ATTACHMENT 3

STRATECON 12/31/2020 REPORT ON FALLBROOK DELTA STEWARDSHIP LETTER
Dear Mr. Hattam:

**RE:** Comments on Fallbrook Public Utility District “Analysis of Reduced Reliance on Delta Under Proposed Reorganization” submitted to Delta Stewardship Council on December 17, 2020

The San Diego County Water Authority (“Water Authority”) asked *Stratecon Inc* to review the above captioned submission (“Fallbrook Analysis”) by the Fallbrook Public Utility District (“Fallbrook”). Based on the information and analysis provided below, in my professional opinion, I conclude that the submission incorrectly states that the detachment would not impact the Metropolitan Water District of Southern California (“Metropolitan”) reliance on water exports from the Bay Delta.  

The proposed reorganization would change the water rights backing the water service to Fallbrook. Under the reorganization, Fallbrook would walk away from the Water Authority’s superior water supply portfolio based on (i) the Imperial Irrigation District (“IID”) more senior Priority 3 Colorado River water rights than Metropolitan’s Priority 4 Colorado River water rights, and (ii) the drought-proof Carlsbad seawater desalination project. Fallbrook residents would have water service backed only by Metropolitan’s junior Colorado River rights and a greater reliance on the notoriously variable State Water Project water supplies imported from the Bay Delta.

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1 The Fallbrook Analysis does not indicate the source of data it relies on in purporting to assess Metropolitan’s comparative regional self-reliance on the Bay Delta in 2010 and 2025 (page 4). To the author’s knowledge, Metropolitan did not prepare a consistency analysis in connection with its 2015 UWMP and has not yet released any public draft for its 2020 UWMP update. To the extent that LAFCO deems the consistency analysis relevant to the issue at hand (*Stratecon* does not believe that it is), it should require the information be provided by Metropolitan directly.

2 Metropolitan acknowledges significant long-term risks associated with its water supplies. These risks include climate change, compliance with state and federal laws such as the Federal and California Endangered Species Acts, tightening regulations for constituents of emerging concern and uncertain demographic forecasts.” See December 15, 2020 Draft Report on Retrospective of the 2015 Integrated Resources Plan (Attachment B) at Summary and Risks Remain (pp. 35-36). December 15, 2020 Draft Report on Retrospective of the 2015 Integrated Resources Plan
The proposed reorganization will increase Metropolitan’s reliance on the Bay Delta. As explained in detail in my contemporaneous submittal on Metropolitan’s submittal to LAFCO (and thus not addressed here), the Water Authority’s water sources are both more reliable and less reliant on the Bay Delta than Metropolitan. Therefore, the reorganization will increase Metropolitan’s reliance on Northern California and the environmentally sensitive Bay Delta for water supplies, particularly in the years to come as the Water Authority continues to reduce its reliance on Metropolitan water service.

The Fallbrook submission also includes a variety of statements that, at best, are diversionary to ascertaining the impact of the reorganization on Metropolitan’s reliance on the Bay Delta. The use of projections of from Urban Water Management Plans (“UWMP”) does not address how a reorganization would change demands on Metropolitan’s water sources. Fallbrook conflates statutorily limited discussion of water conservation and future projects in UWMP’s with the issue at hand—the impact of a reorganization on Metropolitan’s reliance on the Bay Delta. It mischaracterizes Stratecon’s analysis.

UWMP planning often does not match what happens, even assuming projections are based on the best available facts. Consider the projections of Fallbrook’s Local Water Supplies from the Urban Water Management Plans of 2005, 2010 and 2015 (see Figure 1). In the 2005 plan, local water supplies were planned to be almost 8,000 acre-feet per year by 2010. In the 2010 plan, local water supplies were planned to be about 6,000 acre-feet per year by 2015. In the 2015 plan, local water supplies were then planned to reach almost 5,000 acre-feet per year by 2020.

![Figure 1](image)

**Figure 1**
Projected Fallbrook Local Water Supplies by Year of UWMP

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4 Compiled from Fallbrook Public Utility District Urban Water Management Plans, Table 4, p. 8 (2005), Table 4, p. 10 (2010), and Table 6-9, p. 37 (2015).
In retrospect, the three Urban Water Management Plans overstated the timing and size of Fallbrook’s increased local water supplies (see Figure 2).\(^5\) With completion of Fallbrook’s Santa Margarita Conjunctive Use Project with Camp Pendleton, Fallbrook will now expand its local water supplies.

The takeaway is that Urban Water Management Plans are designed to serve the purpose established by the California Legislature: they are a planning tool. Fallbrook’s experience demonstrates that actual outcomes may deviate from plans. In 2005, Fallbrook anticipated developing groundwater supplies from the Santa Margarita River by 2010 with an estimated yield of 6,000 acre-feet per year.\(^6\) A decade later, the project is just around the corner at lower estimated yield of 3,100 acre-feet per year.

A planning tool should not be confused as an assessment tool of the proposed reorganization. How will Metropolitan use its own water supplies to meet Fallbrook and Rainbow’s water demands? Analysis of actual operations and agreements within the context of actual data provides the best framework.

Instead, Fallbrook conflates water conservation efforts and other projects by water agencies in Southern California with the issue at hand. Fallbrook states that, “Claiming that increased reliance on the Delta by MWD can be determined by just assessing MWD’s percentage of SWP and Colorado River supply negates the efforts being undertaken by all MWD member agencies and sub-agencies like FPUD.”\(^7\) The percentages that Fallbrook finds objectionable are facts about the composition of Metropolitan’s water supplies, which Fallbrook and Rainbow would

\(^5\) Compiled from Water Authority’s annual report on Sources and Uses of Member Agency water.
\(^6\) Fallbrook’s 2015 Urban Water Management Plan, Table 4, p. 8.
\(^7\) Fallbrook Submission, p. 24.
exclusively rely upon under a reorganization. Recognizing facts does not “negate” any other water conservation efforts or development of new local supplies.

Fallbrook’s submission muddles two issues: (1) what is the impact of the reorganization on Metropolitan’s reliance on the Bay Delta and (2) what is the impact of other programs and projects undertaken in Southern California on Metropolitan’s reliance on the Bay Delta. Those are not the same question, though Fallbrook’s discussion attempts to combine the former issue (relevant to assessment of the proposed reorganization) into the latter issue (which is not related to the assessment of the proposed reorganization).

Fallbrook also comments on Stratecon’s earlier letter concluding that the “detachment will increase Southern California’s reliance on Northern California for water supplies.” Eastern’s “Technical Memorandum” “asserts the contrary by assumption. It fails to mention, let alone analyze, the role of the Water Authority’s historic agreements with IID and the Coachella Valley Water District in the Water Authority’s water sources and how the Water Authority uses QSA water.”8 However, what follows in Fallbrook’s discussion then ignores the issue.

Instead, while recognizing that the Water Authority’s QSA water “is an important part of MWD service area’s overall efforts along with many other activities, to reduce reliance on the Delta,”9 it argues that “SDCWA’s QSA supplies did not create ‘new’ water.”10 This view evidences a lack of understanding of the role of the Water Authority’s underlying agreements in making QSA water available through the necessary regulatory approvals from the State Water Resources Control Board and Bureau of Reclamation. “New water” is in fact made available to the Water Authority and Metropolitan (from extension of Metropolitan’s 1988 Conservation Agreement with IID) from IID’s water conservation programs and the lining of the All American and Coachella Canals.

Fallbrook further mischaracterizes Stratecon’s review by stating that Stratecon seems “to be operating in a vacuum that [the] only factor reducing southern California’s reliance on the Delta is SDCWA’s Colorado River supply Agreements.”11 Stratecon’s analysis addressed the first issue identified above, i.e., the impact of the reorganization on Metropolitan’s reliance on the Bay Delta. Stratecon did not, nor did it need to, address the impact of other initiatives and projects in Southern California. Whatever the impact of the other initiatives on Metropolitan’s reliance on the Bay Delta, the proposed reorganization would mean that Metropolitan’s reliance on the Bay Delta would increase relative to its reliance based on the impact of other initiatives.12

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9 Ibid, p. 27.
10 Ibid.
11 Ibid.
12 Ibid.
The Delta Watermaster’s email to Sandy Kerl is crystal clear that the issue is not whether Southern California as a whole is taking steps to reduce reliance on the Delta, as argued by Fallbrook. Mr. George discusses the 2013 Delta Plan, Appendix G at G-5 and writes:

“It is important to recognize that reliance on water from the Delta varies . . . throughout California, and from region to region and water supplier to water supplier . . . the key is that every water supplier must do their part and take appropriate action to improve regional self-reliance and contribute to reduce reliance on water from the Delta watershed.” (emphasis added)

Metropolitan has identified that the reliability of its State Water Project supplies requires construction of a project involving one or more tunnels. The last time the Department of Water Resources attempted to certify that such a project was consistent with the Delta Water Plan, it withdrew its application due to objections by numerous parties that all of the suppliers who received water from the State Water Project, including Metropolitan, had not taken all appropriate steps to reduce reliance on the Delta. The proposed reorganizations of Fallbrook and Rainbow would only add to such a finding and thereby threaten implementation of a project Metropolitan deems essential to its future water supply reliability.

**Conclusion**

Fallbrook’s submission to the Delta Stewardship Council misstates the impact of the proposed reorganization on Metropolitan’s reliance on the Bay Delta. Fallbrook provides no substantive analysis or data in support of its presumptions. It neglects how the water supply sources backing the Water Authority’s service to Fallbrook and Rainbow differs from the water supply sources backing Metropolitan’s proposed water service to Fallbrook and Rainbow via Eastern.

Thank you for the opportunity to review Fallbrook’s Submission. Southern California’s water demands stress the local economies and ecosystems in the north. The Fallbrook and Rainbow reorganization proposal demonstrates regression—or “backsliding” in the words of the Delta Watermaster—by stepping away from actions already taken to reduce demand on the Bay Delta and would intensify the conflict.


Rodney T. Smith, Ph.D.
President
Attachment A
Rodney T. Smith, Ph.D.

Rodney Smith is President of Stratecon Inc (www.stratwater.com), an economics and strategic planning consulting firm specializing in the economics, finance, and policy of water resources, President of Baja Norte Water Resources, LLC, a project developer of bi-national water projects.

Dr. Smith is involved as an advisor in the acquisition of water rights throughout the western United States and in the sale and leasing of water rights and water supplies to public and private sector water users. This first-hand experience in the decades long development of water markets provides industry expertise to identify the best candidate locations for electronic water markets, proper market design and navigate related public policy issues.

He has consulted extensively for public and private sector clients, including high net worth investors, on business and public policy issues concerning water resources, including California’s Drought Water Bank, the government of New South Wales, Australia’s effort to privatize irrigation organizations, and the economic, financial, legal, and political dimensions of water transactions in many western states. Rod worked on the IID/San Diego County Water Authority Agreement, the settlement of Colorado River disputes on behalf of the Imperial Irrigation District, and the acquisition of 42,000 acres from the United States Filter Corporation, a unit of Veolia Environment. He is routinely involved in economic valuation of water rights, water investments, and negotiation of water acquisition and transportation agreements. He also performed studies on the economic risk of water shortages and valuation of surface water and groundwater storage. He has also served as an expert witness in the economic valuation of groundwater resources, disputes over the economic interpretation of water contracts, economics of water conservation and water use practices, and the socio-economic impacts of land fallowing. He served as an outside advisor and author of Water Transfers in the West: Projects, Trends and Leading Practices in Voluntary Water Trading, by the Western Governors Association and the Western States Water Council (2012).

Dr. Smith has written extensively on the law, economics, and finance of water resources and water policy. In 1987, he created and became co-editor of Stratecon’s paid-circulation publication Water Strategist: A Quarterly Analysis of Water Marketing, Finance, Legislation, and Litigation. In January 1999, the publication became a monthly web-based publication (www.waterstrategist.com) and information service, Water Strategist, which extended its coverage to include developments in the emerging private corporate participation in western water matters. In addition, Stratecon, Inc. introduced The Water Strategist Community, (www.waterchat.com), a web-based news portal providing free access to the direct press releases and important reports from over 300 public agencies, water firms and bond rating agencies. In 2011, Stratecon stopped publishing Water Strategist and replaced it with a contract research service based on its proprietary database. Earlier in 2013, Stratecon introduced prediction markets to the water industry (www.waterpolicymarkets.com), and in 2014, Stratecon introduced Journal of Water (www.journalofwater.com).
Rod is also known for his books *Troubled Waters: Financing Water in the West* and *Trading Water: A Legal Framework for Water Marketing*, sponsored by the Ford Foundation through grants to the Council of Governors' Policy Advisors. Former Secretary of the Interior Bruce Babbitt wrote forwards for both books.

Dr. Smith received his Ph.D. in Economics from the University of Chicago and a Bachelor of Arts in Economics from the University of California at Los Angeles. Prior to making a full time commitment to the private sector, he was a professor of economics at Claremont McKenna College for fifteen years, Director of the *Lowe Institute of Political Economy*, and a member of the editorial board of *Economic Inquiry*, the professional economics research journal of the *Western Economics Association*. In 1989, he was the John M. Olin Visiting Professor of Law and Economics at Columbia Law School. In the late 1970s and early 1980s, he was also a visiting assistant professor of economics at the Graduate School of Business, University of Chicago, where he also served as the Associate Director of the *Center for the Study of the Economy and the State*, founded by the late Nobel Prize winner in economics, George Stigler. Rod started his career after graduate school as an economist at the RAND Corporation, where he participated in a study commissioned by the California Legislature on the role of markets to address California’s water problems.