



THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

September 19, 2019

Via Electronic Mail

Paul D. Jones II, P.E.
General Manager
Eastern Municipal Water District
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Potential Annexation of Rainbow Municipal Water District and Fallbrook Public Utilities District into Eastern Municipal Water District for Wholesale Water Service

Dear Mr. Jones:

We write in response to your July 25, 2019 letter. We are aware of the recent proposal for Rainbow Municipal Water District (RMWD) and Fallbrook Public Utilities District (FPUD) to detach from San Diego County Water Authority (SDCWA) and annex into Eastern Municipal Water District (Eastern) for its wholesale water service. We are monitoring the public discussions of the proposal, and are available to provide information and guidance to the affected parties on items that are Metropolitan-related.

As a preliminary matter, this proposal does not seek to alter Metropolitan's external boundary and it is simply a reorganization within Metropolitan's existing boundary. Therefore, no annexation actions are required of Metropolitan.

Accordingly, this proposal requires no action by the Metropolitan Board and it will not be presented to the Metropolitan Board. However, if the proposal moves forward, it will have effects on certain aspects of Metropolitan's billing, implementation of any allocation plans, certain demand management contracts and incentives under Metropolitan's Local Resources Program and conservation program, and certain operations. Thus, although Metropolitan's boundaries will not be affected, we intend to monitor the process before the Riverside and San Diego County Local Agency Formation Commissions and will work closely with the parties to manage all these related administrative issues.

We have reviewed and considered the list of issues identified in your letter. You asked us to identify any other relevant items and to provide you with written guidance on how Metropolitan will address these issues.

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Financial Issues

We agree the financial issues you list in points one and two will need to be addressed in connection with the proposal, including Tier 1 supply allocation, Purchase Order obligations, and Readiness-to-Serve Charge. If Eastern and SDCWA seek to recalculate any obligations or benefits at Metropolitan that are based on past services they have received from Metropolitan, those issues will require the two member agencies to agree to an approach and then Metropolitan will determine whether it can accommodate the request.

Point seven in your letter asked about transferring to Eastern a portion of SDCWA's preferential rights. Preferential rights are not transferable. Preferential rights are rights of Metropolitan member agencies to purchase available water. Under MWD Act § 135, each member agency's preferential rights are calculated based on the member agency's relevant payments to Metropolitan and amounts paid by the member agency to Metropolitan on tax assessments. Preferential rights are not based on transactions between a member agency and its customers. Metropolitan would continue to follow the statutory preferential rights calculation going forward and the proposed reorganization would not affect the methodology. Eastern and SDCWA would each receive an annual update to their preferential rights calculation as they do today.

The Standby Charge, ad valorem property taxes, Board representation, and voting entitlement, on the other hand, are determined based on the location of specific real properties and/or their valuations. They are not determined based on transactions between Metropolitan and its member agencies. Therefore, information from county assessors regarding properties within the service areas of RMWD and FPUD, will be needed. That information will be used to update the Standby Charge, ad valorem property taxes, Board representation, and vote entitlement after any change in service area of Eastern and SDCWA.

Water Supply Allocation Plan

To address point four in your letter, if Metropolitan's Water Supply Allocation Plan (WSAP) is implemented after this proposed reorganization occurs, Metropolitan would assess the retail demands, local supplies, and/or population for the two reorganized member agencies, Eastern and SDCWA. Allocations under the WSAP would be accordingly adjusted to reflect the changes under the proposal.

Demand Management Program Incentives

As to Metropolitan's incentive programs, point five in your letter, Metropolitan will review the existing Local Resources Program agreements to determine whether an assignment from SDCWA to Eastern is needed. Additionally, a proposed Local Resources Program application was approved for the Authority and FPUD by Metropolitan's Board this month. The draft agreement already contemplates the right to assign in the event of this proposed reorganization. Metropolitan will consider whether conservation incentive program agreements would be affected.

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Operational Issues

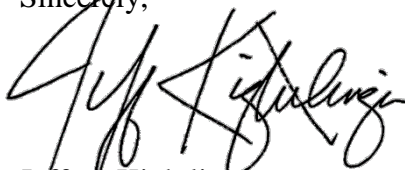
Metropolitan staff is assessing the potential operational needs required to implement the proposed reorganization. At a minimum, as you identified in point eight in your letter, the active service connection agreements for connections that serve RMWD and FPUD would need to be assigned from SDCWA to Eastern. However, it is not clear to Metropolitan which ones, if any, exclusively serve RMWD and FPUD, and to the extent they serve other member agencies of SDCWA, the shared use would have to be resolved amongst SDCWA and its agencies. If there are any inactive connections or other facilities that become obsolete due to this reorganization, we would want to terminate or cancel any agreements for these facilities and reconcile what needs to be done with them, if anything (removed, abandoned in place, etc.).

Additional Issues

We would like to add to the list for consideration, (1) the adjustment of the basis for the Capacity Charge for each of Eastern and SDCWA, which is also determined at the member agency level and not based on transactions between the Metropolitan member agency and its customers; and (2) the memorandum of understanding and related agreements between SDCWA, FPUD, and Metropolitan for adjudicated releases at Lake Skinner. The parties need to consider whether this agreement and the related obligations that currently run through SDCWA should be transferred or assigned to Eastern.

In sum, Metropolitan stands ready to work cooperatively with all affected agencies to resolve the Metropolitan-related issues arising out of the proposed reorganization. We are continuing to research any further items for resolution and will let you know if we discover any others. Please let us know if you have any additional questions.

Sincerely,



Jeffrey Kightlinger
General Manager

Attachment

cc via electronic mail w/attachment:

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