Authority contends that MWD has not supported WSR charges by cost of service, and that Prop. 26 is violated as MWD’s record does not support WSR charges.
Proposition 26

- Proposition 26 requires:

  (a) A benefit or service “granted *directly* to the payor” that is not provided to those not charged, and which does not exceed reasonable costs.

  (b) The local agency must prove that costs are allocated to the payor with a “reasonable relationship” [i.e., “proportionate”] to payor’s burdens/benefits.

- We are not aware of MWD’s record for the WSR having any such analysis.
MWD Admissions on WSR

- MWD has admitted *under oath* that:

  1. MWD does not provide member agency project funding proportional to their WSR payments.
  2. MWD does not calculate any proportional benefits to member agencies from WSR-paid programs, either singly or in the aggregate.
  3. MWD does not calculate any proportional regional benefits from projects paid from WSR either singly or in the aggregate.
$ Return on WSR Payments
LRP & Conservation Subsidies
Fiscal Years 2003-2017

Data sources: 7/20/2016 MWD data, WINS Table C and Table A Reports, 9/12/2017 MWD PPT, MWD Operations Data
Calc. method: agencies’ received subsidies / WSR payments (includes funding from over-collected revenues)
Water Authority’s WSR Payments and Benefits Received Before MWD Enforced the RSI

2003-2011

$144 M
Funded from Reserves

WSR Payments

$62 M
CCP received

LRP Received
Water Authority’s WSR Payments and Benefits Received During the RSI Enforcement Period

2012-2017

$194 M

Funded from reserves

$111 M

WSR Payments

CCP Received

LRP Received
What Is Value Of WSR Claims on MWD Supplies?

- The WSR claims on MWD water sales start in the 2014 case, thus MWD’s 2015 rate year.
- Potential values of the claim years in pending cases (2015-18 include interest; 2018-20 are estimates):

  2015: $14,518,867
  2016: $11,641,401
  2017: $10,312,718
  2018: $9,736,592
  2019: $7,234,370
  2020: $6,742,404
  TOTAL: $60,186,352
MWD Considering Changes to LRP

- Per MWD staff, current program under review
- Potential changes:
  - Revise/Increase total target yield
    - Current target: 174,000 AF/year
    - Remaining available balance: 68,090 AF/year
      - Submitted applications: 160,000 AF/year (includes applications submitted by Water Authority and our member agencies)
      - Additional applications expected
  - Target to be revised as part of 2020 IRP update
    - Interim target to address imbalance between available authority and application interest
  - Incentive/funding structure
MWD Considering Changes to LRP

- Potential changes (continued):
  - Caps/limits on individual project’s volume eligible for subsidies and “regional distribution”
    - Project location may have bigger influence over selection/approval
  - Expansion to subsidize currently ineligible projects, including storm water and other local supplies
  - Potentially provide funding to existing local projects to shore up yield

- MWD may form workgroup

- Timeline:
  - Interim target
  - MWD Board approval Fall 2018
  - Program implementation early 2019
  - Expanded review
    - Part of 2020 IRP
Expanded Review (part of 2020 IRP update)

- Examine approaches to maintain local supplies
  - 2.4 MAF in 2040
- Identity challenges and impacts to existing supplies
- Develop metrics to monitor supplies
- Review alternative approaches
  - Direct development
    - E.g., LA Sanitation Districts Carson Recycling Project
  - Project collaboration
    - Joint project with member agencies to take advantage of economies of scale
  - Reimbursable services
WSR Supply Claims

- MWD has confirmed it will apply level playing field for LRP benefits:

  1. MWD Chairman Record promised Water Authority and its members fair treatment:

     “I wanted to assure you that both the SDCWA and its member agencies have full access to our LRP funding just like all of Metropolitan’s members.” – March 22, 2018, Letter
Procedural Issues

- The supply WSR claims are in stayed cases.
  - Until the stay is lifted when the 2010-12 cases are done, there is no expense in letting the claims “sit.”

- The Water Authority can, prior to trial:
  - Dismiss the WSR supply claims if it so chooses
  - Retain the WSR claims in the cases
  - Defer any action until the conclusion of the 2010-2012 case

- Even if the WSR supply claims were dismissed, the lawsuits would not end, as numerous other issues are still pending.
Colorado River
Colorado River

Challenges:

- Since 2000 Colorado River Basin has experienced historic drought conditions
  - Lowest period of inflow over past 1,200 years
  - Water Year 2018 currently 5th worse year on record
  - Current Mead/Powell combined storage capacity near 50%

- 52% - 68% probability of reaching key shortage triggers in CYs 2020-2023
  - Different shortage (risk) profiles throughout the Lower Basin
  - California’s senior priority rights always subject of discussion
  - Upper/Lower Basin tensions and public discourse
  - Binational discussions and shortage sharing
Colorado River

Challenges:

- Future river operations key to “bending the curve”
  - 2007 Interim Guidelines for Lake Powel/Mead operations expire in 2025
  - Drought Contingency Plan viewed as a temporary (voluntary) fix
  - Lower Basin access to Lake Mead storage water during cutbacks still uncertain

- Concerns regarding decisions impacting Water Authority interests have been made without consultation and/or representation
Colorado River

Opportunities:

- 1.5 MAF Lake Mead storage capacity not being fully utilized by California
- Water Authority holds an entitlement to mainstream Colorado River water under a water delivery contract with the Secretary of the Interior
- Water Authority can be part of solution
  - Utilize 280,000 AF of QSA assets to help address potential shortages on the Colorado River
  - Partner with CR agencies on Lake Mead elevation building
  - Lease and storage agreements with other water users
  - Partner on binational projects
Colorado River

Opportunities:

- Integrate understanding and first-hand experience with complex Salton Sea environmental initiatives into future Basin States plans
  - QSA JPA mitigation efforts
  - Lower Colorado River MSCP
  - State’s Salton Sea Management Plan
  - 2017 State Water Board Stipulated Order
- Develop legislative solutions through state/federal support
- Enhance conserved water transfer flexibility with IID for under/over conservation in any given year
Colorado River

Action Plan:

- Promote basin-wide benefit of Water Authority involvement
- Consistent consultation and communication with other Colorado River water users
- Develop cooperative implementation agreements as necessary
- Develop Water Authority demonstration and/or pilot programs
Colorado River

Key Policy Questions:

▪ What relationships should the Water Authority strengthen, expand or develop on the Colorado River?
  ▪ Seven Basin states
  ▪ California QSA parties
  ▪ NGOs
  ▪ State/Federal administration
  ▪ Regional border identity (San Diego/Imperial Valley/Mexico)

▪ How can the Water Authority pursue/strengthen relationships with the Seven Basin States and Colorado River water users?

▪ How can the Water Authority further solidify its relationship with the Imperial Valley community?
Historical and Future Projected Lake Mead End-of-December Elevations

1 Median Interim Guidelines FEIS from June 2007 CRSS projections using 100 hydrologic inflow sequences based on resampling of the observed natural flow record from 1906-2005.
2 "Full" Hydrology from April 2018 CRSS projections modeled using 110 hydrologic inflow sequences based on resampling of the observed natural flow record from 1906-2015.
3 "Stress Test" Hydrology from April 2018 CRSS projections modeled using 28 hydrologic inflow sequences based on resampling of the observed natural flow record from 1988-2015.
Risk of Lake Mead reaching 1,025’ in December

Full Hydrology (1906-2015)

- Risk assessed at the adoption of the 2007 Interim Guidelines; 1906-2005 hydrology
- April 2018: No DCP (official run)
- April 2018: Lower Basin DCP & Binational WSCP
- April 2018: Upper Basin DCP & Lower Basin DCP & Binational WSCP

Stress Test Hydrology (1988-2015)

- Risk assessed at the adoption of the 2007 Interim Guidelines; 1906-2005 hydrology
- April 2018: No DCP
- April 2018: Lower Basin DCP & Binational WSCP
- April 2018: Upper Basin DCP & Lower Basin DCP & Binational WSCP