

# Overview of Key Regional Water Issues

July 5, 2012

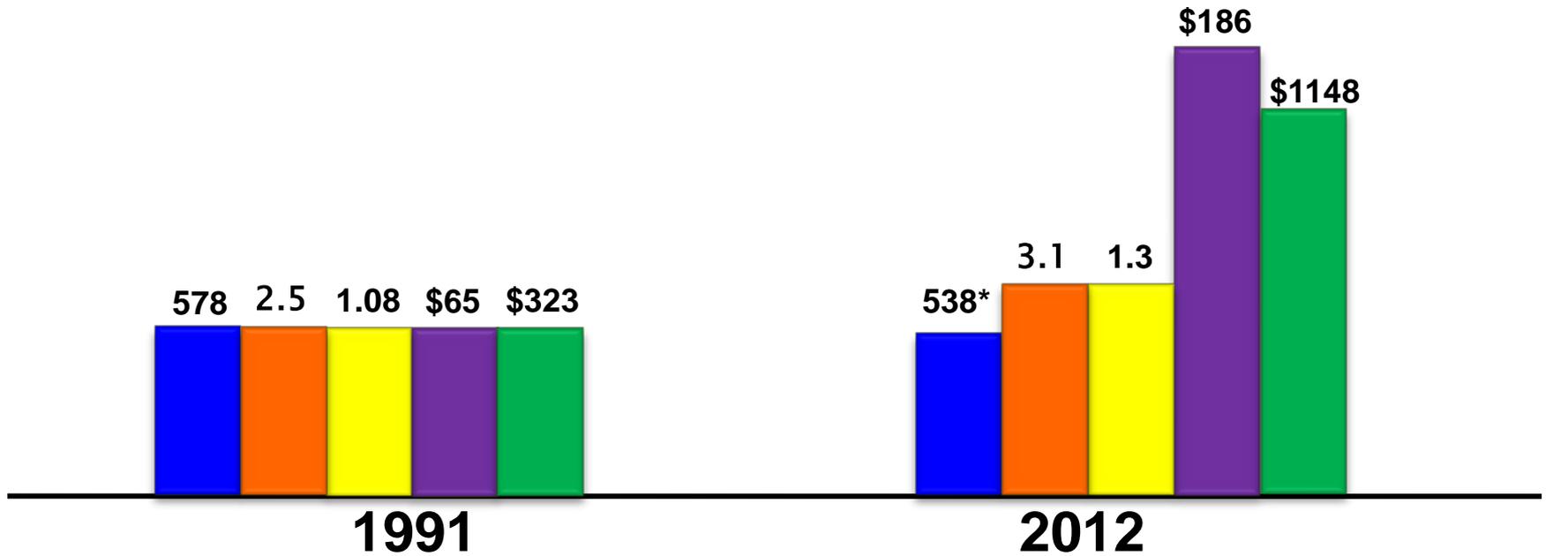


# Discussion Agenda

- ▶ San Diego County Water Authority
  - Water supply diversification
  - City's projected supplies
- ▶ Fixing the Bay-Delta
  - ▶ Status of Effort
  - ▶ San Diego's financial exposure
- ▶ Costs of Water – Current & Future
- ▶ MWD Rate Litigation



# San Diego County: 1991 vs. 2012



Water use (thousand acre-feet)

Population (millions)

Jobs (millions)

Gross Domestic Product (billions)

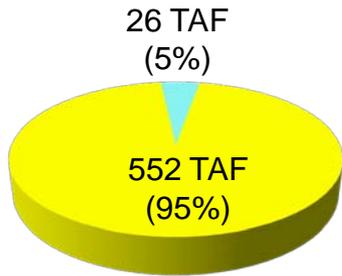
Cost of water per acre-foot (full service treated water rate)

\*Estimated



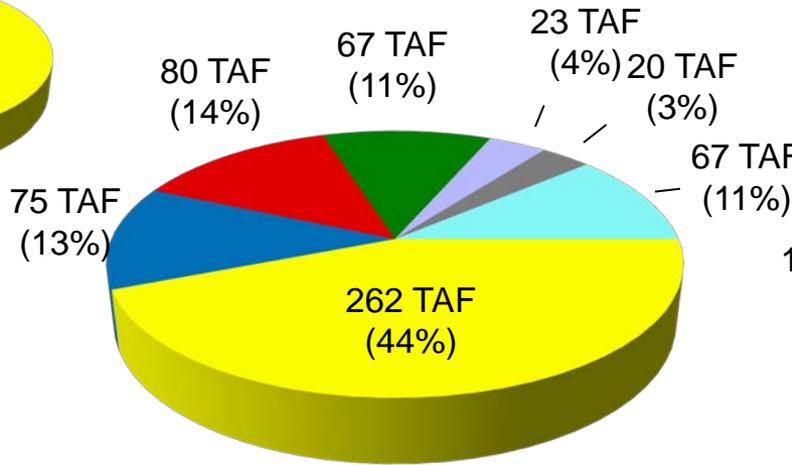
# Increasing San Diego County's Water Supply Reliability through Supply Diversification

1991



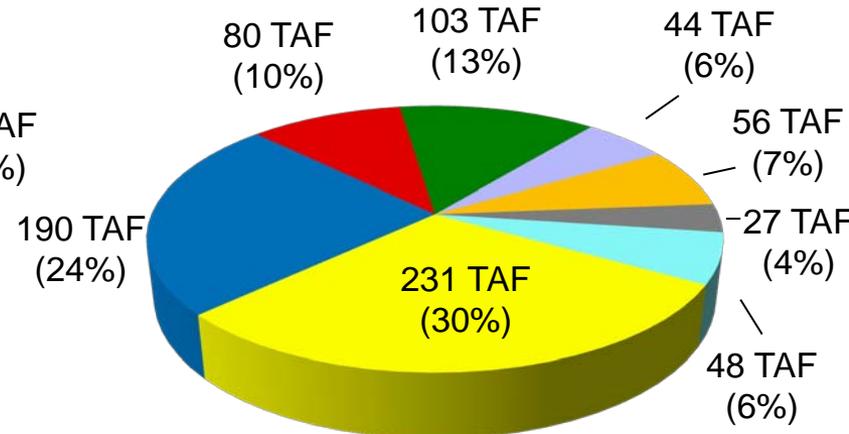
**Total = 578 TAF**

2011



**Total = 594 TAF**

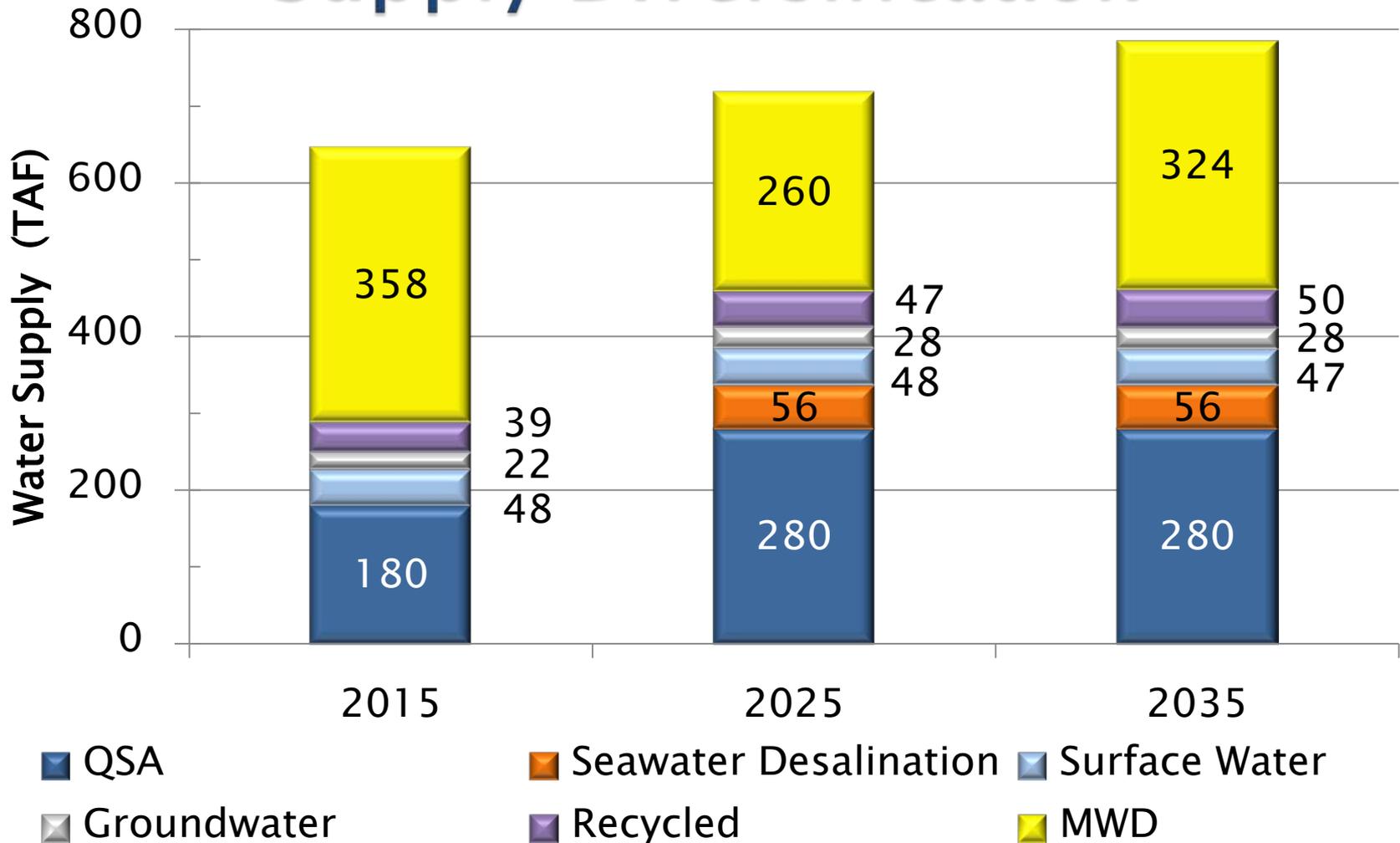
2020



**Total = 779 TAF**

- Metropolitan Water District
- Recycled Water
- Imperial Irrigation District Transfer
- Seawater Desalination
- All American & Coachella Canal Lining
- Groundwater
- Conservation
- Local Surface Water

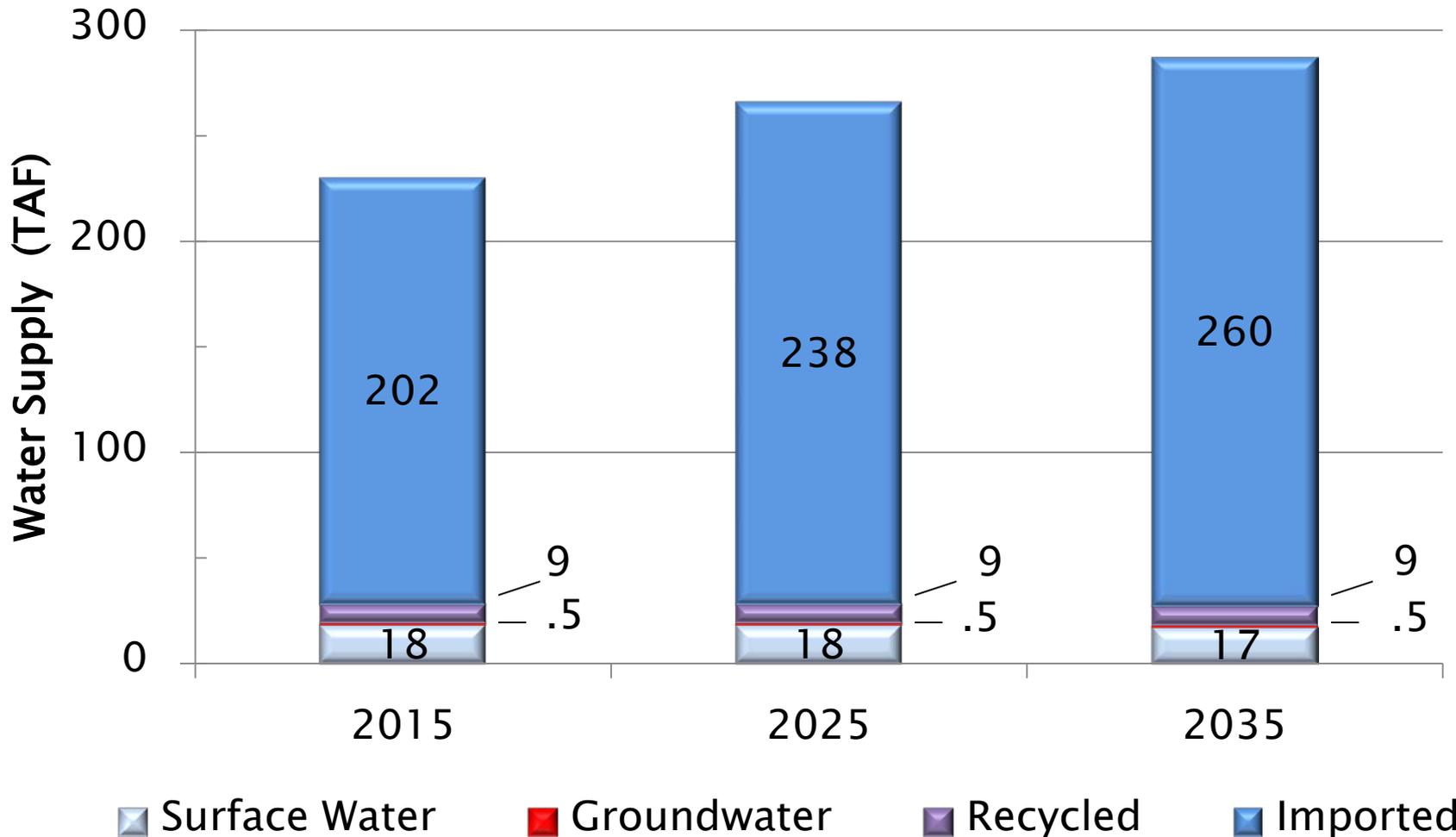
# San Diego County Water Authority Supply Diversification\*



\*Source: Water Authority 2010 UWMP - Verifiable Supplies



# City of San Diego Projected Supply\*



\*Source: Water Authority 2010 UWMP - Verifiable Supplies (excludes IPR)



# Fixing the Bay-Delta



# Bay Delta – In Search of a Solution

- ▶ Delta Stewardship Council considering final version in a series of six drafts of the Delta Plan
- ▶ Plan is to propose both policies and recommendations to meet the coequal goals:
  - Ecosystem restoration
  - Water supply reliability
- ▶ Bay Delta Conservation Plan in development:
  - Impacts of various sized alternatives
  - Financial assurances and ability to pay

# 2012 Bay-Delta Focus

- ▶ After six years of the BDCP, program has failed to address finances
  - What are the real demands for Bay-Delta supplies?
  - What agencies are going to sign up for the supply?
  - What agencies will commit to pay for the supply?
  - At MWD, how are member agencies going to be required to commit to pay for MWD's obligation?



# MWD & the Bay-Delta

- ▶ Today: MWD has a “take-or-pay” contract with the State of California to pay for its State Water Project supplies
  - Under contract, MWD obligated to pay ~\$500 million annually through 2035
    - MWD does not have contracts with its 26 member agencies to back up that commitment
- ▶ MWD is leading advocate of \$14+ billion, 15,000 CFS dual-tunnel Delta conveyance project
  - MWD would commit to new “take-or-pay” contract with the State without getting contracts with its member agencies to fixed costs of project

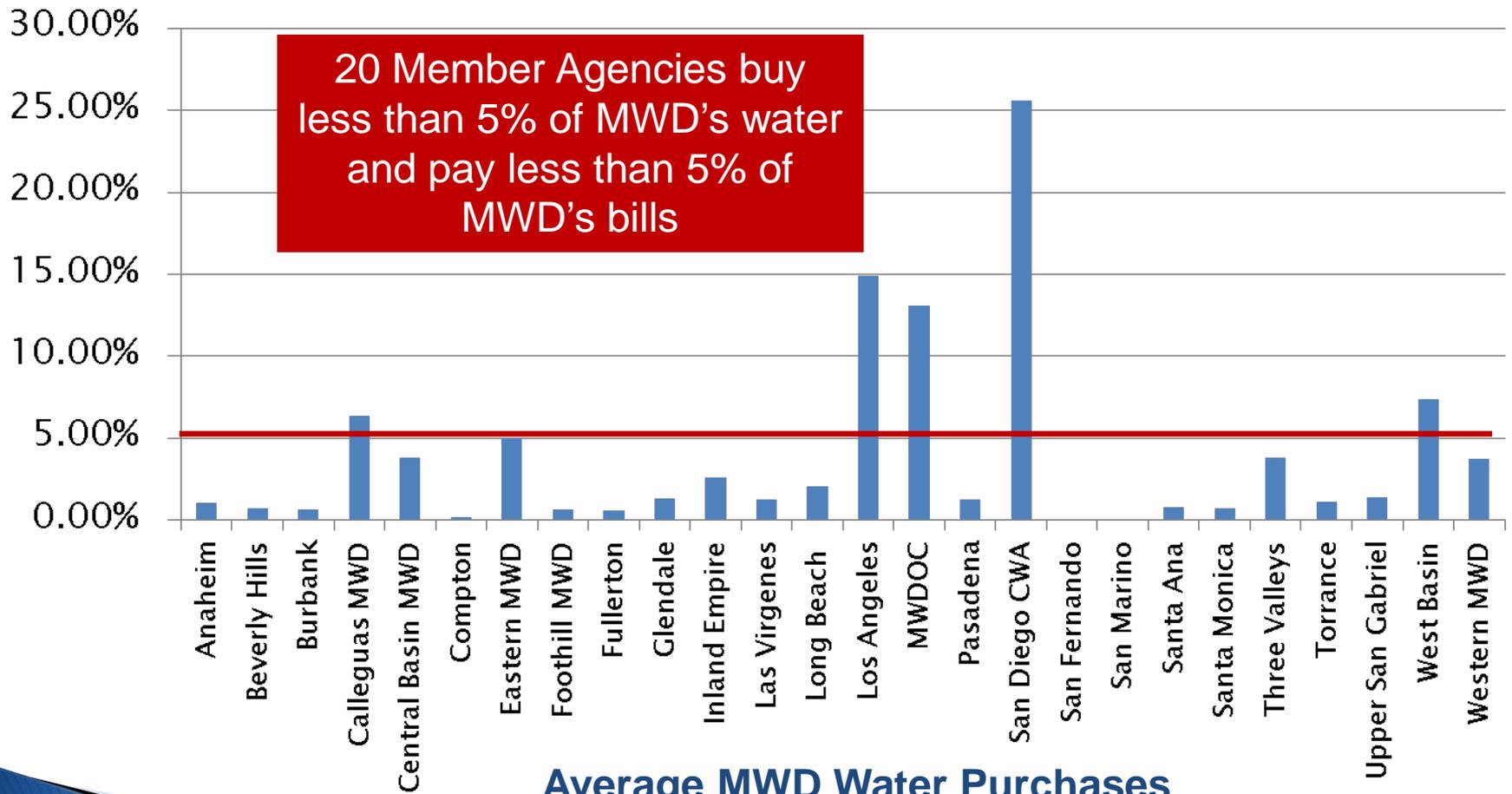


# MWD Member Agencies Should Commit to Pay for Delta Fix

- ▶ The Water Authority has long advocated that MWD obtain firm contractual commitments from its 26 member agencies for new spending programs. MWD's answer?
  - *"...most of our member agencies have said 'thanks, but no thanks, we prefer it the way it is.' ...Should people make those firm commitments going into the future? So far, the member agencies have opted not to. They prefer it the way it is."* – Jeffrey Kightlinger, speaking at an Aug. 10, 2010 public meeting in San Diego on MWD's draft 2010 Integrated Resources Plan (IRP), which proposes billions of dollars in new spending.



# The Way it is: Most MWD Member Agencies Have Little at Stake



**Average MWD Water Purchases  
by Member Agency (2000-09)**



# The Way it is: Big Disconnect Between Decisions to Spend and Willingness to Pay

- ▶ Decisions by board members to spend money are disconnected from their agencies' willingness to pay
  - In 1928, voting, water rights & financial commitment matched
  - Today, there is no connection
- ▶ Agencies most willing to support new projects have most aggressive plans to reduce purchases from MWD
- ▶ MWD board supports a Delta Fix – but are their individual agencies willing to pay?

*Voting structure based upon arcane 1920's formula*

- 1928: 100% of revenues from property taxes
- 2012: 4% of revenues from property taxes



# Cost of Water Current and Future



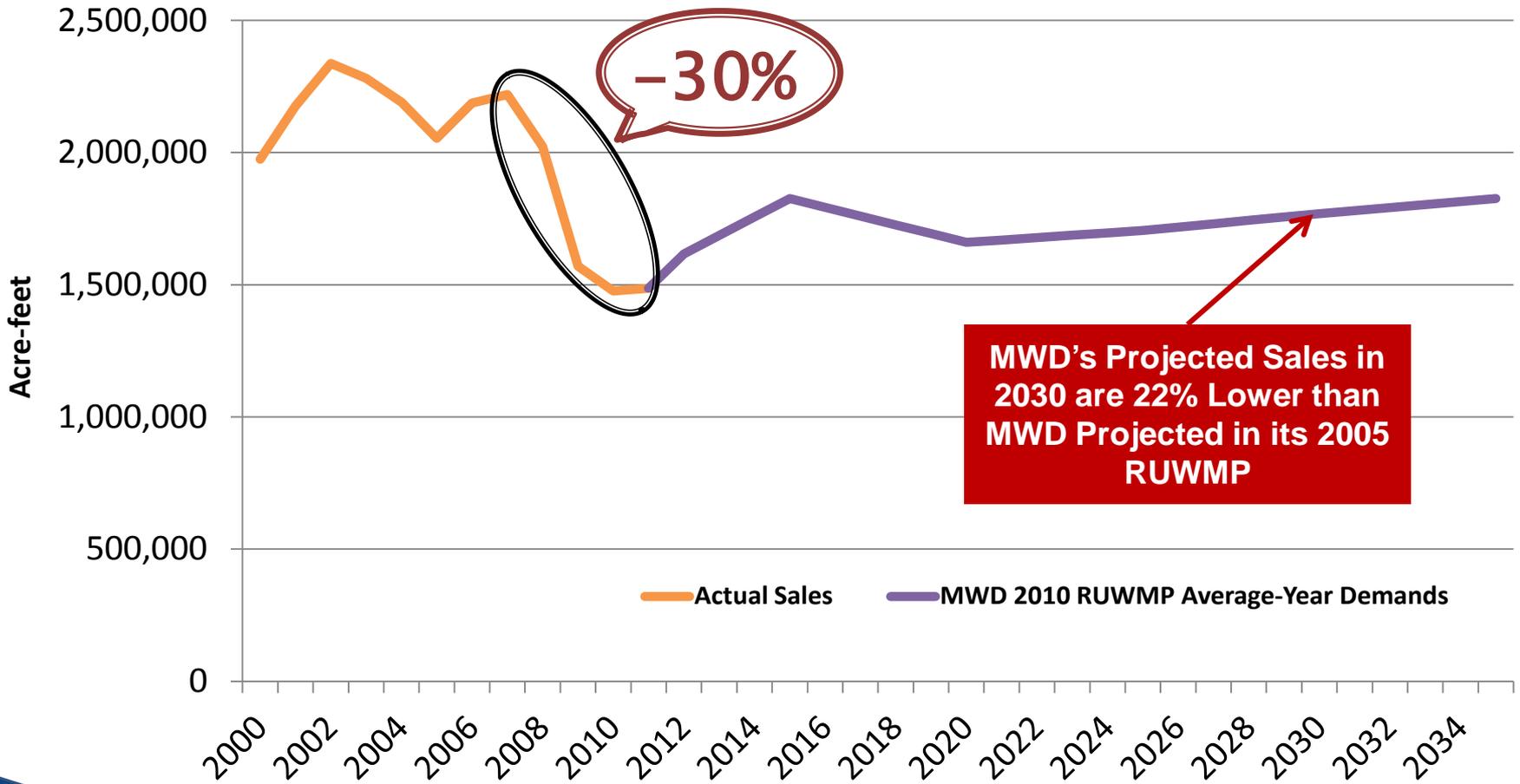
# MWD is experiencing unprecedented financial challenges

- ▶ 80% of MWD's revenues come from water sales
  - MWD's member agencies are not required to buy any water from MWD
- ▶ MWD's water sales are declining sharply
  - Down 30% since 2008
  - Long-term sales expected to be 22% lower than earlier projections
- ▶ MWD's rates heavily impacted by declining sales
  - MWD's rates rising sharply
    - Up 96.5% from 2006 through 2014
- ▶ In Fiscal Year 2012:
  - MWD's firm water sales fell 300,000 acre-feet below budget

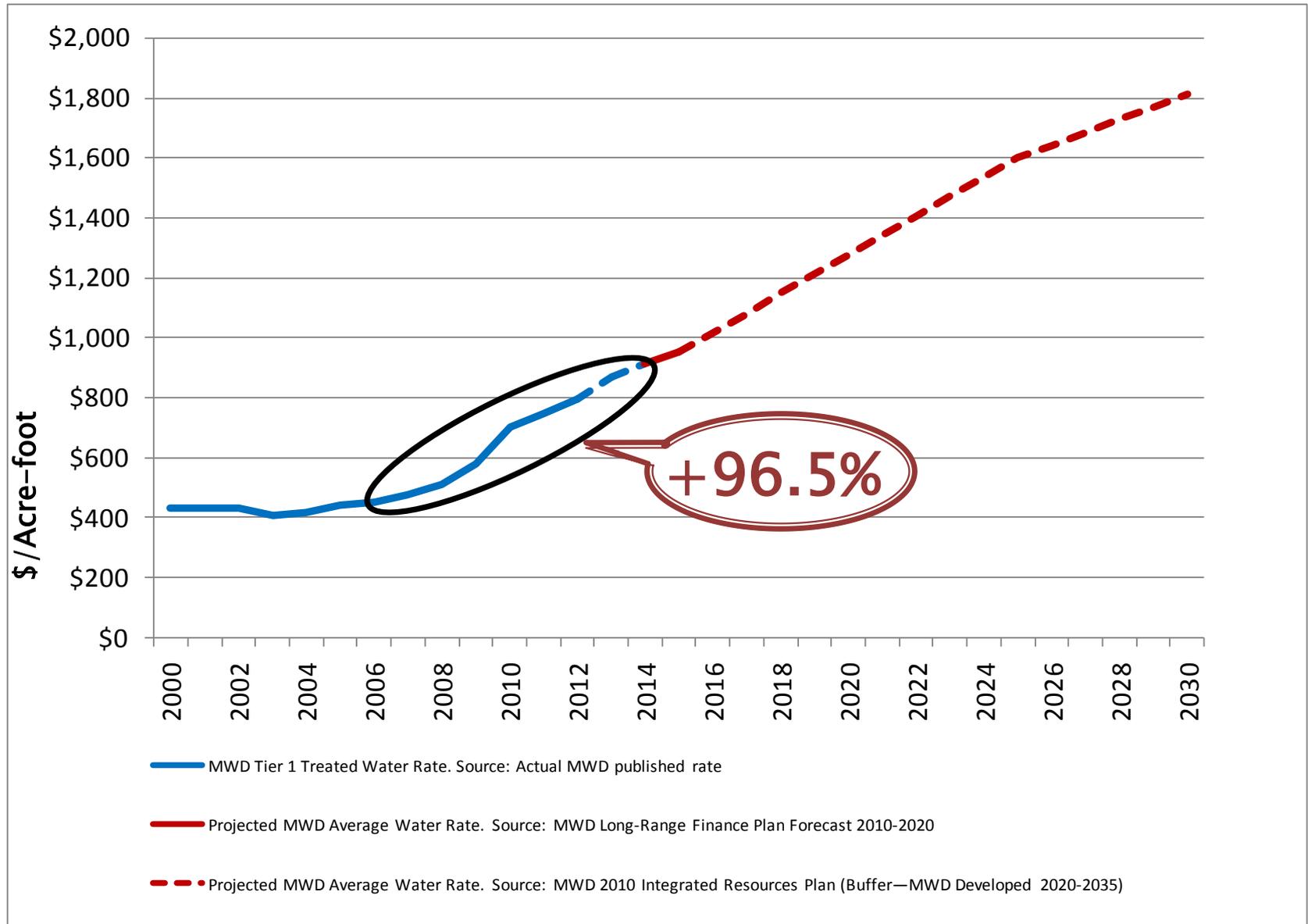


# MWD Sales are Down, and Remain Low

## 80% of MWD's revenues come from water sales

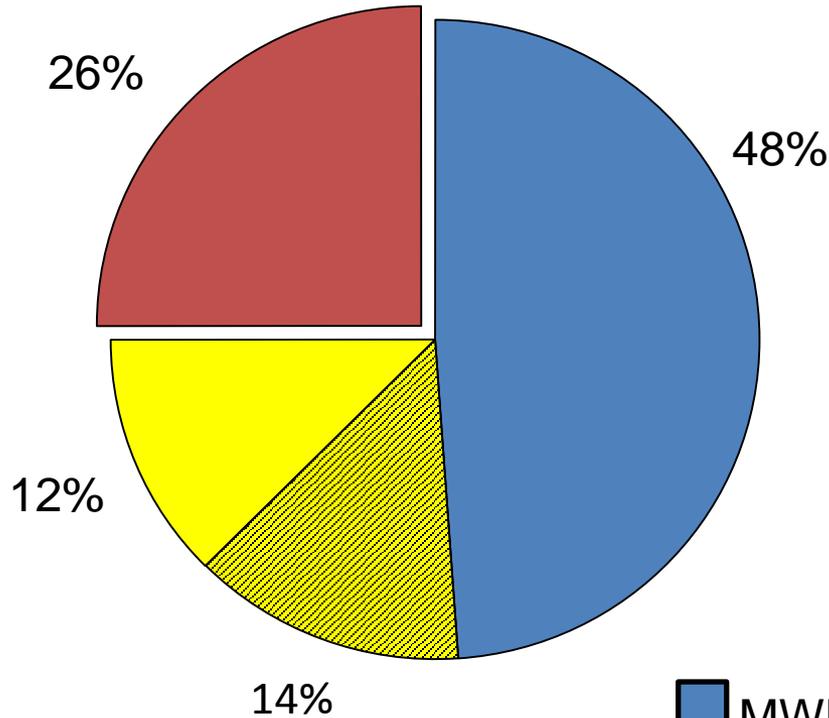


# MWD's Water Rates are Up

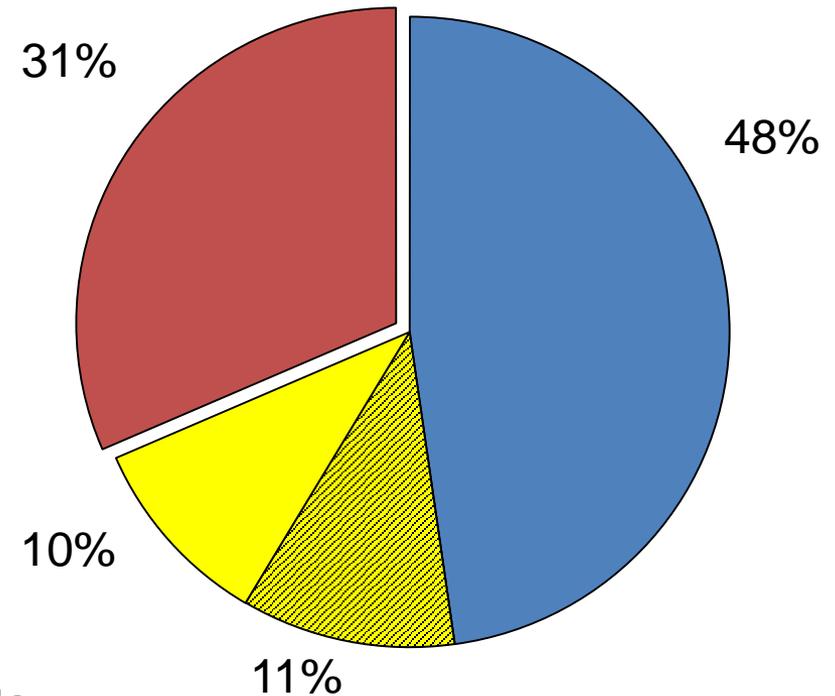


# MWD Rate Increases Biggest Driver of Water Authority Rate Increases

**Untreated Water  
\$88/AF Increase**



**Treated Water Rate  
\$111/AF Increase**



-  MWD Costs
-  Increase in IID Supplies
-  Increase in IID Water Rate
-  Primarily Debt Service and Other Factors



# QSA Transfer Schedule

| IID Water Transfer |         |       |            |
|--------------------|---------|-------|------------|
| CY                 | AF      | \$/AF | % Increase |
| 2012               | 90,000  | \$491 | -          |
| 2013               | 100,000 | \$540 | 10%        |
| 2014               | 100,000 | \$594 | 10%        |
| 2015               | 100,000 | \$624 | 5%         |
| 2016               | 100,000 |       |            |
| 2017               | 100,000 |       |            |
| 2018               | 130,000 |       |            |
| 2019               | 160,000 |       |            |
| 2020               | 190,000 |       |            |
| 2021               | 200,000 |       |            |
| 2022-34            | 200,000 |       |            |
| 2035-47            | 200,000 |       |            |

*GDPIPD\**

*Price Formula*

\*GDPIPD 10-Year (2001-11) Compound Annual Growth Rate is 2.3%

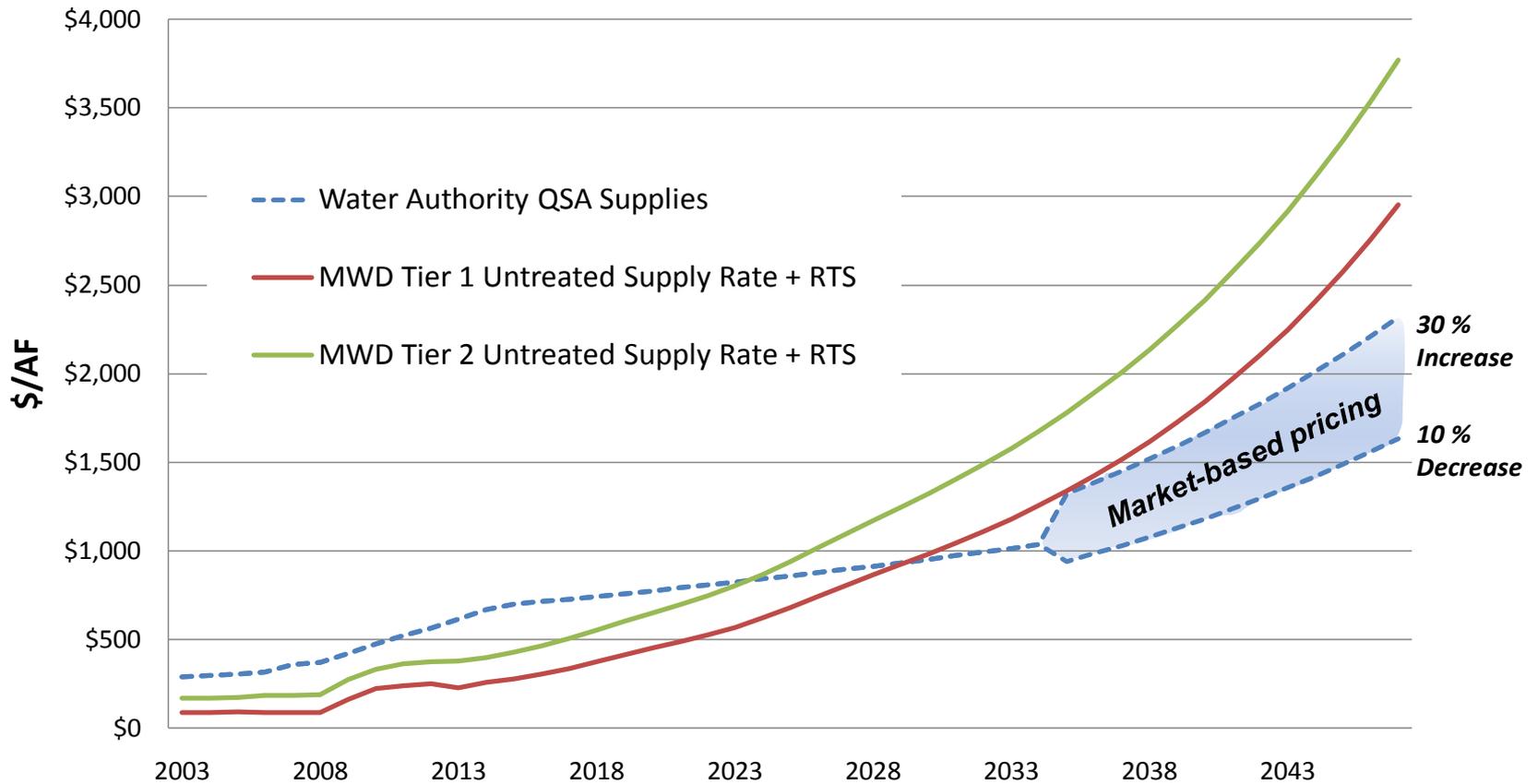
| Canal Lining |                 |
|--------------|-----------------|
| AF           | Estimated O&M** |
| 80,200       | \$5 - \$8/AF    |
| 80,200       | \$5 - \$8/AF    |
| 80,200       | \$5 - \$8/AF    |
| 80,200       | \$5 - \$9/AF    |
| 80,200       | \$6 - \$9/AF    |
| 80,200       | \$6 - \$9/AF    |
| 80,200       | \$6 - \$10/AF   |
| 80,200       | \$6 - \$10/AF   |
| 80,200       | \$6 - \$10/AF   |
| 80,200       | \$7 - \$10/AF   |
| 80,200       | \$10 - \$15/AF  |
| 80,200       | \$14 - \$23/AF  |

\*\*Based on increases to 10-year historical cost index



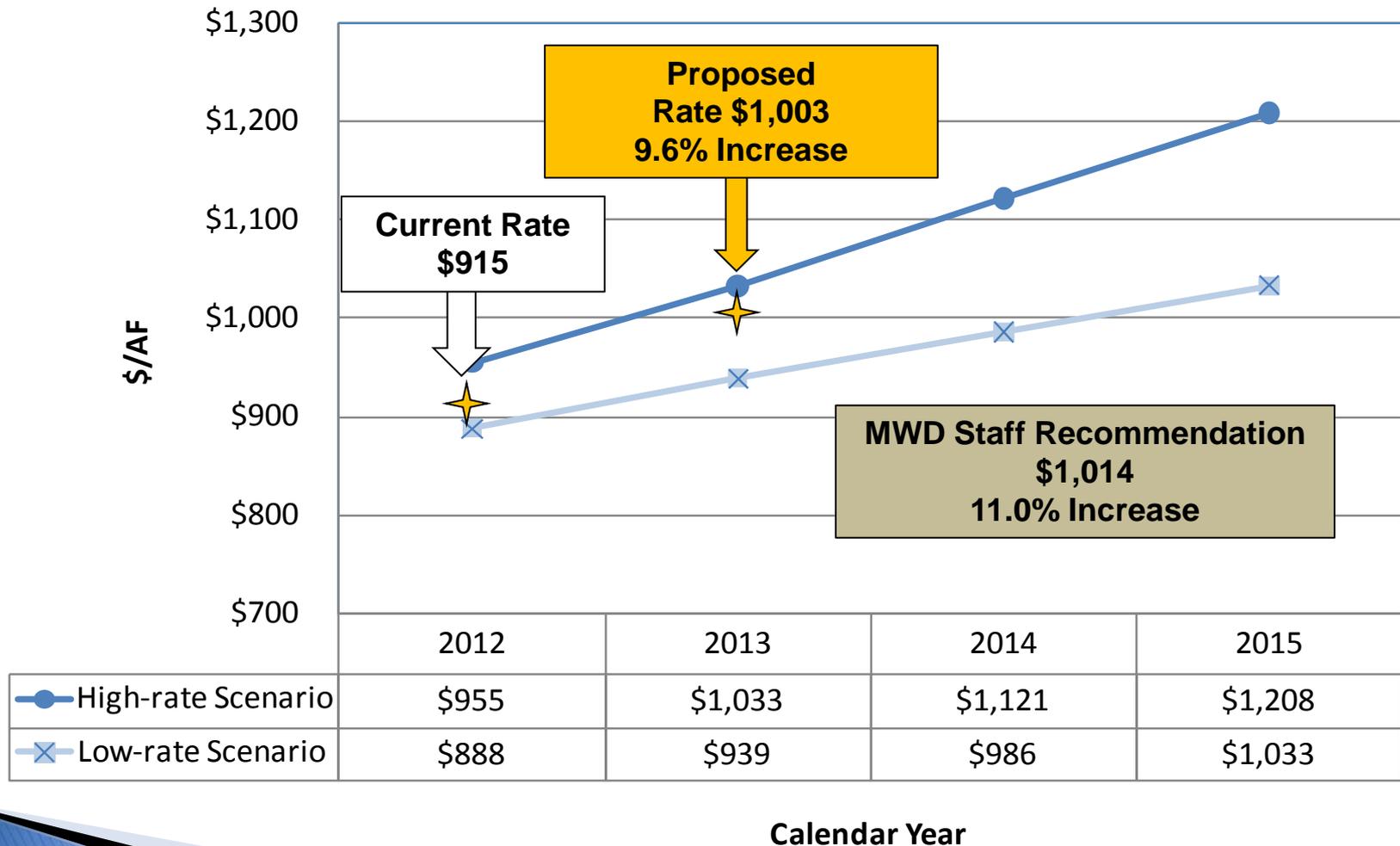
# Water Supply Cost Comparison

## QSA Supplies vs. MWD Supplies



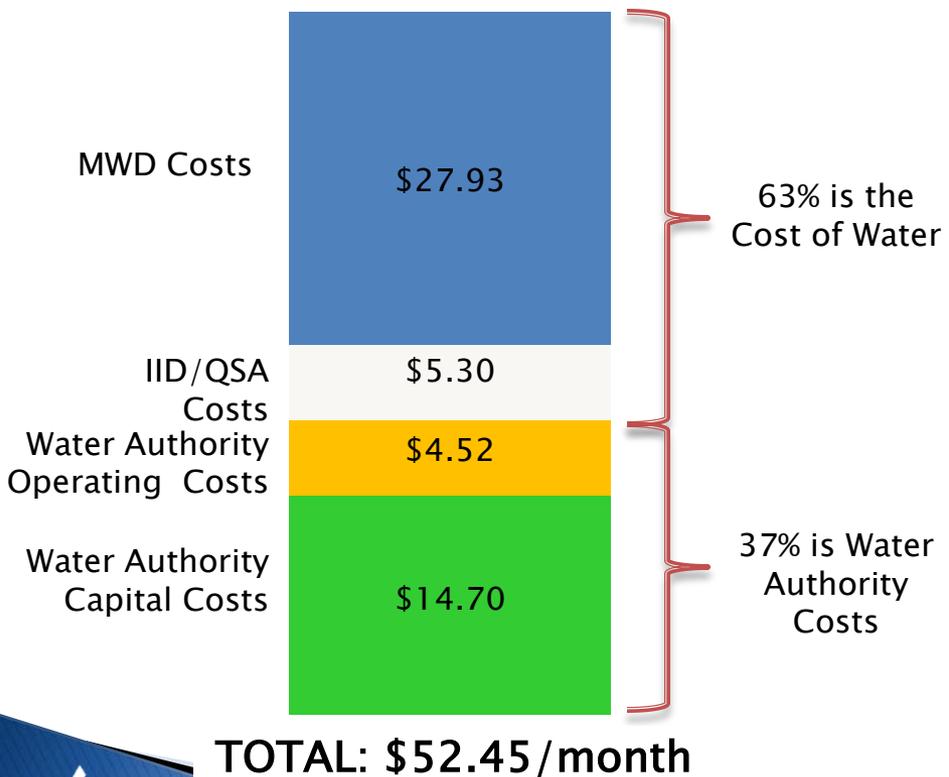
# 2011 Rate Forecasts

## “All-in” Untreated Water Rate



# Wholesale Monthly Cost of Water to Households

Estimated CY 2013  
Wholesale Costs per  
Household \*



- ▶ Cost of water purchases is 63% of the wholesale cost of water
- ▶ The remaining 37% or \$19.22/month is for the Water Authority to:
  - Deliver water and maintain the system
  - Rapidly diversify the region's water supplies
  - Provide in-region emergency water storage
  - Develop in-region water storage capacity

\* Based upon 0.5 AF of consumption a year

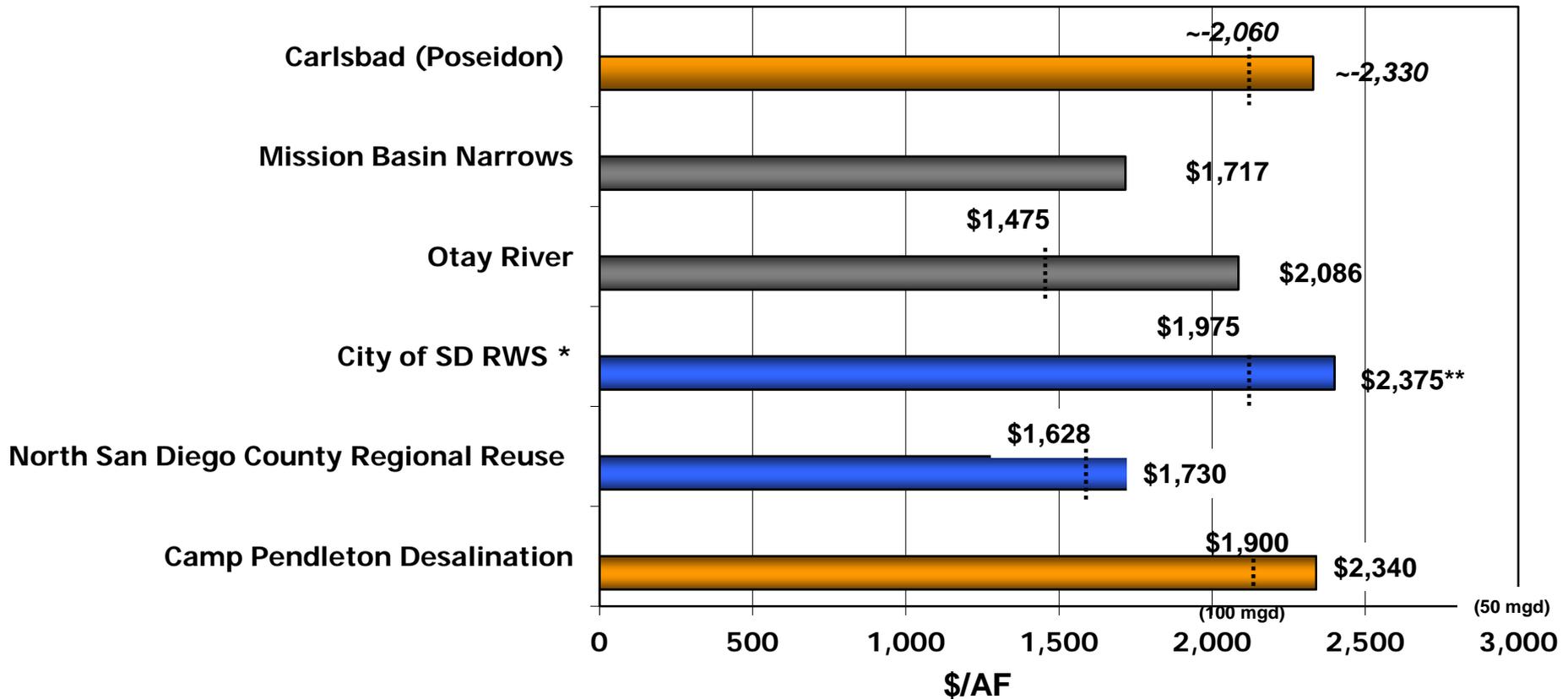


# Cost of the Next Increment of Local Supply

Actual Proposed San Diego Region Project Unit Costs - \$/AF

(Before incentives, grants, or netting out avoided costs)

2011 Dollars unless otherwise noted



**Brackish Groundwater**



**Indirect Potable Reuse**



**Seawater Desalination**

Cost range includes wastewater related costs that may reduce the unit cost by up to \$500/AF

\*\* Incentive funding reduced at 2011 value of \$275. RWS assumes deduction for incentives on 20 year NPV basis.



# MWD Rate Litigation



# Ratepayer Money Matters

- ▶ The amount of money at stake in the Water Authority's rate lawsuit vs. MWD (over 45 years):

**\$1.3 billion to  
\$2.1 billion**

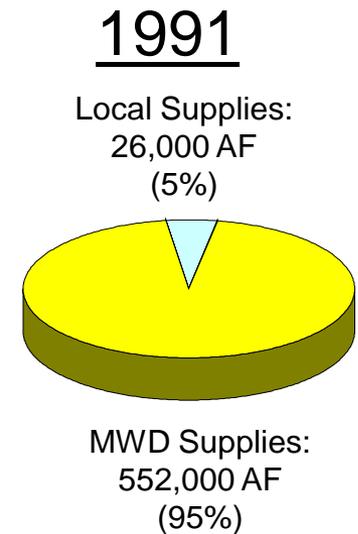
**2012 Impact: \$40 million taken  
out of San Diego's economy**

- ▶ City of San Diego share is about 40%



# 1990s: MWD's "Cash Cow"

- ▶ Water Authority is MWD's largest member agency, buying ~30% of MWD's water and providing largest share of MWD's revenues
- ▶ Supplies from MWD account for 95% of all water used in San Diego County
  - Water Authority buying twice the amount of water than it had a Preferential Right to at MWD
  - San Diego's then-\$65 billion economy and quality of life for its 2.5 million residents were at significant risk during times of water shortage
  - Our region had almost all of its "eggs" in one "basket": MWD



# 1990-91: Bottom of the Basket Falls Out

State to Shut Off Water Delivery to Southland

Limits on tap water use urged by staff

50% Water-Delivery Cut Will Be Blow to San Diego  
■ Drought: Metropolitan Water District directors also

## Community's Response:

# “Never Again!”

# “No More Water Shortages!”

L.A. Ready to Battle San Diego Over Water

■ Conservation: DWP officials weigh legal action as southern neighbor refuses to impose rationing.

clared a water emergency on Tuesday and cut by 31% the amount of water it delivers to 27 agencies from Ventura to San Diego.  
SACRAMENTO - Southern Californians are likely to be ordered to cut back air water consumption by an unprecedented 30 percent this

State Water Project cuts off water to farms; urban slash expected

Water: Authority to Vote Today on Mandatory Restrictions



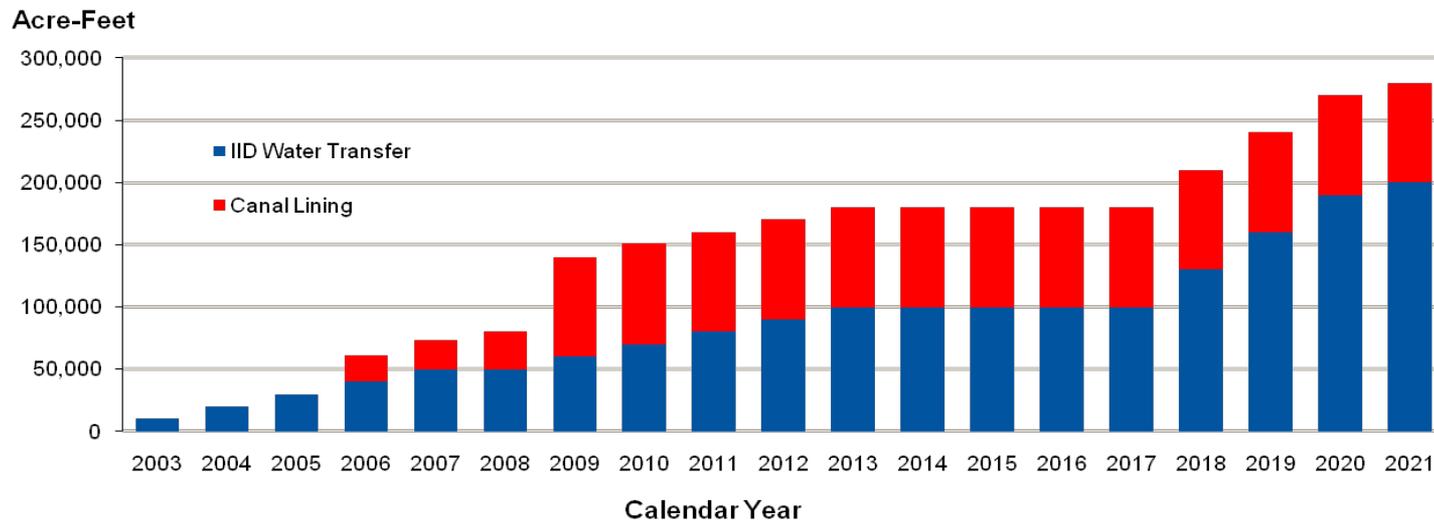
# 2003 Quantification Settlement Agreement

- Water Authority secures new, more reliable Colorado River supplies
  - Imperial Irrigation District transfer
    - 200,000 AF/year for 45 to 75 years
  - Canal-lining projects
    - 80,000 AF/year for 110 years
- Key to diversification strategy
  - Provides 170,000 acre-feet in 2012
- By 2021, 34% of region's supply



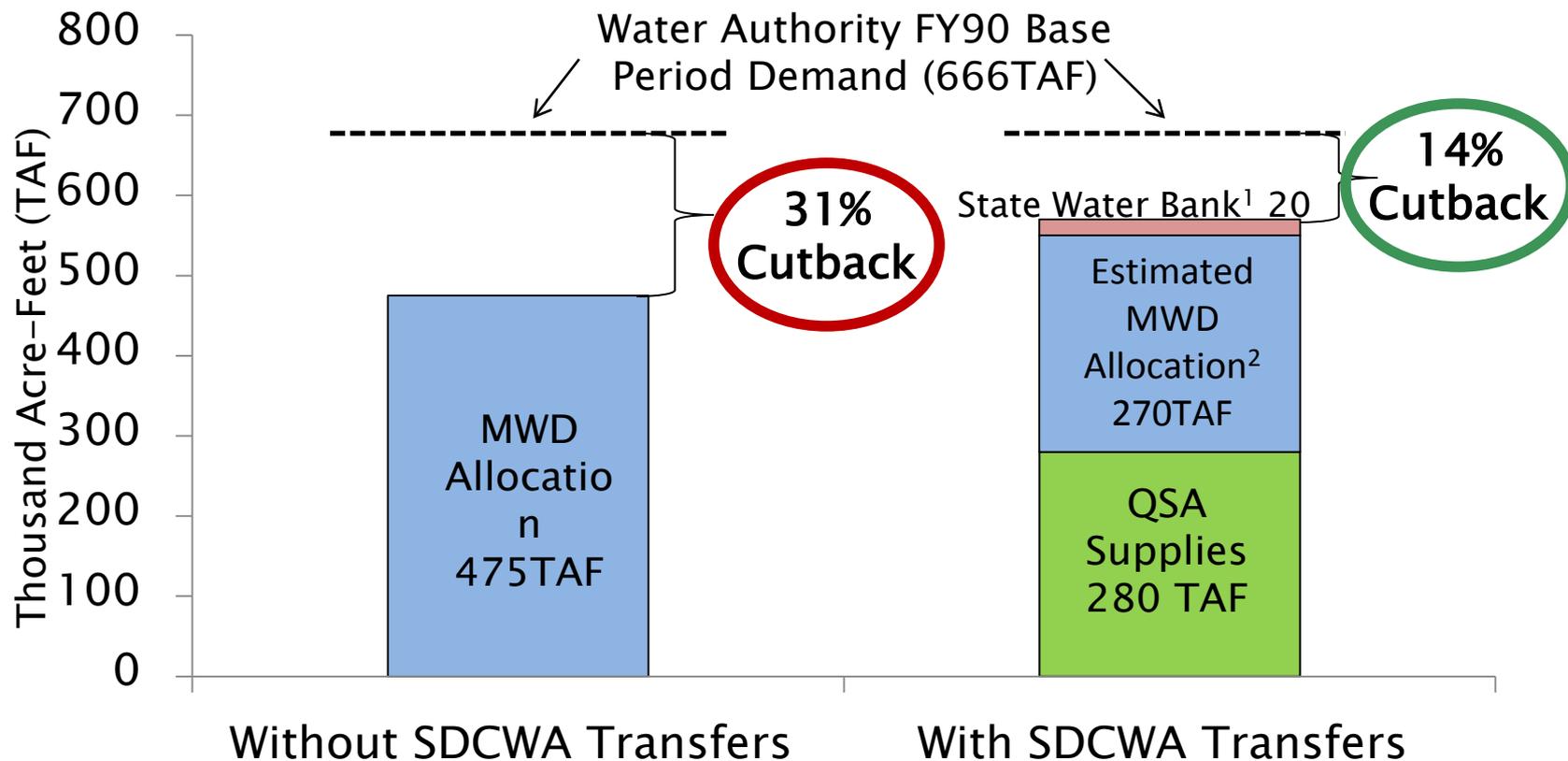
Lining the Coachella Canal

## IID and Canal Lining Deliveries 2003-2021



# What if Water Authority had QSA Transfers in 1991?

(Stage 5 of MWD's Incremental Interruption and Conservation Plan)

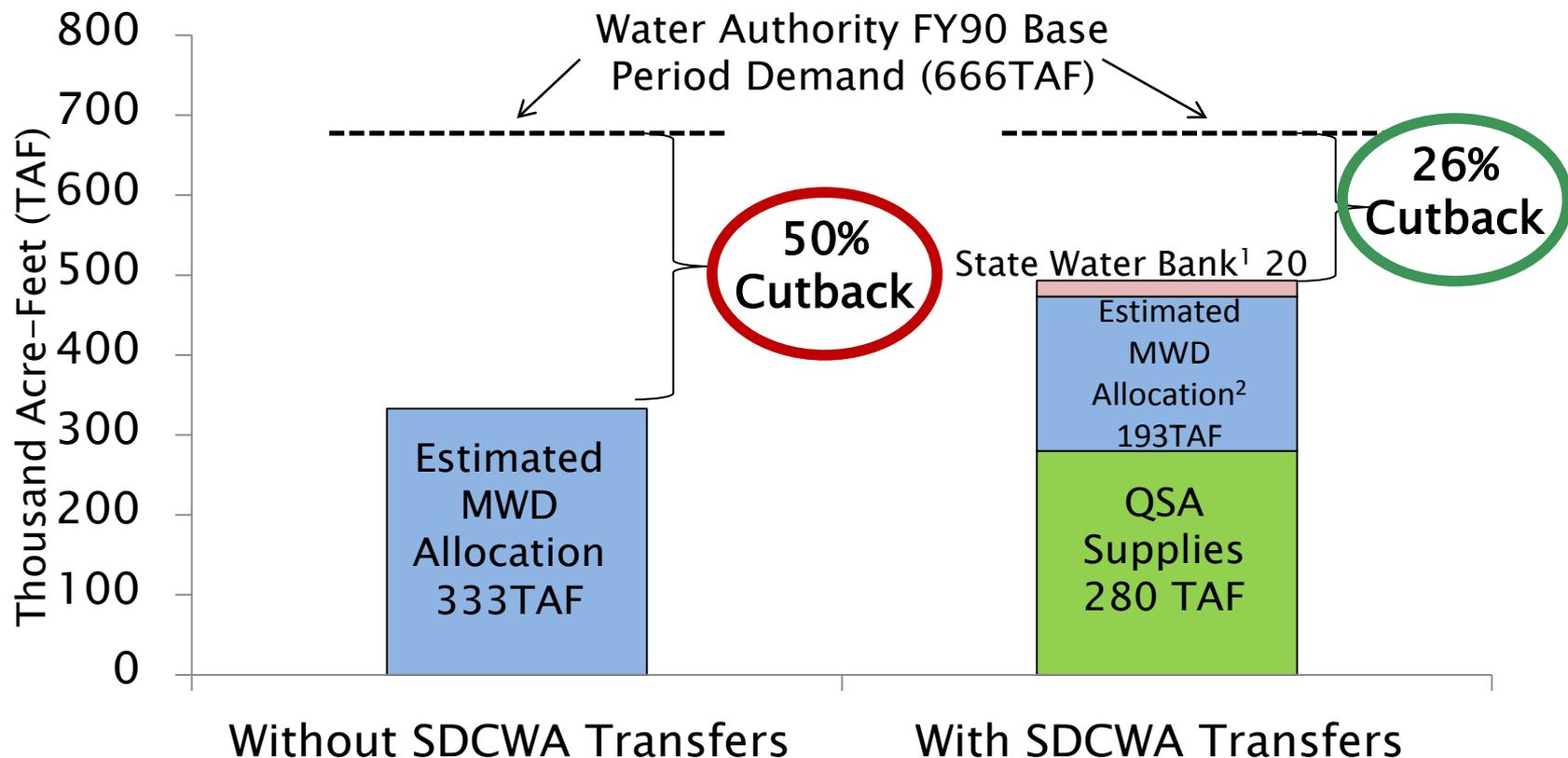


<sup>1</sup>Water Authority purchased 20,100AF of transfers from State Water Bank for delivery July-Dec 1991

<sup>2</sup>Assumes 280 TAF QSA supplies were utilized in FY90 and therefore adjusted base period demand used to calculate allocation was modified.

# Water Authority Cutback Scenarios Based on Potential 1991 MWD Supply Availability

(Stage 6 of MWD's Incremental Interruption and Conservation Plan)



<sup>1</sup>Water Authority purchased 20,100AF of transfers from State Water Bank for delivery July-Dec 1991

<sup>2</sup>Assumes 280 TAF QSA supplies were utilized in FY90 and therefore base period demand used to calculate allocation was adjusted.

# MWD Concocts Rate Structure to Preserve Revenues from Cash Cow

- ▶ Water transfers required a transportation rate from MWD to move the Water Authority's independent Colorado River supplies to San Diego
- ▶ MWD misallocated its unrelated supply costs to its transportation charge



# 2003: MWD's New Rate Structure Loads Up Transportation Charge

< 2003

2003>



MWD Must Disaggregate Its Costs

New Rate Structure Misallocates Water Supply Costs to Transportation Charge



Water Supply Rate

System Access Rate

Power Rate

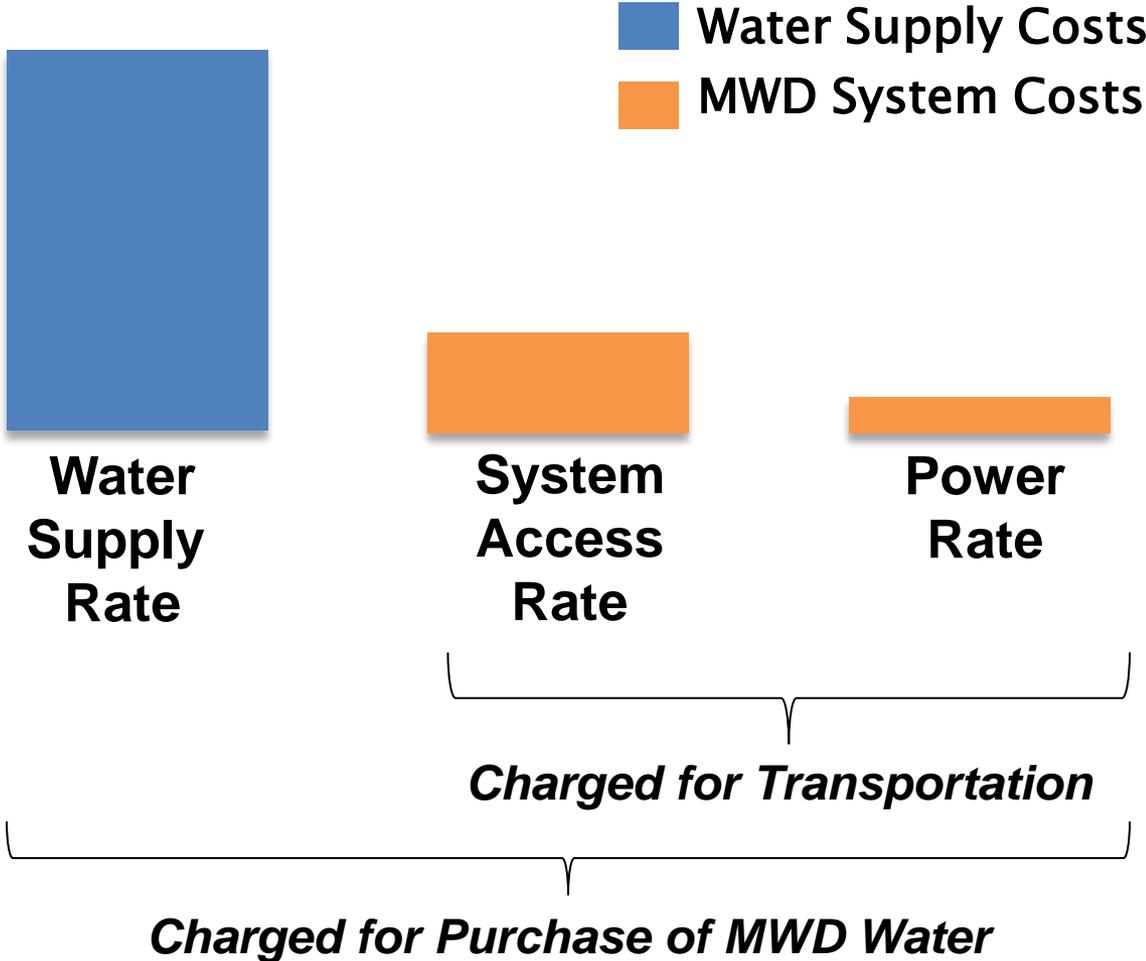
Water Stewardship Rate

*Charged for Transportation*

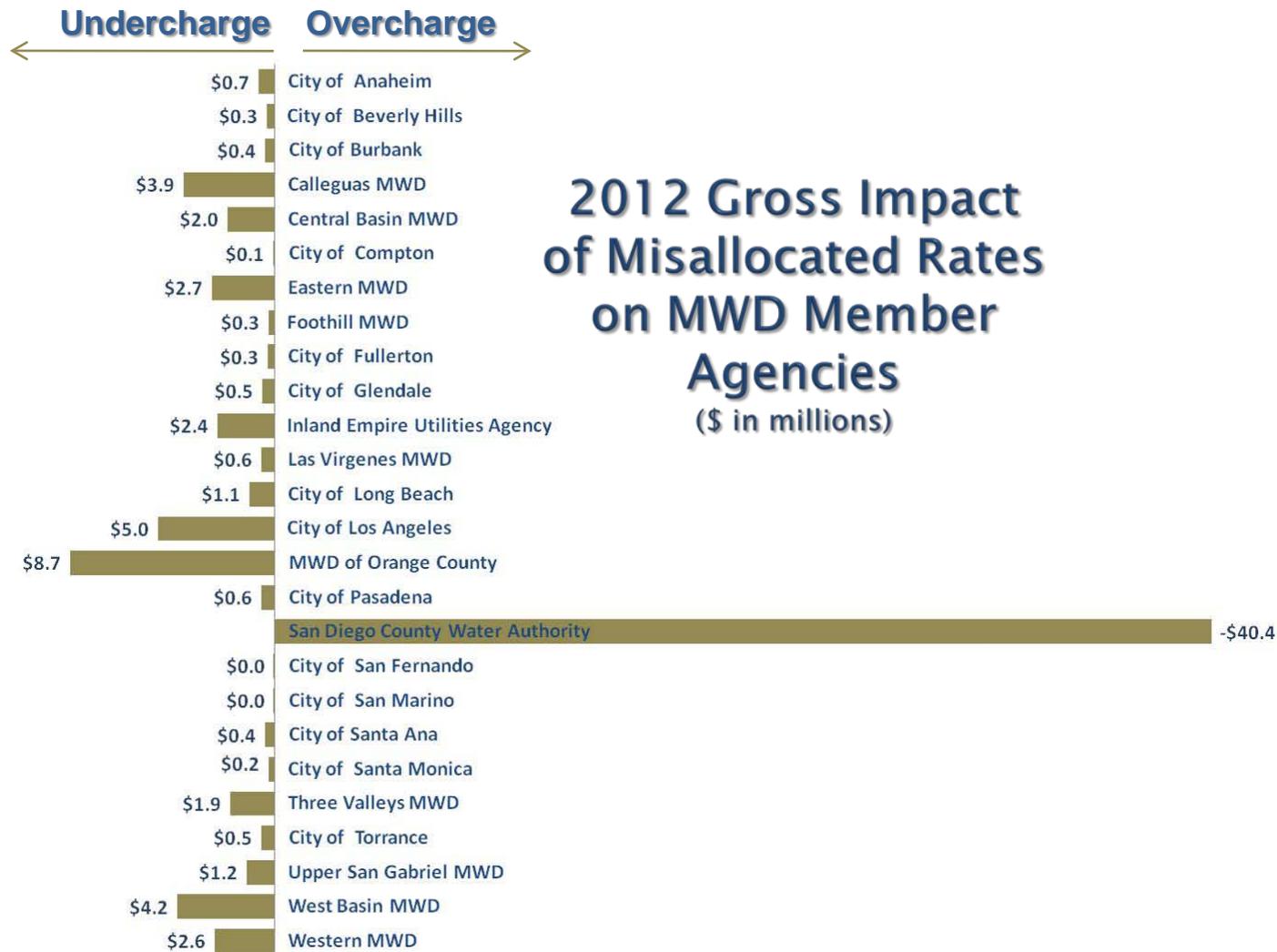
*Charged for Purchase of MWD Water*

- Water Supply Costs
- MWD System Costs

# How MWD's Rate Structure Should Be



# Why don't the other MWD Member Agencies Support San Diego?



# Water Authority Challenging MWD's Rates

- ▶ Water Authority filed lawsuit June 11, 2010 challenging MWD's 2011 and 2012 rates
  - MWD misallocates unrelated water supply costs onto its transportation charge in violation of state law, California Constitution and industry standards
- ▶ Water Authority filed similar lawsuit June 8, 2012 challenging MWD's 2013 and 2014 rates
  - Seeking to consolidate into single case



# Escrow Account Holds Disputed Payments

- ▶ MWD is required to place disputed payments made by the Water Authority into an escrow account
- ▶ 2011 gross escrow balance: \$38 million\*
- ▶ End of 2012 gross escrow balance: \$78 million\*
- ▶ End of 2013 gross escrow balance: \$135 million\*

\* Not including interest



# Status of MWD Rate Litigation

- ▶ Case before San Francisco Superior Court Judge Richard Kramer
- ▶ Series of pre-trial motions and rulings
- ▶ Now in discovery phase
- ▶ Next hearing: July 2, 2012
- ▶ Estimated trial court decision: mid-2013



# Support for Water Authority's Rate Litigation

(As of 6/19/2012)

- ▶ BIOCOM
- ▶ San Diego Regional Chamber of Commerce
- ▶ San Diego Regional Economic Development Corporation
- ▶ Downtown San Diego Partnership
- ▶ San Diego County Taxpayers Association
- ▶ League of California Cities, San Diego Chapter
- ▶ San Diego County Apartment Association
- ▶ Asian Business Association
- ▶ Building Owners & Managers Association
- ▶ Fallbrook Chamber of Commerce
- ▶ San Diego County Hispanic Chamber of Commerce
- ▶ NAIOP Commercial Real Estate Development Association
- ▶ San Diego North Chamber of Commerce
- ▶ Santee Chamber of Commerce
- ▶ Associated General Contractors, San Diego Chapter
- ▶ San Diego County Board of Supervisors
- ▶ City of San Diego
- ▶ City of Del Mar
- ▶ City of Escondido
- ▶ City of Imperial Beach
- ▶ City of Lemon Grove
- ▶ City of National City
- ▶ City of Oceanside
- ▶ City of Poway
- ▶ City of Solana Beach
- ▶ Carlsbad MWD
- ▶ Fallbrook PUD
- ▶ Helix Water District
- ▶ Lakeside Water District
- ▶ Olivenhain MWD
- ▶ Otay Water District
- ▶ Padre Dam MWD
- ▶ Rainbow MWD
- ▶ Ramona MWD
- ▶ San Dieguito Water District
- ▶ Santa Fe Irrigation District
- ▶ South Bay Irrigation District
- ▶ Sweetwater Authority
- ▶ Vallecitos Water District
- ▶ Valley Center MWD
- ▶ Yuima MWD



