San Diego County Water Authority's (SDCWA) Seven Primary Allegations and Metropolitan Water District of Southern California's (Metropolitan) Responses

Allegation 1: Metropolitan has no long range finance plan

- Metropolitan does have a long range finance plan. It is in the form of a Ten-Year Financial Forecast that is incorporated into every biennial budget and is posted on Metropolitan's website.
- Metropolitan projects its long-term capital spending based on our long-term capital plan.
- We look at State Water Contract costs long-term based on detailed information provided by the state as well as our own forecasts. We look at planned future capital expenditures of the State Water Project. And we look at Colorado River power projections in a similar detailed manner.
- Using this information, Metropolitan's Water Resource Management staff develops future forecasts of demands.
- We look at every facet of our budget and make careful, calibrated detailed forecasts of where Metropolitan finances are heading for the decade ahead.
- The Metropolitan Board of Directors then considers and approves the Ten-Year Financial Forecast as part of its biennial budget process.
- Metropolitan's process retains flexibility to respond to changing conditions, which is essential to its role as the water supply back-stop for Southern California.
- For SDCWA to state that Metropolitan has no long-range financial planning is clearly incorrect and refuted by the Metropolitan budget.

Allegation 2: Metropolitan has doubled rates over the past decade

- On the topic of rate increases, there are two important issues to note.
- First is that water agencies across the country have seen rate increases in the face of declining water use due to conservation and aging infrastructure.
- An independent analysis of utility rates by the Institute of Public Utilities conducted in 2015 illustrates this trend (see chart at right).
- Our increases have averaged 4.4 percent over the last 20 years (1999 to 2018), and 3.2 percent in the last five years (2014 to 2018).

- Each rate decision is made by our Board of Directors – which is comprised entirely of representatives of our customer member agencies – with careful thought about the ratepayers in their communities.

- The second point is that SDCWA's own rates and charges for treated water are about 60 percent higher than Metropolitan's rates.

- The difference is even greater for untreated water. SDCWA's rates are about 90 percent higher than that of Metropolitan.

- SDCWA's treated water rate is $1,546 an acre-foot while Metropolitan's is $979. SDCWA's untreated water rate is $1,256 an acre-foot while Metropolitan's is $666.

Allegation 3: Metropolitan is overcharging ratepayers

- Metropolitan over the years has always set its rates to recover future anticipated costs. This assessment includes anticipated sales of our imported water supplies based on the average of various potential hydrologic conditions.

- During the recent historic drought years, member agencies purchased far more water from Metropolitan than originally anticipated because their own supplies were limited.

- That is not charging too much for water. That is called meeting demand to the extent possible and this is Metropolitan's role as the regional wholesale supplier of supplemental water to its member agencies, especially in the most challenging times such as a long-term drought.

- Metropolitan serves as the insurance back-stop for demand variability in the region based on a variety of factors that can cause wide swings in demand. This reduces the pressure on member agencies to absorb variations individually and locally.

- And Metropolitan met those higher demands, including all supply requests from SDCWA within the parameters of the water allocation plan developed with the member agencies.

- As an example, SDCWA requested to withdraw water from Metropolitan's storage reserves during the drought in order to help fill the expanded San Vicente Reservoir. And Metropolitan met this request.

Allegation 4: Metropolitan has unplanned and excessive spending

- Metropolitan was able to make three major investments during the drought for the long-term benefit of the region.

- First, to support the reliability of imported supplies from the Colorado River and avoid future uncertainties in the fallowing program investments that Metropolitan has made in the Palo Verde Valley, Metropolitan purchased land in that valley for $264 million and expanded its innovative fallowing program.

- SDCWA representatives on Metropolitan's Board voted in favor of this investment and it was unanimously approved by the Board – yet inexplicably SDCWA now criticizes it.

- Second, to drive down outdoor water use during California's historic drought and lock-in long term conservation, Metropolitan funded the nation's largest turf removal program.

- Claims by SDCWA that the water saved by turf removal will cost $30,000 an acre-foot are deliberately inaccurate. SDCWA bases the claimed costs on a single year of water savings and not the decades of water savings that is expected with turf removal.

- Turf rebates generate water savings over the life of the program at approximately $600 per acre-foot, as has been reported to Metropolitan's Board.

- While SDCWA did not support the historic investment in turf removal, the rebates were extremely popular in San Diego County with thousands of residents and businesses, including members of the San Diego City Council.

- The third major investment was when Metropolitan purchased four islands in the Sacramento-San Joaquin Delta with multiple potential values consistent with the state's co-equal goals of a restored Delta ecosystem and a reliable water supply from the State Water Project, which provides roughly 30% of Southern California's water.

- In contrast to SDCWA's PR campaign rhetoric, SDCWA's representatives on the Metropolitan Board have supported expenditure decisions between budget-settings, including those associated with securing additional water from Northern California. In April 2017, for example, SDCWA's Board representatives voted to invest in planning for a new potential reservoir north of Sacramento and a recovery project for State Water Project supplies lost to leakage at Lake Perris.

- These expenditures too were not previously "planned" in the biennial budget. But they were opportunities benefitting all member agencies that the Board evaluated on their merits and then approved unanimously.

Allegation 5: Metropolitan has unplanned borrowing

- Metropolitan has a manageable debt load that has actually declined in recent years compared to overall assets.

- SDCWA, for its size, has a much greater debt load than Metropolitan.

- Metropolitan maintains high credit ratings, in part, because of the very same water rates and sound financial practices that SDCWA is criticizing.

- SDCWA fails to mention that Metropolitan continues to maintain some of the highest financial ratings from Fitch, Moody's and Standard & Poor's financial rating agencies.

Allegation 6: Metropolitan has declining sales

- Most water agencies in the arid West have seen declining sales. This is in part a result of our substantial investments in conservation that have permanently lower demand. Like most Southern Californians, consumers within SDCWA's service area have strongly embraced this conservation ethic and for that we are proud.

- But as a result, SDCWA has experienced an even greater reduction in sales than has Metropolitan.

- Even with lower sales, Metropolitan supplies 40 to 60% of the Southland's water supply. And Metropolitan delivered 80% of the water used last year in SDCWA's service area.

- While Metropolitan sales have declined to 1.5 million acre-feet today, they are projected to increase to 1.8 million acre-feet by 2023 as the region grows, which will provide additional financial stability.

Allegation 7: Metropolitan's spending is based on a flawed Integrated Resources Plan

- Continued successes in conservation are not eliminating the need to invest in projects and programs that will maintain the reliability of imported supplies and increase local supplies. These conclusions were reached after exhaustive study and stakeholder input into the Board-adopted 2015 Integrated Resources Plan Update.

- Metropolitan's IRP calls for diversification of supplies.

- To improve the reliability of imported supplies from the State Water Project, Metropolitan has supported the environmental review and planning processes to modernize the water system in the Delta but has not yet pledged to help pay for California WaterFix.

- Once the project is approved by the appropriate state and federal agencies later this year, Metropolitan staff plans on bringing California WaterFix to the Metropolitan Board for a full deliberation on the project, its benefits, and its costs, followed by a Board decision on whether to support the project.

- Despite criticizing Metropolitan's process, SDCWA handled the analysis and approval of the Carlsbad desalination project in a similar fashion, but with less review before the approval: SDCWA's Board decided to approve the Carlsbad Water Purchase agreement at the same meeting that it authorized commencement of a cost of service study that would ultimately determine how to pay for the facility every year through SDCWA's rates.

- The IRP projects future shortage conditions in Southern California if investments in new local supplies and enhanced conservation do not occur as envisioned. The IRP illustrates the importance of such investments as well as maintaining imported supply reliability.

- Metropolitan's proposed Regional Recycled Water Program would provide a new local supply for Metropolitan, benefitting all member agencies. It would lessen the need for or extent of future water allocations; would be locally sited, providing emergency benefits and meeting diversification goals; and would help protect against additional losses in groundwater production. Construction of a demonstration plant is scheduled to begin later this year and it will help inform future Metropolitan Board decisions on this project.

- Another concept that being explored is to make cost-effective investments in conservation in Mexico and for Metropolitan to purchase some of these conserved supplies. However, Metropolitan has made no financial commitments at this time.