Moosa Canyon Erosion Control project

Engineering & Operations Committee Meeting
April 12, 2018

Mike Conner, Senior Engineer
Top of 90-inch Pipeline 4 exposed in Moosa Creek
Interim Measures
Articulated Concrete Blocks – June 2016

P4 Alignment
Long Term Measures

FLOW
100 year storm
Bid Summary

Advertised Bid Range: $1.5 to $1.8 Million

<table>
<thead>
<tr>
<th>NO.</th>
<th>GENERAL CONTRACTOR</th>
<th>BID AMOUNT</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Granite Construction, Inc.</td>
<td>$1,235,889</td>
</tr>
<tr>
<td>2</td>
<td>L.H. Woods &amp; Sons, Inc.</td>
<td>$1,244,000</td>
</tr>
<tr>
<td>3</td>
<td>Bert W. Salas</td>
<td>$1,270,989</td>
</tr>
<tr>
<td>4</td>
<td>Road Builders, Inc.</td>
<td>$1,636,406</td>
</tr>
<tr>
<td>5</td>
<td>TechCom International</td>
<td>$1,666,332</td>
</tr>
<tr>
<td>6</td>
<td>Kiewit Infrastructure West Co.</td>
<td>$1,884,905</td>
</tr>
</tbody>
</table>
Authorize the General Manager to award a construction contract to Granite Construction, Inc. in the amount of $1,235,889.40 for the Moosa Canyon Erosion Control project
Water Quality Maintenance

Engineering & Operations Committee
April 12, 2018
Background

- All water systems experience some level of nitrification
- Systems using chloramines experience higher levels of nitrification
- Nitrification is more pronounced in:
  - Warmer water
  - Older water
  - Depending on source blend
- Nitrification can cause residual loss in chloraminated systems
- Free chlorine switch was common practice during the 1990’s; last done in 1997
- In 2017, the Water Authority:
  - Flushed more than 9,500 AF of treated water into local reservoirs
  - Spent more than $3,000,000 to mitigate nitrification
Nitrification is a microbial process by which reduced nitrogen compounds (primarily ammonia) are sequentially oxidized to nitrite and nitrate.

Ammonia $\rightarrow$ Nitrite ($\text{NO}_2^-$) $\rightarrow$ Nitrate ($\text{NO}_3^-$)

- **Nitrosomonas** bacteria uses Ammonia to produce Nitrite.
- **Nitrobacter** bacteria uses Nitrite to produce Nitrate.

Decomposition of chloramines

Natural occurring

Added
Most preventive and corrective actions overlap

Preventive and corrective actions:
- Dose chlorine and ammonia correctly
- Verify results
- Minimize water age
- Flush

Operational corrective action:
- Increase disinfectant residual levels
- Increase pH
- Temporary conversion to free chlorine
Op Head Discussion

- Member Agency request in Fall 2017
- OP Head discussion showed regional interest
  - Initial discussion received support from all agencies
- Provide regional benefit
- MWD supports (regional workshop to be scheduled)
- Currently scheduled for August 19, 2018
Why Temporarily Switch to Free Chlorine?

- The key to stopping nitrification is to starve the nitrifying bacteria of nitrogen
- A temporary conversion to free chlorine will ‘starve’ the nitrifying bacteria that ‘eat’ ammonia
  - The most effective way to do this is to temporarily convert your disinfectant from chloramine to free chlorine
Free Chlorine Switch Requirements

- Participating Member Agencies will develop (to be reviewed and approved DDW):
  - Switchover Plan
  - Monitoring Plan
  - Public Outreach Plan

- Non-participating Member Agencies need to:
  - Develop contingency plan if required to switch to Water Authority system
  - Ability to feed ammonia @ Water Authority treated water connections

- Water Authority will coordinate development of the required plans
Public Outreach

- Water Authority will develop and submit regional plan to DDW with input from member agencies
- Create and distribute outreach materials and speaking points to member agencies
- Host and update regional website
  - Info regarding member agencies supplying treated water directly and not part of free chlorine switch
- Targeted outreach to potentially affected regional groups (health care, aquarium stores, brewers, etc.)
Public Outreach

Timeline
- April/May develop and distribute materials
- Launch in June
- Continual heavy outreach through July and August
East County Regional Treated Water Improvements Program Agreements

Water Planning Committee
April 12, 2018
East County Agreements

- **Background**
  - Executed in 2006 to address regional treated water capacity constraints

- **Overview**
  - Provided an additional 10 MGD regional treated water supply from Helix’s Levy WTP
  - Water Authority and participating member agencies funded facility improvements and additional capacity purchases
Replacement Agreement Goals

- Participating Agency Interests
  - Replace minimum purchase commitment
  - Sunset agreement provisions once Water Authority fully recovers regional capital investment
  - Maintain status quo on transportation costs through Helix facilities
Replacement Agreement Goals

- **Water Authority Interests**
  - Ensure that regional capital investments are fully recovered from participating agencies
    - Capture time value of money
  - Maintain capacity rights in facilities and existing agreement with Helix
  - Maintain melded treatment rate benefits
  - Incorporate final sunset date to ensure timely recovery of capital investments
Cost Recovery

- Established Cost Recovery Responsibilities for each Agency
- Developed Cost Recovery Methodology based on Treatment Rate Differential
  - Interest applied annually to remaining net balance
- Set Final Sunset Date of December 31, 2028
  - Any remaining balance to be paid in full by member agency
Treater Water Surcharge Comparison

<table>
<thead>
<tr>
<th>Year</th>
<th>WA TW Rate</th>
<th>Helix TW Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>2012</td>
<td>$234</td>
<td>$90</td>
</tr>
<tr>
<td>2013</td>
<td>$256</td>
<td>$92</td>
</tr>
<tr>
<td>2014</td>
<td>$274</td>
<td>$100</td>
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<tr>
<td>2015</td>
<td>$278</td>
<td>$113</td>
</tr>
<tr>
<td>2016</td>
<td>$280</td>
<td>$123</td>
</tr>
<tr>
<td>2017</td>
<td>$290</td>
<td>$126</td>
</tr>
<tr>
<td>2018</td>
<td>$300</td>
<td>$133</td>
</tr>
</tbody>
</table>
## Cost Recovery Status
(Using proposed methodology)

<table>
<thead>
<tr>
<th></th>
<th>Net Total Capital Cost*</th>
<th>Current Interest (at 3.09%)</th>
<th>Remaining Balance (as of Dec. 2017)</th>
<th>Anticipated Completion Year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Lakeside</td>
<td>($2.0M)</td>
<td>($0.4M)</td>
<td>$0.0M</td>
<td>COMPLETED</td>
</tr>
<tr>
<td>Padre Dam</td>
<td>($6.9)</td>
<td>($2.1M)</td>
<td>($4.6M)</td>
<td>2028</td>
</tr>
<tr>
<td>Otay</td>
<td>($10.0)</td>
<td>($2.1M)</td>
<td>($4.7M)</td>
<td>2022</td>
</tr>
</tbody>
</table>

*The Net Total Capital Cost does not include annual capital modification expenses
Proposed Resolution

- Replacement Agreements for Padre Dam and Otay
  - Incorporates cost recovery methodology and sunset date

- Sunset Lakeside Agreement
  - Cost recovery completed
  - Sunset through amendment to existing agreement
Recommendation

Approve and authorize the General Manager to enter into replacement agreements with Padre Dam Municipal Water District and Otay Water District and an amendment with Lakeside Water District for the implementation of the East County Regional Treated Water Improvements Program.
Update on Water Supply Conditions

Water Planning Committee
April 12, 2018

Alexi Schnell
Water Resources Specialist
Northern Sierra Precipitation 8-Station Index

Accumulated Precipitation (in)

83% of Normal
(April 11, 2018)

Source: Department of Water Resources
46% of Normal (April 1, 2018)
Lake Oroville Storage Volume
Major Reservoir State Water Project System

- 63% of Capacity
- 81% of Average
(April 10, 2018)

Source: Department of Water Resources
San Luis Reservoir Storage Volume
Major Reservoir State Water Project System

San Luis Reservoir

Historical Average

90% of Capacity
100% of Average (April 10, 2018)

Initial CY 2018 SWP Allocation: 20%

Source: Department of Water Resources

San Diego County Water Authority
Precipitation 73% of normal

Snow water equivalent 74% of median
## Local Conditions

### Water Year 2018 Precipitation

<table>
<thead>
<tr>
<th>Station</th>
<th>April 1–10, 2018</th>
<th>% Normal</th>
<th>October 1, 2017 – April 10, 2018</th>
<th>Actual</th>
<th>% Normal</th>
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</thead>
<tbody>
<tr>
<td>Lindbergh Field</td>
<td>0.00 in.</td>
<td>0%</td>
<td>3.18 in.</td>
<td>3.18</td>
<td>33%</td>
</tr>
<tr>
<td>Ramona Airport</td>
<td>0.00 in.</td>
<td>0%</td>
<td>5.56 in.</td>
<td>5.56</td>
<td>40%</td>
</tr>
</tbody>
</table>

Total reservoir storage as of April 9th at 374,000 AF, or 50 percent of storage capacity.
Sacramento Update

Legislation and Public Outreach Committee
April 12, 2018

Glenn Farrel, Government Relations Manager
Legislature

- April 2 – Legislature returned from spring recess
- Policy committee hearings will occupy the Legislature during April
- Budget subcommittee hearings are currently under way, and will carry through until mid-May
- Next major legislative deadlines
  - April 27: All bills designated as “fiscal bills” must pass through all policy committees
  - May 25: All bills must pass through fiscal committees
Special Elections – State Assembly

2017 Assembly Composition
- Democrats: 55 (2/3 supermajority = 54)
- Republicans: 25

April 2018 Assembly Composition
- Democrats: 52 (three resignations (one filled) + one voluntary suspension)
- Republicans: 25

Special elections
- AD 39 (Bocanegra)
  - June 5 runoff: Rivas (D): 41.9%/Benitez (R): 22%
- AD 45 (Dababneh)
  - June 5 runoff: Gabriel (D): 32%/Clark (R): 27.1%
- AD 54 (Ridley–Thomas)
  - Outright victory: Sydney Kamlager (D): 68.9%
Special Elections – State Senate

2017 Senate Composition
- Democrats: 27 (2/3 supermajority = 27)
- Republicans: 13

April 2018 Senate Composition
- Democrats: 26 (one resignation)
- Republicans: 13

Special elections
- SD 29 (Newman) – June 5 recall election
- SD 32 (Mendoza – June 5
  - Runoff – August 7
Water Authority Sponsored Bills – 2018: AB 2371 (Carrillo)

- AB 2371 is co-sponsored in partnership with NRDC to advance several Independent Technical Panel (ITP) recommendations to improve landscape irrigation efficiency

- April 10: Passed through Assembly Water, Parks, and Wildlife Committee on an 8–5 vote
  - Next will be heard in Assembly Accountability and Administrative Review Committee
AB 2064 is intended to fully address cashflow issues for non-profit organizations and DACS participating in IRWM programs

AB 2064 is jointly authored by Assemblymembers Todd Gloria and Shirley Weber

AB 2064 passed the Assembly Water, Parks, and Wildlife Committee on a 15–0 vote

Placed on the Assembly Appropriations Committee Suspense file
SB 1277 is a spot bill introduced as a vehicle to create a governance and administrative structure to manage the day-to-day implementation of the 10-year Salton Sea Management Program.

A reliable structure for receiving funding, contract management, invoice processing, and priority project implementation does not yet exist.

Stakeholder working group discussions have already begun.
Update on Long-Term Water Use Efficiency Legislation – AB 1668/SB 606

- AB 1668 and SB 606 have been amended to reflect the progress that was made during the Legislature’s winter recess
- Some progress has been made toward resolving outstanding implementation issues
- Remaining priority issues include:
  - Potable reuse credit
  - Drought resilient supplies
  - CII performance measures
  - Outdoor water use standards
  - Enforcement
## Issue

<table>
<thead>
<tr>
<th><strong>Proposed Amendments</strong></th>
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</thead>
<tbody>
<tr>
<td><strong>Potable Reuse Credit</strong></td>
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<tr>
<td><strong>Drought Resilient Water Supplies</strong></td>
</tr>
<tr>
<td><strong>CII Performance Measures</strong></td>
</tr>
<tr>
<td><strong>Outdoor Water Use Standards</strong></td>
</tr>
<tr>
<td><strong>Enforcement</strong></td>
</tr>
</tbody>
</table>
What’s Next?

- Executing a strategy to “close-out” this policy issue
  - Remaining policy and implementation issues are well understood and widely shared
  - Strong partnership among San Diego interests helps to keep legislative delegation unified

- Remains a high priority issue for the Governor
Water Tax Action Plan

Legislation and Public Outreach Committee
April 12, 2018

Glenn Farrel, Government Relations Manager
Background on Water Tax

- SB 623 (Monning) and Budget Trailer Bill
  - Would generate approximately $160 million in annual revenue
    - Drinking water tax: $135.4 million/year (85% of revenue)
    - Fertilizer and dairy tax: $22.5 million/year (15% of revenue)
  - Funds would be expended within identified areas with drinking water (groundwater) contamination
    - Largely within San Joaquin and Salinas valleys
  - Enforcement and liability protection for agricultural industry contribution to drinking water quality issues

- 2/3 vote bills
Status of Water Tax Legislation

- **SB 623**
  - Assembly Rules Committee since September 1, 2017
  - Will require procedural actions and possible re-referral to policy and fiscal committees
  - No indication that any action is imminent – likely timetable for action is August

- Administration’s proposed budget trailer bill – Safe and Affordable Drinking Water Act
  - Hearings held in Assembly and Senate Budget Subcommittees on Resources during mid-March
  - Item held “Open” by budget subcommittees
  - Likely timetable for action is mid-May through early June in budget subcommittees
    - Action also required on Assembly and Senate Floors
Working Timeline for Water Tax Legislative Activity

4/2/18  
Legislature reconvenes from Spring Recess

Week of 5/7/18  
May Revise of State Budget to be issued*

Trailer bill activity heightens (Early May – early June 2018)

6/15/18  
State Budget must be approved by midnight

7/6-8/6/18  
Legislative Summer Recess

Budget Trailer bill or SB 623 could move during this time (August 2018)

8/31/18  
End of legislative session

*Projected

Updated: 4/2/18
73% of polled voters oppose a tax on drinking water

Substantial opposition holds:
  ◦ Among varying demographic groups
  ◦ Geographically
  ◦ On a bi-partisan basis
  ◦ Even when provided a very favorable argument to justify the water tax

Water tax polling data is being distributed widely within Sacramento and among the media
Recommended Actions

◦ Adopt Support and Seek Amendments position on AB 2050 (Caballero)

◦ Contribute $10,000 to ACWA water tax education campaign

◦ Further engage in educating the region and San Diego ratepayers on water tax proposals
Water Tax Action Plan: AB 2050

- AB 2050 (Caballero)
  - Authorize creation of small system water authorities with powers to absorb, improve, and operate noncompliant water systems
  - Provide a framework for consolidation of non-contiguous, small, noncompliant water systems
  - Service delivery solution rather than a funding solution
  - Co-sponsored by Eastern Municipal Water District and CMUA

- Staff recommendation: Support and Seek Amendments
  - Identify specific funding sources and amounts to implement the measure
  - Ensure LAFCO retains authority to determine which water systems should be consolidated
Water Tax Action Plan: ACWA Education Campaign

- ACWA is soliciting funding contributions toward its “No Drinking Water Tax Campaign”
  - Secure public affairs firm to develop strategic external affairs campaign and assist with coalition-building
  - Advertising campaign focused on key legislative districts throughout the summer
  - Request is for $10,000 from interested water agencies

- Seven Water Authority member agencies have financially contributed

- Staff recommendation: Water Authority contribution of $10,000 to ACWA water tax education campaign
Water Tax Action Plan: Engaging San Diego Region

- Options for further regional engagement
  - **Educate key audiences**: Customers, media, local leaders, key regional stakeholders
  - Place local op/ed articles
  - Use social media and other platforms for message distribution
  - Consider a press conference
  - Direct advocacy by Board members
  - **Seek active member agency engagement**: Adopt formal positions of opposition to water tax legislation and participate in education and advocacy with region’s legislators
Staff recommends the Board take the following actions:

- Adopt a position of Support and Seek Amendments on AB 2050 (Caballero), related to small system water authorities
- Contribute $10,000 to the ACWA water tax education campaign
- Direct staff to undertake actions from among the identified options to further engage the San Diego region on the water tax proposals
Social Media Program Overview

Legislation & Public Outreach Committee
April 12, 2018
Background

- Six active platforms
  - Facebook
  - Twitter
  - Instagram
  - LinkedIn
  - YouTube
  - Nextdoor

- Gained 2,700+ followers in 2017
- 11,000+ likes or shares in 2018
Social Media Strategy

- Stay relevant in the fast-changing marketplace of ideas
- Increase followers through compelling content
- Boost education and engagement
Platforms

- Facebook – 9,000 followers
- Twitter – 3,800 followers
- Instagram – 900 followers

Howard @_H2Ou · Mar 2
Learned a lot on Day 1 of @sdcwa efficiency. Energy Water nexus info reservoir. #sdcwa Thank you to GN
Campaigns & Promotions

- Annual reports
- Public-opinion poll
- Bilingual water-saving tips
- Tree care
Photo Contests

- 2017 Live WaterSmart
  - Launched Instagram
  - 80 photos
  - 2,500 likes

- 2018 Brought to You by Water
  - Great sponsors
  - Runs May 1-31
Up Next

- Developing existing platforms
- Seeking new opportunities
Small Contractor Outreach and Opportunities Program Mid-Year Update

Legislation and Public Outreach Committee
April 12, 2018

Teresa Penunuri, Public Affairs Supervisor
SCOOP Overview

- Goal: Increase the bidding opportunities for small businesses in public contracting bids
  - Communicate and provide opportunities
  - Track and report small-business participation
  - Current annual goal: 20% (Established 2016)
Outreach and Training

- July – December 2017
  - 16 Regional/Southern California events
  - 12 organizations

- Major events
  - July - CalCon Expo
    - 1200 attendees
  - November – Veterans in Business
    - Inaugural conference
    - 900 attendees
  - November – Women in Construction
    - 100 attendees
## SCOOP 2nd Quarter Report FY 2018

<table>
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<tr>
<th>Measurements</th>
<th>Total</th>
<th>% Small</th>
<th>% M/W</th>
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</thead>
<tbody>
<tr>
<td>Database</td>
<td>2248</td>
<td>31%</td>
<td>25%</td>
</tr>
<tr>
<td># Bidders</td>
<td>164</td>
<td><strong>32%</strong></td>
<td>14%</td>
</tr>
<tr>
<td># Firms</td>
<td>327</td>
<td>27%</td>
<td>9%</td>
</tr>
<tr>
<td>Contracts</td>
<td>164</td>
<td>32%</td>
<td>14%</td>
</tr>
<tr>
<td>$ Awarded</td>
<td>$48,600,312</td>
<td><strong>35%</strong></td>
<td>1%</td>
</tr>
</tbody>
</table>

Overall SCOOP participation goal for 2018 = 20%
SCOOP Measurements to Date

- 2002-2017
  - $1.8 billion in procurements
  - $390.5 million to small businesses
  - $102 million to minority/women-owned businesses
  - 22 percent small business participation over the life of the program
Today’s Presentation

- Program origin
- 1st year of program activities
- Plans going forward
Program Origin

The Water Authority’s Employee Growth and Development Program seeks to create a culture that fosters employee professional growth, provides unique work opportunities, and encourages employees to reach their full potential.

• Need for professional growth opportunities for employees
• Launched in January 2017
• In coordination with Human Resources
• Program Coordinator – Kimberlyn Velasquez
1st Year of Program Activities have included:

- Mentor Program
- Writing Workshops
- Group Discussions
- Newsletter
Group Discussions

The Program Coordinator and employees with specialized expertise facilitate occasional group discussions on a variety of career-related issues.

- **Communication**
  - Jason Foster
  - October 2017

- **Mentor Lunch & Learn**
  - Kimberlyn Velasquez
  - Jim Fisher
  - November 2017

- **Political Acumen**
  - Dennis Cushman
  - January 2018

- **Negotiations**
  - Mark Hattam
  - April 2018
Writing Workshop

Taught by Mike Lee, POC, as a means to improve writing skills and confidence throughout all agency departments.

Key Points

- Writing is hard work.
- Think big.
- Audience matters.
- Less is more.
- Clarity is king.
- Start early.
- Revise often.

Lee’s First Axiom: Every unnecessary word increases the chances that readers will bolt.

Lee’s Bonus Axiom: Writing is never done.
Mentor Program

Affords employees the chance to benefit from relationships not necessarily tied to their current work duties.

- Employee driven program
- Employees select their own mentors from within or outside the organization
- List of mentors available – all managers & some alumni
- Lunch & Learn on mentor program and its benefits
Newsletter

Communicates all upcoming EGDP events and resources. Serves as a motivational letter to encourage employees to reach out of their comfort zone and work towards their goals.
New Intranet Website

The new intranet site houses all information related to the program.

Released with new Water Authority Intranet in March 2018
Employee Growth & Development Program

ABOUT THE PROGRAM

Creating a culture that fosters employee growth, provides unique work opportunities, and encourages employee potential.

As a key part of the Water Authority, you are encouraged to take an active role in achieving your career objectives and helping others do the same. Please consider how you can both give and gain by participating in the Employee Growth and Development Program. The program is intended to be a structured course or a managerial prescription. Instead, it was designed with enough latitude for employees to set their own objectives with the understanding that those efforts will benefit the agency as a whole in different ways than mandatory or standard training.

This is a self-driven program that you may take advantage of in whichever way you see fit to achieve your goals. The program includes:

- professional growth planning,
- one-on-one mentorship,
- group discussion opportunities,
- cross-training,
- job shadowing,
- department info sessions,
- structured training through human resources,
- suggested reading and other resources,
- and a newsletter to keep you up-to-date on the program.

Please reach out to the program coordinator with any questions or tips on how to get started or check out the program guide for tips on how to check out and subscribe to our announcements and calendar below to stay up-to-date on EGDP activities!

Announcements

There are no items to show in this view of the "Announcements" list.

EGDP Calendar
Plans Going Forward

- New Intranet-Site for employees
  - Brings it all together
- New program coordinator for next year
- Growing mentor program
- More group discussions
- Continue writing workshop
Assumptions

- Assumptions and definitions used listed on page 117 of Board packet
  - Page 6 of Attachment 1 to board memo

- Key assumptions:
  - Total capital cost at $16.7 billion (2017$)
    - Plus 3% inflation factor
  - Underlying data is from MWD documents
    - White Paper #3 on Project Financing
      - Project construction cost spread over 13 years beginning in 2020
      - 4% and 8% interest rates on debt
    - 2015 Urban Water Management Plan
Assumptions

Impacts on Water Authority

- Supply is amount purchased from MWD
  - Based upon updated Interim Demand Forecast Reset
    - 2035 normal year demand of 10,225 AF
    - Presentation includes sensitivity analysis for 60,225 AF of MWD supply purchases

- Wheeling impacts based upon 280,000 AF/year

- Cost based upon Water Authority percentage of MWD’s 2035 demand (2015 UWMP)

- Single household using 0.4 AF of Water Authority water per year

- $/AF depicted nominal dollars
WaterFix cost impact to Water Authority depends on:
- Water Authority’s demand on MWD
- How MWD recovers WaterFix costs on rates

MWD’s planning documents assume WaterFix costs will be recovered on transportation
- Despite DWR’s traditional characterization of “peripheral canal related” facilities (e.g. WaterFix) as “Project Conservation Facilities” -- i.e. supply cost

Under Interim Demand Forecast Reset profile in 2035, WaterFix costs on Water Authority would be ~24 times higher than if MWD recovers costs on supply
Aug. 20, 2012
MWD assumption is $3.5 billion of Twin Tunnels Project

Oct. 10, 2017
MWD Board approves $4.3 billion commitment to Twin Tunnels

Nov. 29, 2017
At ACWA Conference, MWD GM announces for first time single tunnel being considered

Feb. 7, 2018
DWR announces “staged approach” to build single tunnel due to lack of commitments from CVP Contractors

Feb. 12, 2018
MWD Board discusses staged approach for first time; a few directors suggest MWD pay for both tunnels

Says cost is $5/month

Says cost is $1.90-$3.10/month (int. = 4%-8%)
MWD’s Recent Actions

March 27, 2018
MWD workshop on WaterFix; reviewed MWD costs for both staged approach and MWD funds second tunnel

April 2, 2018
Memo from MWD GM and Chair tells board staff will bring single tunnel staged approach to Board April 10

April 6, 2018
At 3:25 p.m., MWD issues Board memo: two options will be considered

Feb. 27, 2018
MWD again discusses staged approach; reviewed State’s economic analysis for Stage 1

April 10, 2018
MWD Board approves at least $10.8 billion of Twin Tunnels Project, plus undetermined shares from other SWP contractors

Says Cost = $4.8/month
MWD’s April 10 Action

- Commit to paying 64.6% of twin tunnels WaterFix project
  - At $16.7B project cost, commitment is $10.8B
  - Total dollar commitment, however, is uncapped
    - Board gave GM sole discretion to determine final project cost

- Negotiate agreements to assume additional cost obligations from other SWP contractors
  - To acquire portions of six other SWP agricultural contractors’ obligations
    - Could increase MWD’s commitment to $11.9B, or 71.4% of total $16.7B project
## Second Tunnel Doesn’t Increase MWD Yield

<table>
<thead>
<tr>
<th>Principal Features</th>
<th>OPTION 1 (First Stage)</th>
<th>OPTION 2 (Full Facility)</th>
</tr>
</thead>
<tbody>
<tr>
<td>New Diversions</td>
<td>2 intakes at 3,000 cfs each</td>
<td>3 intakes at 3,000 cfs each</td>
</tr>
<tr>
<td>Tunnels</td>
<td>One 40 foot diameter 35 miles long</td>
<td>Two 40 foot diameter 35 miles long</td>
</tr>
<tr>
<td>Pumping Plants</td>
<td>1</td>
<td>2</td>
</tr>
<tr>
<td><strong>Costs</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Total Capital Costs (2017 dollars)</td>
<td>$11.1 billion</td>
<td>$16.7 billion</td>
</tr>
<tr>
<td>MWD Capital Costs</td>
<td>$5.2 billion (47.1%)</td>
<td>Up to $10.8 billion (64.6%)</td>
</tr>
<tr>
<td>MWD Total Annual Costs</td>
<td>$252 million</td>
<td>Up to $515 million</td>
</tr>
<tr>
<td>MWD Overall Cost Increase</td>
<td>16%</td>
<td>Up to 33%</td>
</tr>
<tr>
<td>Annual Cost Increase over 15 Years</td>
<td>1.1%</td>
<td>Up to 2.2%</td>
</tr>
<tr>
<td>Average Cost Increase per Acre-Foot</td>
<td>$148</td>
<td>Up to $303</td>
</tr>
<tr>
<td>Average Household Cost</td>
<td></td>
<td></td>
</tr>
<tr>
<td>(Based on 70% residential spread over 6.2 million households)</td>
<td>$2.40/month</td>
<td>Up to $4.80/month</td>
</tr>
<tr>
<td><strong>Benefits</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Annual Average MWD Supply Improvement</td>
<td>Approx. 405 – 455 TAF/yr plus additional flexibility from two intakes</td>
<td>Approx. 405 – 455 TAF/yr plus additional flexibility from three intakes</td>
</tr>
<tr>
<td>Average Reverse Flows</td>
<td>Approx. -405 cfs</td>
<td>Up to +53 cfs</td>
</tr>
<tr>
<td>Transfer Capacity (Preliminary State Water Contractor analysis)</td>
<td>0.8 MAF/yr at 50th percentile</td>
<td>1.1 MAF/yr at 50th percentile</td>
</tr>
<tr>
<td>Climate Change Adaptation</td>
<td>6,000 cfs capacity (North Delta Intakes)</td>
<td>9,000 cfs capacity (North Delta Intakes)</td>
</tr>
<tr>
<td>Capacity to Mitigate for Earthquake or Other South Delta Outages</td>
<td>6,000 cfs capacity (North Delta Intakes)</td>
<td>9,000 cfs capacity (North Delta Intakes)</td>
</tr>
<tr>
<td>Reduced Total Dissolved Solids (TDS) (Dry Years)</td>
<td>15%</td>
<td>Up to 19%</td>
</tr>
<tr>
<td>Reduced Bromide (Dry Years)</td>
<td>24%</td>
<td>Up to 31%</td>
</tr>
</tbody>
</table>

Source: MWD
Cost Implications to the Water Authority and Region’s Ratepayers
Calculation Steps

Calculating Cost to MWD

$16.7B Total Project Cost (2017$) Built over 13 years (2020-2033)

Annual Capital Cost Financed at 4% or 8% plus annual O&M Cost

MWD’s assumed share

= MWD Annual Cost, $

Calculating Cost to Water Authority

MWD Annual Cost, $

SDCWA portion (%) of MWD deliveries in 2035 based on costs applied to: 1. transportation, or 2. supply

= SDCWA Annual Cost, $
Calculating Cost to Water Authority (cont.)

\[
\text{SDCWA Annual Cost, $} \div \text{SDCWA projected sales in 2035 (including MWD supply, QSA supply, and desal supply), AF} = \frac{\text{$/AF Water Authority Rate Increase}}{}
\]

Calculating Cost to Our Ratepayers

\[
\text{$/AF Water Authority Rate Increase} \times 0.4 \text{ AF/Year Average Household Demand} = \frac{\text{Annual Household Increase }$/\text{AF}}{} \div 12 \text{ Months} = \text{Monthly Increase}
\]
MWD assigns WaterFix costs on Supply

Full Project ($16.7B)

<table>
<thead>
<tr>
<th>MWD Financial Commitment</th>
<th>Impact to Water Authority: Capital ($ in M)</th>
<th>Impact to Water Authority Rates ($/AF)*</th>
<th>Increase in household monthly bill</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.8 billion</td>
<td>$73</td>
<td>$16–26</td>
<td>$0.55–$0.80</td>
</tr>
<tr>
<td>$11.9 billion</td>
<td>$81</td>
<td>$18–29</td>
<td>$0.60–$0.97</td>
</tr>
</tbody>
</table>

*interest rate: 4% and 8%, nominal $
**based on single family household using 0.4 AF of Water Authority water per year
MWD assigns WaterFix costs on Transportation

Full Project ($16.7B)

<table>
<thead>
<tr>
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<th>Impact to Water Authority: Capital ($ in M)</th>
<th>Impact to Water Authority Rates ($/AF)*</th>
<th>Increase in household monthly bill**</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.8 billion</td>
<td>$1,759</td>
<td>$398–632</td>
<td>$13.27–$21.07</td>
</tr>
<tr>
<td>$11.9 billion</td>
<td>$1,945</td>
<td>$440–699</td>
<td>$14.67–$23.30</td>
</tr>
</tbody>
</table>

*interest rate: 4% and 8%, nominal $

**based on single family household using 0.4 AF of Water Authority water per year
Full Project ($16.7B)

<table>
<thead>
<tr>
<th>MWD Financial Commitment</th>
<th>Impact to Water Authority: Capital ($ in M)</th>
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</tr>
</thead>
<tbody>
<tr>
<td>$10.8 billion</td>
<td>$73</td>
<td>$10–16</td>
<td>$0.34–$0.50</td>
</tr>
<tr>
<td>$11.9 billion</td>
<td>$81</td>
<td>$11–18</td>
<td>$0.38–$0.60</td>
</tr>
</tbody>
</table>

*interest rate: 4% and 8%, 2018$

**based on single family household using 0.4 AF of 100% Water Authority’s water per year
MWD assigns WaterFix costs on Transportation (in 2018 Dollars)

**Full Project ($16.7B)**

<table>
<thead>
<tr>
<th>MWD Financial Commitment</th>
<th>Impact to Water Authority: Capital ($ in M)</th>
<th>Impact to Water Authority Rates ($/AF)*</th>
<th>Increase in household monthly bill**</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.8 billion</td>
<td>$1,759</td>
<td>$249–395</td>
<td>$8.29–$13.17</td>
</tr>
<tr>
<td>$11.9 billion</td>
<td>$1,945</td>
<td>$275–437</td>
<td>$8.92–$14.56</td>
</tr>
</tbody>
</table>

*interest rate: 4% and 8%, 2018 $

**based on single family household using 0.4 AF of 100% Water Authority’s water per year
### What if Water Authority Buys 50,000 AF More MWD Water in 2035?

MWD Assigns WaterFix on Transportation

<table>
<thead>
<tr>
<th>MWD Financial Commitment</th>
<th>WA MWD Purchase</th>
<th>Impact to WA: Capital</th>
<th>Impact to WA: Annual</th>
<th>Impact to WA Rates ($/AF)*</th>
<th>Avg. inc. in household monthly bill**</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.8B</td>
<td>10,225</td>
<td>$1,759M</td>
<td>$136M–$216M</td>
<td>$398/AF–$632/AF</td>
<td>$13.27–$21.07</td>
</tr>
<tr>
<td></td>
<td>60,225</td>
<td>$2,007M</td>
<td>$155M–$246M</td>
<td>$396/AF–$629/AF</td>
<td>$13.21–$20.97</td>
</tr>
</tbody>
</table>

MWD Assigns WaterFix on Supply

<table>
<thead>
<tr>
<th>MWD Financial Commitment</th>
<th>WA MWD Purchase</th>
<th>Impact to WA: Capital</th>
<th>Impact to WA: Annual</th>
<th>Impact to WA Rates ($/AF)*</th>
<th>Avg. inc. in household monthly bill**</th>
</tr>
</thead>
<tbody>
<tr>
<td>$10.8B</td>
<td>10,225</td>
<td>$73M</td>
<td>$6M–$9M</td>
<td>$16/AF–$26/AF</td>
<td>$0.55–$0.80</td>
</tr>
<tr>
<td></td>
<td>60,225</td>
<td>$419M</td>
<td>$32M–$51M</td>
<td>$83/AF–$131/AF</td>
<td>$2.76–$4.38</td>
</tr>
</tbody>
</table>

*interest rate: 4% and 8%, nominal $  
**based on single family household using 0.4 AF of WA water per year
Different Assumptions & Future Decisions Could Change Impact

- Key factors that could decrease rate impacts:
  - Project costs lower than $16.7 billion
  - O&M costs are lower
  - MWD recovers significant share of WaterFix transportation charge on Readiness-to-Serve (RTS)
    - RTS is not charged under Exchange Agreement
  - Water Authority member agencies’ local supplies
  - Lower interest and/or inflation rate
  - Agricultural contractors agree to bear some share of project cost
  - State and/or federal government provide funding
Different Assumptions & Future Decisions Could Change Impact

- Key factors that could increase rate impacts:
  - Final WaterFix project cost exceeds $16.7 billion
    - Construction materials
    - Unknown geological conditions
  - Operations and maintenance costs are higher
  - Schedule delays
    - Legal challenges
    - Changes in political priorities
  - MWD assumes more than 71.4% of total project cost
  - Higher interest and/or inflation rate
Where MWD Recovers WaterFix Costs Matters to Water Authority

Bulletin 132-17
Appendix B

Data and Computations Used to Determine 2018 Water Charges

Source: DWR Bulletin 132-17 Appendix B
## Where MWD Recovers WaterFix Costs Matters to Water Authority

### Table 2  Project Purpose Cost Allocation Factors (percentages)\(^a\)

<table>
<thead>
<tr>
<th>PROJECT FACILITIES</th>
<th>Water Supply and Power Generation</th>
<th>All Other Purposes (Nonreimbursable)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Capital Costs</td>
<td>Minimum OMP&amp;R Costs</td>
</tr>
<tr>
<td>Frenchman Dam and Lake</td>
<td>21.5</td>
<td>0.0</td>
</tr>
<tr>
<td>Antelope Dam and Lake</td>
<td>0.0</td>
<td>0.0</td>
</tr>
<tr>
<td>Grizzly Valley Dam and Lake Davis</td>
<td>1.0</td>
<td>1.8</td>
</tr>
<tr>
<td>Oroville Division(^b)</td>
<td>97.1</td>
<td>99.5</td>
</tr>
<tr>
<td>California Aqueduct, Delta to Dos Amigos Pumping Plant</td>
<td>96.6</td>
<td>96.7</td>
</tr>
<tr>
<td>Delta Facilities</td>
<td>86.0</td>
<td>86.0</td>
</tr>
<tr>
<td>Peripheral Canal Related</td>
<td>96.6</td>
<td>96.7</td>
</tr>
<tr>
<td>Remaining of Delta Facilities</td>
<td>100.0</td>
<td>100.0</td>
</tr>
</tbody>
</table>

**Source:** DWR Bulletin 132-17 Appendix B
Where MWD Recovers WaterFix Costs Matters to Water Authority

Metropolitan Water District of Southern California

FISCAL YEARS 2018/19 and 2019/20 COST OF SERVICE REPORT FOR PROPOSED WATER RATES AND CHARGES

April 2018

Source: MWD’s FYs 2019 & 2020 COS Report
Where MWD Recovers WaterFix Costs
Matters to Water Authority

California WaterFix

California WaterFix is an improvement to the SWP, the largest water supply project in the country. The project is a science-driven upgrade to the SWP’s conveyance system in the Delta. The existing Delta water conveyance system needs to be improved and modernized to address operational constraints on pumping in the south Delta. The SWP is subject to biological opinions and incidental take permits that substantially limit the way DWR operates the SWP. Therefore, under the California WaterFix, DWR will extend the delivery system from new north Delta water intakes on the Sacramento River to a new forebay in the south Delta to provide additional operational flexibility in operating the SWP. The California WaterFix includes the

At this time, DWR has not provided an analysis for how it proposes to categorize the capital financing and operating costs of the California WaterFix on State Water Contractor Statement of Charges. However, in fiscal years 2019/20 and 2020/21, Metropolitan proposed to allocate $4 million and $12 million, respectively.

The California WaterFix is expected to be financed through the issuance of debt instruments to be paid back over time, resulting in annual capital financing costs. Consistent with the functionalization of SWP transportation costs, the capital financing costs of the California WaterFix have been functionalized to the conveyance and aqueduct function in the biennial budget cost of service analysis. This functionalization is based on the nature of the project and information available to Metropolitan at this time and Metropolitan will continue to review its cost allocations of the project as it is constructed, and in the event DWR allocates the project any differently.

Source: MWD’s FYs 2019 & 2020 COS Report
Communicating Cost Impacts

Jeffrey Kightlinger
@8thGenCA

$2-5 a month on average per household across SoCal. And @sdcwa planning to buy very little @mwdh2o water anyways so won’t pay for @CAWaterFix if true. To get $17 or $23 month you must assume 8% interest and other high end assumptions.

The California WaterFix is expected to be financed through the issuance of debt instruments to be paid back over time, resulting in annual capital financing costs. Consistent with the functionalization of SWP transportation costs, the capital financing costs of the California WaterFix have been functionalized to the conveyance and aqueduct function in the biennial budget cost of service analysis. This functionalization is based on the nature of the project and information available to Metropolitan at this time and Metropolitan will continue to review its cost allocations of the project as it is constructed, and in the event DWR allocates the project any differently.

Source: MWD
Coachella Canal Lining Post-Construction Activities Update

IMPORTED WATER COMMITTEE MEETING

APRIL 12, 2018
Canal Lining Projects

Coachella Canal
35 miles, Completed 2007

All-American Canal
23 miles, Completed 2010
Canal Lining Project Responsibilities

**WATER AUTHORITY**
- Paid $190 M for construction after $257 M State funding
- Receives annual transfer of 80,000 AF for 110 years
- Pays no supply costs
- Pays $13 to $15/AF for environmental mitigation, operations, maintenance, repair

**BOR, CVWD, AND IID**
- BOR owns the canals
- BOR, CVWD, and IID oversaw construction
- CVWD and IID perform environmental mitigation; operations, maintenance, repair
Coachella Canal Lining
Completed Mitigation Measures

50-acre Wister Sports Fishery

57 Wildlife Watering Ponds

2,000 Tree Planting

60 miles Fencing along the Canal
Coachella Canal Lining Remaining Mitigation Measures

- Dos Palmas Oasis
- Preserve 105-Acre Core Marsh
- Maintain Pupfish Habitat
- Preserve 17-Acre Marsh
- Create 352 Acres Desert Riparian Habitat
Coachella Canal Lining Operations, Maintenance, & Repair Activities

- **OMR Committee Members**
  - Independent Chair
  - Coachella Valley Water District
  - Water Authority
  - San Luis Rey Settlement Parties

- **OMR Committee Approves Budget**
  - Routine Activities
  - Periodic Activities

![Road Grading](image1)

![Removal of Sand Accumulation](image2)
Coachella Canal Concrete Lining Repair

- Periodic repair of cracked panels

- Typical canal O&M program

- Completed repairs
  - 2012 and 2018
  - 1% of total area of concrete lining
## MWD Key April 2018 Actions

- **Adopted FYs 2019 & 2020 Budget**
  - Revenue Requirements: $1,559M

- **Adopted CYs 2019 & 2020 Rates & Charges**

<table>
<thead>
<tr>
<th>Rates and Charges Effective January 1st</th>
<th>2018</th>
<th>2019</th>
<th>% Change</th>
<th>2020</th>
<th>% Change</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tier 1 Supply Rate ($/AF)</td>
<td>$209</td>
<td>$209</td>
<td>0.0%</td>
<td>$208</td>
<td>(0.5%)</td>
</tr>
<tr>
<td>Tier 2 Supply Rate ($/AF)</td>
<td>$295</td>
<td>$295</td>
<td>0.0%</td>
<td>$295</td>
<td>0.0%</td>
</tr>
<tr>
<td>System Access Rate ($/AF)</td>
<td>$299</td>
<td>$326</td>
<td>9.0%</td>
<td>$346</td>
<td>6.1%</td>
</tr>
<tr>
<td>Water Stewardship Rate ($/AF)</td>
<td>$55</td>
<td>$69</td>
<td>25.5%</td>
<td>$65</td>
<td>(5.8%)</td>
</tr>
<tr>
<td>System Power Rate ($/AF)</td>
<td>$132</td>
<td>$127</td>
<td>(3.8%)</td>
<td>$136</td>
<td>7.1%</td>
</tr>
<tr>
<td>Full Service Untreated Volumetric Cost ($/AF)</td>
<td>$695</td>
<td>$731</td>
<td>5.2%</td>
<td>$755</td>
<td>3.3%</td>
</tr>
<tr>
<td>Tier 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Treatment Surcharge ($/AF)</td>
<td>$320</td>
<td>$319</td>
<td>(0.3%)</td>
<td>$323</td>
<td>1.3%</td>
</tr>
<tr>
<td>Full Service Treated Volumetric Cost ($/AF)</td>
<td>$1,015</td>
<td>$1,050</td>
<td>3.4%</td>
<td>$1,078</td>
<td>2.7%</td>
</tr>
<tr>
<td>Tier 1</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tier 2</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Readiness-to-Serve Charge ($M)</td>
<td>$140</td>
<td>$133</td>
<td>(5.0%)</td>
<td>$136</td>
<td>2.3%</td>
</tr>
<tr>
<td>Capacity Charge ($/cfs)</td>
<td>$8,700</td>
<td>$8,600</td>
<td>(1.1%)</td>
<td>$8,800</td>
<td>2.3%</td>
</tr>
<tr>
<td>Overall Rate Increase</td>
<td></td>
<td></td>
<td></td>
<td></td>
<td>3.0%</td>
</tr>
<tr>
<td>Wheeling Rate ($/AF)</td>
<td>$486</td>
<td>$522</td>
<td>7.4%</td>
<td>$547</td>
<td>4.8%</td>
</tr>
<tr>
<td>Exchange Rate without WSR ($/AF)</td>
<td>$431</td>
<td>$453</td>
<td>5.1%</td>
<td>$482</td>
<td>6.4%</td>
</tr>
</tbody>
</table>
MWD Key April 2018 Actions

- Suspension of WSR on Water Authority’s Exchange Water
  - Saves Water Authority $46.2M

- Authorized increasing MWD’s Twin Tunnels WaterFix participation to 64.6%
  - At current cost estimate: $10.8 billion

- Approved Modifications to Conservation Program
  - Includes extending WA’s FY 2018 MAAP funds through FY2019

<table>
<thead>
<tr>
<th></th>
<th>CY 2018</th>
<th>CY 2019</th>
<th>CY 2020</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td>Exchange Deliveries, AF</td>
<td>212,000</td>
<td>242,000</td>
<td>274,000</td>
<td>728,000</td>
</tr>
<tr>
<td>WSR Revenues on Exchange</td>
<td>$11,660,000</td>
<td>$16,698,000</td>
<td>$17,810,000</td>
<td>$46,168,000</td>
</tr>
</tbody>
</table>
Offsetting Benefits Issue In MWD Rate Litigation

Imported Water Committee
April 12, 2018

Mark Hattam, General Counsel
What is the “offsetting benefits” issue in the MWD rate litigation?:

a. Under state law, MWD is required to examine if the QSA Exchange Agreement water provides a benefit to MWD, and then offset that benefit against the wheeling rate charged to the Water Authority.

We will cover the core of the issue, and debunk some “urban myths” about it.
Substance of the Issue

Water Code requirements:

1. MWD is entitled to “fair compensation” for moving our QSA water under the Exchange Agreement. Water Code section 1810.
2. Water Code section 1811(c) defines “fair compensation” as:

“[R]easonable charges incurred by the owner of the conveyance system, including capital, operation, maintenance, and replacement costs, increased costs from any necessitated purchase of supplemental power, and including reasonable credit for any offsetting benefits for the use of the conveyance system.”
How does one determine the amount of the credit for offsetting benefits? MWD has already said how it should be done:

“The wheeling rates shall be reduced to reflect the regional water supply benefits provided to Metropolitan’s service area, if any, on a case-by-case basis in response to a particular wheeling transaction. The regional benefits, if any, shall be calculated by Metropolitan in the same manner as such benefits are calculated for use in the Local Projects and Groundwater Recovery Program.” MWD Resolution 85–20.
What are MWD’s current benefit payment rates for its Local Projects and Groundwater Recovery Program?:

a. “[T]hree LRP incentive payment structure options to choose from: (1) sliding scale incentives up to $340/AF over 25 years, (2) sliding scale incentives up to $475/AF over 15 years, or (3) fixed incentive up to $305/AF over 25 years.” 12/13/16 MWD Water Resources Management Group Report.
# MWD Record Evidence on Offsetting Benefit Credit

## Whose Calculation?

<table>
<thead>
<tr>
<th>Calculation Description</th>
<th>Original $/AF</th>
<th>Escalated to 2018 $/AF</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. MWD’s Jan. 1997 Reso. 8520 based upon LRP</td>
<td>$250</td>
<td>$305–$475</td>
</tr>
<tr>
<td>2. MWD’s July 1997 internal calculation</td>
<td>$385</td>
<td>$716</td>
</tr>
<tr>
<td>3. MWD’s Dec. 1997 negotiating team calculation</td>
<td>$195</td>
<td>$363</td>
</tr>
<tr>
<td>4. DWR Director David Kennedy’s 1998 calc.</td>
<td>$220</td>
<td>$409</td>
</tr>
<tr>
<td>5. MWD’s 1998 calculation countering Kennedy’s</td>
<td>$208</td>
<td>$387</td>
</tr>
<tr>
<td>6. MWD’s Tier 2 Supply Rate</td>
<td>$280–$290</td>
<td>$295</td>
</tr>
</tbody>
</table>
Simple math shows the significance of this issue for even a single year:

210,000 af in 2018 x $305 AF (lowest MWD local projects number) = $64,050,000.
The offsetting benefits issue has the potential to require MWD to credit a large amount of money to the Water Authority to account for the benefits provided to MWD by our Exchange Water:

Present value of offsetting benefit: **$2.7 billion** (Tier 2 Supply Rate) to **$6.5 billion** (MWD’s July 1997 calculation) through 2047 for 280,000 AF of QSA water.
Urban Myths

There have been a number of urban myths making the rounds about this offsetting benefits issue. What is an urban myth?

“A story or statement that is not true but is often repeated, and believed by many to be true.” Cambridge Dictionary (Online).
Myth 1: “This offsetting benefits issue is a brand new claim by the Water Authority.” Or, as stated in MWD 4/4/18 letter to Director Lewinger: “[T]his [issue] has not been part of the parties’ litigation.”

Truth: The issue was raised in 2010–12 litigation:

a. “MWD has never made written findings regarding the ‘offsetting benefits’ of wheeling water to San Diego from Imperial Valley, other than the one it attempted to conceal—that all of its member agencies benefit from that transaction by at least $65 per acre-foot.” Pre-Trial Brief 2010–12 Cases.
b. “Met’s wheeling rates also illegally exceed ‘fair compensation’ by definition because they do not include a ‘reasonable credit for the use of the conveyance system.’ Water Code section 1811(c). This is particularly illogical and unfair given that Met actually pays up to $250 per acre-foot for the development of other water supplies . . . .” Post-Trial Brief 2010–12 Cases.
c. “Met’s wheeling rate doesn’t give the credit for offsetting benefits that the definition of fair compensation requires, and you [Judge] asked the question about that, too.” Oral Argument at trial, 2010–2012 cases.

d. Both 2010 and 2012 complaints alleged that MWD violated the law by not properly determining “fair compensation” under the wheeling statutes.
Myth 2: “The Court already decided the Water Authority does not get any offsetting benefits.”

Truth: The trial court invalidated MWD’s wheeling rate in its entirety and so never decided the offsetting benefits issue. The Court of Appeal and Supreme Court have never addressed this issue.
Urban Myth #3

- **Myth 3**: “There is no legal requirement for MWD to examine offsetting benefits.” Or, as most recently stated to Director Lewinger by MWD’s 4/4/18 letter: “Neither the Court of Appeal decision, nor any other law, requires that Metropolitan calculate any alleged ‘offsetting benefits.’”

- **Truth**: Water Code section 1811(c) applies to MWD, and the Court of Appeal said so. Examples:
a. “Fair compensation” is statutorily defined as “the reasonable charges incurred by the owner of the conveyance system, including capital, operation, maintenance, and replacement costs, increased costs from any necessitated purchase of supplemental power, and including reasonable credit for any offsetting benefits for the use of the conveyance system. (Wat. Code, § 1811, subd. (c).)” 12 Cal. App. 5th 1124, 1144.
b. “As these costs are incurred by Metropolitan, so too must they be recovered by it. *(Wat. Code, § 1811, subd. (c))*. 12 Cal. App. 5th 1124, 1147.

c. As previously noted, “*fair compensation*” for a wheeler's use of a conveyance system is statutorily defined as “the reasonable charges incurred by the owner of the conveyance system, including capital, operation, [and] maintenance” costs. *(Wat. Code, § 1811, subd. (c))*. 12 Cal. App. 5th 1124, 1150.
Conclusion

- The Court of Appeal made clear that Water Code section 1811(c) applies to the Exchange Agreement.

- MWD got the benefit of enforcing section 1811(c) when the Court ruled that the SWP was part of MWD’s overall system and thus “fair compensation” entitled MWD to recover SWP costs.

- But when the Water Authority wants to apply the same section 1811(c) “fair compensation” review, which mandates offsetting benefits, MWD claims the law does not apply. *Let’s look back at slide 4.*
Conclusion (Cont’d)

- The offsetting benefits issue is a major one that has never been decided by any court. Billions of dollars are at stake for San Diego region water ratepayers. The courts need to determine the issue so we know what “fair compensation” MWD is allowed to lawfully recover.