

March 7, 2022

Mr. Robert Hunter, General Manager
Municipal Water District of Orange County
PO Box 20895
Fountain Valley, CA 92728

Re: MNWD Comments on the Proposed MWD Budget & Rate Refinement

Mr. Hunter,

As Moulton Niguel Water District's representatives at the Metropolitan Water District (MWD), we appreciate the opportunity to provide the Municipal Water District of Orange County with comments regarding the upcoming MWD budget process and ongoing rate refinement process. We understand that MWD is currently in a time of change with the proposed FY 2023 & FY 2024 transition budget and rates taking place during the development of MWD's business plan, ongoing rate refinement, and development of the Implementation Phase of the Integrated Resources Plan. Our service area, which consists of six cities in South Orange County, is 100 percent dependent on imported water supplies from MWD for our potable water customers and any changes in rates directly impact their bills.

The proposed rate increases – more than 16 percent over the next two years –represents the highest rate increase in nearly a decade. These increases directly affect our 170,000 customers. At a time of economic uncertainty and record inflation, MWD's proposed rate increase would be especially burdensome on our customers, who include working families, small businesses and seniors living on fixed incomes. When MWD projections change drastically, we are the ones accountable to our customers. We intend to transparently show the impact that MWD rates have on why our customers are seeing a sudden rise in their bills. Additionally, this is not the time to expand staffing given record inflationary pressure and we encourage MWDOC to advocate for MWD to hold its position count flat.

We also realize that the proposed rates do not include full costs of some of the most significant projects that MWD is developing such as the Delta Conveyance Project or Sites Reservoir. Debt is heavily relied upon over the ten-year financial forecast to include the Regional Recycled Water Program. With the sizable reliance on debt, MWD comes very close to exhausting its options while exceeding its total debt cap of just over \$7 billion based on the total MWD net position. As MWD looks to the development of its financial plan and to develop strategies to improve financial resiliency, it will be important to include this factor as MWD has relied on debt over the recent reductions in water demands to buffer the region from larger rate increases. After the next ten years and based on this current forecast, debt will no longer be an option if conditions change from plan. The uncertainty of future MWD rate increases is a major concern to us because as a retail water agency, we are tasked with setting rates under Prop 218, which requires public support.

As our voice and representative to MWD, we look to MWDOC to keep us apprised of these significant developments which have financial impacts to Orange County and advocate on our behalf. We ask you to steer MWD to revisit their proposed rates and find solutions to smooth out the increases such as further phasing in the reductions in water demands over the next ten years. We realize that these significant increases are primarily driven by the continued decline in water transaction forecasts and increases in the fixed costs needed to maintain the nearly \$30 billion in infrastructure. The fixed costs necessary to provide reliable water service will only continue to increase with aging infrastructure and increasing hydrologic variability due to climate change. Climate change will only put more financial pressure on MWD as swings in both available supply and variability in member agencies demands impact rate revenues. All of these factors highlight the critical need to revisit the current rate structure which was developed over many years in the late 1990s and finally implemented in 2003.

We would like to stress the importance of any changes to the rate structure to include these considerations to provide additional predictability for rates and charges. We recommend that MWDOC advocate for MWD to develop a rate structure that decouples dependence on water sales to recover necessary fixed expenses and buffer the region from the volatility of climate change. Doing so will support MWD's critical mission of ensuring reliable water service. In consideration of the impacts on member agencies, we suggest reviewing the potential to phase in increases of fixed charges to aid in the overall goal of providing more predictable rates and charges as well as providing less year-to-year rate variability.

We look forward to continuing to work with MWDOC and are confident that you will help ensure MWD keeps pursuing its core mission "to provide its service area with adequate and reliable supplies of high-quality water to meet present and future needs in an environmentally and economically responsible way." If you have any questions, please feel free to contact me or Joone Lopez, our General Manager, at (949) 831-2500.

Sincerely,



Brian S. Probolsky
Board President

cc: MWDOC Board of Directors
MWDOC MWD Board members
MNWD Board of Directors

