July 18, 2018

Attention: Imported Water Committee

Adopt Position Statement on the California WaterFix Project and Updated Bay-Delta Policy Principles (Action)

Staff recommendation
Adopt the proposed position statement on the California WaterFix project and updated Bay-Delta Policy Principles to reflect recent events and developments and to protect the San Diego region’s ratepayers’ interests.

Alternatives
1. Modify the proposed position statement and one or more Policy Principles.
2. Do not adopt the proposed position statement or updated Policy Principles.

Fiscal Impact
The fiscal impact of California WaterFix (WaterFix) to the Water Authority is a range of possible outcomes and depends on several factors, with MWD’s total WaterFix financial exposure and how it allocates costs among its rates and charges having the greatest impact on the Water Authority.¹

Executive Summary
- In recognition of MWD’s Board April and July votes on WaterFix, the Bay-Delta Policy Principles are updated to focus on project cost allocation and oversight.
- The updated Bay-Delta Policy Principles (Attachment 1) support the current design and construction plans to complete WaterFix, and actions to protect the Water Authority, its member agencies, and its ratepayers from unfair financial impacts, ensuring WaterFix costs are properly allocated to MWD’s supply rates and leaving the Water Authority on equal footing with other MWD member agencies who support WaterFix in order to protect existing water supply.
- A position statement is proposed expressing support for the WaterFix project as currently proposed under certain conditions.
- Upon the Board’s action, the Water Authority will update the policy positions within its educational materials and will outreach to ratepayers, opinion leaders, and elected officials to increase their awareness, and actively engage with the Department of Water Resources (DWR) and MWD to ensure WaterFix costs are properly allocated to supply.

Previous Board action: The Board adopted its Bay-Delta Policy Principles in February 2012.

Discussion
Water Authority Board’s May 2018 Direction
In May, the Board voted to “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

¹ See Water Authority board memo dated April 3, 2018 for the range of potential cost impacts: https://www.sdcwa.org/sites/default/files/2018-04-12%20WaterFix%20Update.pdf
the California WaterFix, and provide for actual costs by DWR to be categorized as envisioned by DWR Bulletin 132.” The Bay-Delta/WaterFix issue was discussed at the June Special Board Workshop and the Board’s input is incorporated into these proposed principles.

**Water Authority’s Bay-Delta Policy Principles**

In 2012, the Board adopted the Bay-Delta Policy Principles to guide staff in evaluating Bay-Delta initiatives and the Water Authority’s advocacy positions. The ultimate objective of the policy principles is to implement a Bay-Delta solution that supports the co-equal goals of ecosystem restoration and water supply reliability, is comprehensive, cost effective, environmentally sustainable, widely supported by stakeholders, and that is equitable to the Water Authority’s ratepayers.

**WaterFix Progress**

While the Board actively engaged in the review of potential Bay-Delta solution proposals, it did not take a formal position on WaterFix due to lack of critical information – most importantly, how the costs of the project would be allocated. There were also serious concerns about how much financial risk MWD is assuming for the project given lack of funding commitments from Central Valley Project (CVP) beneficiaries.

In October 2017, the MWD Board voted to support and fund up to 25.9 percent of the total WaterFix cost. At the time, it was assumed that the project would be cost shared by the State Water Project (SWP) contractors and the CVP contractors through a 55/45 split. The action passed with 68.97 percent supporting, and without the Water Authority’s MWD Delegation supporting the action.

After failing to gain CVP contractors’ financial commitment to fund their 45 percent share, in February, DWR proposed a single tunnel phased approach, providing a path for the SWP contractors to proceed with the project. Upon hearing about the phased approach, some MWD directors asked MWD staff to work with CVP contractors to see if arrangements could be developed to allow for construction of the second tunnel at the same time. On April 2, via email, MWD staff informed its Board that it was unable to strike a deal with the CVP contractors and thus would only bring a recommendation that supports MWD increasing its WaterFix funding to match the phased single tunnel approach: the proposal would have increased MWD’s financial commitment from $4.3 billion to $5.2 billion. Four days later, staff instead presented two options for the MWD Board’s consideration, including both a single tunnel option as well as one that would have MWD fund the unsubscribed second tunnel for the CVP contractors without any commitments from CVP contractors that assure MWD would recover its investment for the second tunnel. MWD staff continued to recommend that MWD fund its share of a phased WaterFix project only. MWD staff’s report noted that there is no difference in the supply benefit between MWD funding for one tunnel or two tunnels, with both achieving at about “405-455 TAF/yr” in “MWD supply improvements.” The MWD Board instead voted to approve the two-tunnel project with 60.83 percent of the vote, with the Water Authority’s MWD delegates opposing the action. In doing so, it increased MWD’s financial participation to $10.8 billion by committing to pay both its share of the increased SWP cost and the unsubscribed second tunnel for CVP contractors.
Following the April vote, Food and Water Watch and the First Amendment Coalition sent a notice of Brown Act Violation and a request for public records to MWD alleging its April WaterFix vote violated the Brown Act. In July, while not admitting that it had violated the Brown Act, the MWD Board rescinded the April 2018 action and voted again to essentially support the same action it took in April: fund up to 64.6 percent of the total project cost. This action passed by 59.57 percent of the votes, with the Water Authority's MWD Delegation opposing the action.

*Proposed Updated Water Authority Bay-Delta Policy Principles*

Because MWD’s action presented significant financial exposure to MWD, and in turn the Water Authority, Water Authority staff presented an updated set of Bay-Delta Policy Principles in April that focused on protecting and ensuring the Water Authority, its member agencies, and ratepayers would be responsible for only its fair share of WaterFix costs, and included the following key points:

- Ensuring WaterFix costs continue to be categorized as a supply cost, and
- Shielding the Water Authority from paying for extra WaterFix project capacity that does not benefit its ratepayers.

*WaterFix Cost Impacts to the Water Authority*

The Water Authority’s April 2018 memo showed that, depending on how MWD recovers WaterFix costs in its rates and charges, the WaterFix cost could have a significantly disproportionate impact on the Water Authority ratepayers compared with other MWD member agencies. For example, because of the diversification effort the San Diego region has and will continue to pursue, if WaterFix costs are recovered through MWD’s “transportation” rates, the average household impacts could be more than 20 times higher than if the costs were applied on MWD’s current volumetric water “supply” rates. This stark difference is because if MWD treats WaterFix costs as transportation costs, this will impact the Water Authority’s wheeled Colorado River supplies. As the San Diego region continues to diversify its water supply portfolio, thus reducing its MWD water purchases, the Water Authority will continue to rely on MWD to wheel the Water Authority’s independent Colorado River supplies. While a typical MWD member agency may roll on and off

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3 Except the April action limited the 64.6 percent to WaterFix capital costs only.


5 The analysis relied on a methodology the Water Authority has historically used: data presented in nominal value when debt issuances are at their maximum level (to coincide with project online date), and an average household using 100 percent Water Authority supplies (the same assumptions the Water Authority used to conduct its Claude “Bud” Lewis Carlsbad Seawater Desalination Project analysis).
MWD depending on its supply needs, the Water Authority’s wheeling need from MWD – at 280,000 acre-feet per year by 2021 – does not fluctuate.

**Characterization of WaterFix Costs**

Since the Water Authority’s April 2018 memo publication, MWD has stated that while it considers WaterFix costs as transportation, it plans to recover a portion of these costs on the Readiness-to-Serve Charge, which does not apply to the Water Authority’s Exchange Agreement rate; thus only a portion of the WaterFix costs will be billed onto the Exchange Agreement. However, this MWD position is inconsistent with its long-term water supply contract with DWR (MWD-SWP contract) which defines WaterFix like facilities (i.e., peripheral canal related) as “Project Conservation Facilities” or a supply component. As an example, MWD-SWP contract defines “project conservation facilities” as “to the extent that they serve the purposes of water conservation in the Delta, water supply in the Delta, and transfer of water across the Delta” (Emphasis added). The fundamental purpose of WaterFix is to make physical and operational improvements to the SWP system in the Bay-Delta that are necessary to restore and protect ecosystem health, protect water supplies for the SWP and CVP contractors south of the Bay-Delta, and maintain water quality within a stable regulatory framework, consistent with statutory and contractual obligations. As recently as this year, DWR’s Bulletin 132-17 applied “peripheral canal related” costs “under its supply category.” This fact remains true even if a new categorization is being considered for charging WaterFix costs to MWD and other participants. Characterizing the WaterFix costs as transportation now, even if only half of the costs are applied on rates impacting the Water Authority’s transfer water, distorts why the project is being built – to protect an existing water supply, i.e., the SWP exports – and still uniquely disadvantages the Water Authority’s ratepayers.  

**MWD’s Funding of the Second Tunnel**

As described in MWD’s April 2018 memo, it more than doubled its WaterFix costs by funding the unsubscribed second tunnel intended to meet the needs of CVP contractors. The second tunnel provides some additional incremental improvements to water quality, seismic mitigation, and transfer capacity; however, the additional $5.6 billion in cost offers no additional “annual average MWD supply improvement,” when compared with the single tunnel. In MWD’s updated July 2018 memo, it now says that if the second tunnel capacity is not used by the CVP contractors, SWP contractors could receive an additional “150,000 acre-feet per year on average” of WaterFix benefit “following appropriate additional environmental review and permitting.” It did not explain the source or basis of calculating the availability of this additional water supply based on WaterFix

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6 Between 2007 and 2012, funding for the Bay Delta Conservation Plan and the Delta Habitat Conservation and Conveyance Program (predecessors of WaterFix) has been billed by DWR to selected SWP contractors who agreed to pre-fund the planning efforts under a separate line item in the Statements of Charges. This funding agreement did not change the definition of WaterFix as a “conservation” project intended to address environmental concerns.

7 MWD General Manager informed the Water Authority in a letter dated July 10 that DWR and the SWP contractors have reached an Agreement in Principle (AIP) and thus formal amendments to the SWP contract will be drafted to implement the AIP. The letter states that through the AIP, “it has been agreed that California WaterFix costs will be billed as a stand-alone charge and DWR will not be allocating California WaterFix costs between supply and transportation as DWR does with other SWP facilities.” Thus, the letter concluded that “DWR will not be providing guidance to Metropolitan on the allocation of costs relating to California WaterFix.” This letter found here: [https://mwdprograms.sldc.org/erp-content/uploads/2018-07-10-MWD-response-ltr-to-WA-re-WaterFix.pdf](https://mwdprograms.sldc.org/erp-content/uploads/2018-07-10-MWD-response-ltr-to-WA-re-WaterFix.pdf)

capacity, what additional environmental review and permitting would be required, or whether MWD has a need for the additional supplies.

**WaterFix Supply**

WaterFix supply by definition is measured by comparing project participants' Bay-Delta exports with WaterFix against their exports without WaterFix. When MWD describes its WaterFix participation as producing on average 405,000 to 455,000 acre-feet of supply benefit, it is describing the amount of exports it believes WaterFix will help preserve in anticipation of a set of more restrictive pumping limitation restrictions that are not yet in place. Because both the SWP and CVP contractors share the Bay-Delta waterways to export water south, they have historically coordinated their projects' operations. If both SWP and CVP contractors are funding WaterFix proportionate to their historic reliance on the Bay-Delta (55/45 split), how much export is produced as a result of WaterFix is irrelevant, because the projects will continue to operate and share the exports proportionately. However, other than Santa Clara Valley Water District (SCVW),9 which is both a CVP and SWP contractor, WaterFix is currently funded solely by the SWP contractors (almost two-thirds by MWD). How to determine WaterFix’s supply benefit is important if MWD intends to recover its upfront cost for the unsubscribed second tunnel. Will DWR and the US Bureau of Reclamation (USBR), the operator of the CVP, base their annual water allocations on a forecast of how much exports each project would have with and without WaterFix and reconcile the amounts at year-end? Who decides what the assumed regulations would be to determine the exports without WaterFix? How would disputes be resolved? It is unclear how or whether all of this is currently being negotiated. While USBR is analyzing potential modifications to the coordinated long-term operations of CVP and SWP,10 information about how WaterFix would be coordinated and operated between the two projects is not available.

In addition, while WaterFix will address reverse flows caused by the SWP and CVP exports, by adding new diversion points north of the Bay-Delta, it will not increase outflows. The State Water Resources Control Board (State Board) is reviewing the WaterFix petition for change in diversion points. On July 6, through a separate process, the State Board released the final draft of the Bay-Delta Water Quality Control Plan update for the lower San Joaquin River and Southern Delta as well as a framework document for the Sacramento River and Delta as part of its Bay-Delta Plan update process. Both documents call for more water being left in the rivers during key times of the year. By leaving more water in the rivers (or increasing Bay-Delta outflows), it will reduce Bay-Delta exports and impact WaterFix’s projected supply. The Water Authority's MWD Delegates have requested the MWD staff advise the Board about the impacts of these draft decisions.

**Water Authority Member Agencies Feedback**

The Water Authority staff met with the member agencies managers on June 19 and discussed the policy update as well as WaterFix. Prior to the meeting, Olivenhain Municipal Water District's General Manager noted that member agencies managers planned to (and subsequently did) discuss

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9 On May 8, 2018 the SCVW Board authorized participating in its SWP share of the project, about 1.67 percent of total project costs, and “to negotiate the purchase of up to 200 cfs of the [unsubscribed] CVP Share,” which equates to about 2.2 percent of the twin tunnel project’s capacity. Therefore, SCVW’s maximum WaterFix participation level would be less than 4 percent.

WaterFix and shared her notes on WaterFix with the Water Authority (attached). The Water Authority did not receive any further written suggested revisions to the draft policy principles. The main focus of the managers was that the Water Authority should target its efforts on ensuring WaterFix cost is properly allocated to supply.

*Ability to “Roll-Off” MWD and avoid WaterFix costs*
MWD has 26 member agencies. Because a significant portion of MWD’s costs are fixed, as MWD member agencies continue to develop local supplies and reduce their MWD water purchases such as the Water Authority has done, MWD will have a smaller and smaller rate base upon which to recover costs through its commodity rates and charges. Ultimately, all of MWD’s member agencies may be responsible to pay these costs. MWD has the legal authority to recover certain SWP costs on property taxes and it also has the legal authority to impose fixed charges on its member agencies. In 2016, MWD attempted to impose a fixed treatment charge to moderate its rising treatment rate increases due to reduced treated water sales. MWD could not obtain Board support to impose the fixed treatment charge, but it already has the authority to impose taxes if its water sales are insufficient to ensure payment of WaterFix costs.

*Proposed Position Statement*
The Board’s May direction included direction to staff to return with a draft position statement on the WaterFix project, as currently proposed. Staff recommends the Board adopt the following statement:

> The Water Authority Board of Directors supports the WaterFix project, as currently proposed, conditioned upon the Metropolitan Water District (MWD) allocating the costs of the project as conservation, or supply, charges as similar facilities historically have been defined in MWD’s SWP contract with DWR, and San Diego ratepayers not paying for unsubscribed WaterFix costs that benefit third parties.

*Recommendation*
Adopt the proposed position statement and updated Bay-Delta policy principles (attached).

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Approved by: Dennis A. Cushman, Assistant General Manager

Attachment 1: Updated Bay-Delta Policy Principles
Attachment 2: Olivenhain Water District’s Notes on WaterFix
San Diego County Water Authority  
Delta Policy Principles  
(Updated July 2018)

The San Diego County Water Authority Board of Directors supports a Bay Delta solution that will meet the co-equal goals and provide San Diego County with a reliable, high-quality supply of affordable, imported water consistent with the Water Authority’s Urban Water Management Plan and Regional Facilities Optimization and Master Plan. The adopted policy principles will guide staff in evaluating projects and actions concerning the Bay-Delta.

The MWD Board voted in July 2018 to support funding up to 64.6 percent of the total costs of the California WaterFix, as described in MWD's Board Memo dated July 10, 2018, including the costs of a second tunnel planned to meet the needs of Central Valley Project ("CVP") contractors. The July action also authorized staff to negotiate and acquire one or more multi-year transfers of unsubscribed shares of other SWP contractors’ costs, which could increase MWD’s total WaterFix financial responsibility by an undetermined amount.

The project as approved by MWD is not consistent with the Water Authority Board's current Delta Policy Principles in a number of material respects. The project does not: 1) provide regulatory certainty; 2) identify the total cost of the Bay Delta solution before financing and funding decisions are made; 3) allocate costs to stakeholders in proportion to benefits they receive; 4) require a firm commitment by all parties to pay for the fixed costs of the proportional benefits they will receive from WaterFix; and 5) plan facilities to match firm commitments to pay for WaterFix. The Water Authority's MWD Delegation voted against the MWD Board action; however, the Water Authority recognizes that the WaterFix project has been approved by the MWD Board and other SWP contractors, and will continue to proceed toward project development, construction and implementation. Accordingly, a WaterFix section is added to the Bay Delta Policy Principles.

WaterFix Principles Based on MWD Board of Directors July 2018 Action

- Support the current design and construction plans for the WaterFix project provided that its costs are properly allocated.
- Support allocation of costs by MWD to its member agencies and other parties in proportion to benefits they receive.
- Support allocation of WaterFix costs by MWD, DWR and any other third parties as “project conservation facilities” (or equivalent) as defined in the current version of Article 1(f) and (g) of Metropolitan Water District’s (MWD) SWP contract with DWR, and as reflected in Table 2 of DWR’s Appendix B to Bulletin 132-17, Data and Computation Used to Determine Water Charges, and for which costs are recovered in Article 22(a) of Delta Water Charge of the current MWD SWP Contract, other than exempting north of Delta SWP contractors. This is consistent with MWD and DWR’s historical allocation of SWP conservation costs to supply and the stated purpose of the project as to maintain an existing water supply.
- Support actions by DWR and MWD and any other parties to characterize or allocate WaterFix costs as supply. Oppose actions by DWR and MWD and other parties to characterize or allocate WaterFix costs as transportation costs.
- Oppose actions that result in San Diego ratepayers paying for unsubscribed WaterFix costs that are for the benefit of third parties such as the CVP contractors or for speculative purposes that
do not meet the water supply or capacity needs of any party that has committed to pay for the project.

- Support establishment of an independent oversight function to monitor and provide regular updates on WaterFix implementation progress, including expenditure tracking, construction progress, project participants’ contributions, and all other relevant activities and developments.

**Water Supply Reliability**

- Continue to support the co-equal goals of water supply reliability and environmental restoration embodied in the 2009 Delta bill package.
- Support deliberative processes that are designed to ensure a meaningful dialogue with all stakeholders in order to reduce future conflicts and challenges to implementation of a Bay Delta solution.
- Provide regulatory certainty and predictable supplies to help meet California’s water needs in the long-term.
- Encourage a Bay Delta solution that acknowledges, integrates and supports the development of water resources at the local level including water use efficiency, seawater and brackish water desalination, groundwater storage and conjunctive use, and recycled water including direct and indirect potable reuse.
- Improve the ability of water-users to divert water from the Delta during wet periods, when impacts on fish and ecosystem are lower and water quality is higher.
- Encourage the development of a statewide water transfer market that will improve water management.
- Support improved coordination of Central Valley Project and State Water Project (SWP) operations.

**Ecosystem Restoration**

- Restore the Bay-Delta ecosystem consistent with the requirements established under the state Natural Community Conservation Plan and the federal Habitat Conservation Plan, taking into account all factors that have degraded Bay-Delta habitat and wildlife.
- Work with all stakeholders to ensure a meaningful dialogue and that ecosystem restoration issues are addressed in an open and transparent process.

**Finance and Funding**

- Encourage and support a Bay Delta solution and facilities that are cost-effective when compared with other water supply development options for meeting Southern California’s water needs.
- Require the total cost of any Bay Delta solution be identified before financing and funding decisions are made. The total cost must include the cost of facilities, mitigation and required or negotiated ecosystem restoration.
- Allocate costs of the Bay-Delta solution to stakeholders in proportion to benefits they receive.
- Seek and support independent financial analyses of Bay-Delta solution including the ability of all parties to pay their proportional costs.
- Require a firm commitment and funding stream by all parties to pay for the fixed costs associated with the proportional benefits they will receive from a Bay Delta solution, through take-or-pay contracts or legal equivalent.
• Condition financial support on provisions allowing access to any water conveyance or storage facilities that are included in the Bay Delta solution.
• Support the use of public funds to support specific projects and actions with identified costs that protect and restore the environment and provide broad-based public benefits.
• Oppose water user fees to fund ecosystem restoration and other public purpose, non-water-supply improvements in the Delta that benefit the public at large.

Facilities
• Require independent technical analysis of proposed key elements of the Bay-Delta solution, including forecasting future urban and agricultural demands and size and cost of any proposed conveyance facility, to ensure the solution realistically matches statewide needs.
• Support “right-sized” facilities to match firm commitments to pay for the Bay Delta solution.
• Allow access to all SWP facilities to facilitate water transfers.

Governance
• Support continued state ownership and operation of the SWP, including WaterFix facilities, as a public resource.
• Support improved efficiency and transparency of all SWP operations.
• Oppose any transfer of operational control of the SWP or any of its facilities to MWD, the State Water Project Contractors, Central Valley Project Contractors, the State and Federal Contractors Water Agency, any entity comprised of MWD or other water project contractors, or any other special interest group.
CA WaterFix is a critical project for the State and Southern California

a. 25 million Californians depend on the Delta for water supply
b. In average years the Delta is 30 percent of the supply to Southern California. When other supplies are not available, or when it is a wet year like 2017, it is much more important.
c. It is between 23% and 90% of supply to the Central Valley

Compared to the Single Tunnel, Does the Second Tunnel

1. Improve water quality? Yes, reduction in TDS and Bromide
2. Increase exports during storms? Yes, see Winter 2013 Analysis, nearly 200 TAF
3. Improve water transfer capability? Yes, 300 TAFY at a 50% exceedance
4. Decrease reverse flows and fishery impacts? Yes, eliminates reverse flow, single tunnel does not
5. Keep fish near desirable habitat? Yes
6. Enhance flexibility to pump? Yes
7. Enhance seismic resiliency? Yes
8. Enhance climate change adaptation? Yes

Under the proposed agreements, if MWD provides additional funding for CA WaterFix, does it get the rights to additional supply? Yes.

Under the same proposed agreements, does MWD have the rights to sell, lease, or wheel the supply to other agencies? Yes

The issue is how DWR/MWD allocates the cost of the CA WaterFix.

1. Support an equitable cost allocation at both DWR and MWD, with focus on supply allocation.

2. Stating that costs should be allocated by DWR according to Appendix B of Bulletin 132 is a vague position as costs have been allocated differently over time. The most recent Appendix B to Bulletin 132 shows that $80 million in Peripheral Canal costs were allocated to Supply Costs in 2016. However, it also states that from 2008 to 2011, the costs for an “improved Delta conveyance facility” (Page 411 of 546 of Appendix B to Bulletin 132) were billed “directly to the 20 participating SWP contractors as a separate line item in the Statement of Charges and are not reflected in the tables on this appendix.” Appendix B (page 411) also states that the SWP contractors paid for BDCP “Supplemental Funding for Certain Ecosystem Actions and Support for Implementation of Near Term Water Supply, Water Quality, Ecosystem and Levee Actions” and these costs were placed on Transportation from 2007 to 2012.

3. CWA should support and advocate for DWR and/or MWD to categorize California WaterFix (WaterFix) as “project conservation facilities” as defined in Article 1(f) and (g) of MWD’s SWP contract with DWR and as reflected in recent year in Table 2 of DWR’s Appendix B to Bulletin 132, Data and Computation Used to Determine Water Charges.

4. CWA should support and advocate for MWD to continue current practice of collecting at least half of the CalWaterFix costs on the Readiness to Serve Charge.