San Diego County Water Authority
4677 Overland Avenue • San Diego, California 92123-1233
(858) 522-6600 FAX (858) 522-6568 www.sdcwa.org

March 21, 2012

John V. Foley, Chairman
and Members of the Board of Directors
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Recommendation to Cap MWD Rate Increases at 3% for 2013 and 2014

Dear Mr. Foley and Members of the Board,

We were disappointed that the majority of the MWD board of directors did not feel that it would be productive to meet together as a board to discuss approaches to lowering MWD's proposed rate increases for 2013 and 2014, in advance of our board vote in April. As a result, we are submitting this letter to you and all members of the board for consideration prior to the April 10 board meeting.

RECOMMENDATION

We recommend that the board cap MWD "average" rate increases[1] at 3% for 2013 and 2014. We believe this can be accomplished – without any reduction of capital spending to maintain the Colorado River Aqueduct or any other MWD infrastructure – by reducing MWD's Operations and Maintenance (O&M) expenditures by 10% and suspending conservation funding for the next two years. These changes would reduce the proposed two-year budget by $116.5 million and allow the "average" rate increases to be capped at 3% or less in 2013 and 2014.[2]

Our recommendation would also direct staff to return to the board with specific budget reductions to accomplish the minimum 10% reduction in O&M (or, $76.5 million in expenditures over the two years – without changing the scheduled OPEB funding).

[1] No one pays an "average" water rate at MWD – for example, MWD's proposed Tier 1 Treated water rate increase for 2013 is 9.3%, and its Tier 1 Untreated water rate increase is 8.6%.

[2] Staff indicated previously that in order to reduce the rate increase from 7.5% for 2013 and 5% for 2014, to 5% for both years, it would need to cut expenditures by $26.4 million over the two year period. Based on this formula, we assume that cutting expenditures by $116.5 million (more than 4 times $26.4 million) would allow the rate increases for both years to be held to 3% or less. If this assumption is incorrect, then we ask that MWD staff provide the board with the amount of the budget reduction necessary to hold rates to 3% or less over the next two years.

BACKGROUND

In its budget and recommended "average" proposed water rate increases of 7.5% and 5% for 2013 and 2014, respectively, MWD staff proposed to *increase* the O&M budget by $15 million in 2013 and $22.5 million in 2014, including higher travel expenses, staffing levels and consulting services. This budget proposal *increases* MWD's O&M budget by $52.5 million over the two years, and includes staffing increases of at least 42 or as many as 80 new employees.[3]

In response to board member requests to lower the first year "average" rate increase to 5%, staff recommended a mix of reduced expenditures ($14 million and $13 million, respectively for 2013 and 2014), reducing Central Valley storage funding and $5 million per year reduction of conservation funding or other cuts of similar magnitude.

Staff's recommended budget is inconsistent with MWD water sales and revenue trends, discussed below. It is also out of step with cities and other public water suppliers throughout Southern California that have been forced to make the difficult decisions to reduce expenditures as a result of declining revenues. Rate increases to support expanded budgets, including more staff and increased spending, ignore the economic realities our water ratepayers are facing. Budget reductions should target reduced spending rather than water supply programs such as the Central Valley storage funding.

DISCUSSION AND OTHER CONSIDERATIONS

<u>Protection of Colorado River Aqueduct and Other Infrastructure</u> – We agree it is important to maintain MWD infrastructure investments, including the Colorado River Aqueduct. *That's why our proposal would leave intact all capital spending as proposed by staff.* But as we all know, repair and replacement of aging infrastructure is not the "No. 1 driver" of MWD's proposed water rate increases.

<u>Stop Punishing Water Conservation by Southern California Ratepayers</u> – Water ratepayers across the Southland have responded to our call to reduce water usage over the past few years. Now, water ratepayers do not understand – and they are angry – that they are being asked to pay more for using less water.[4] In fact, reduced demand for MWD water is the *principal reason* MWD's rates have risen 75% since 2006, and the principal reason why MWD's expenditures have

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[3] MWD's January budget document states that it includes a total authorized personnel complement of 1,907 (including 24 temp equivalents) for 2012/13 and 2013/14, with an assumed vacancy rate of 2.7% and 2.9%, respectively. This translates to 1,832 and 1,828 FTE for each of the two years, respectively. But staff reported to the board in February that it had 1,756 employees on its payroll – which would mean that MWD intends to hire 80 additional staff. A subsequent report by staff at the February board meeting said that applying the vacancy rate would result in 1,798 full time equivalents (exclusive of temps), which would mean that MWD intends to hire 42 additional staff.

[4] See, for example, San Diego County Grand Jury Report*, San Diego County Water Rates: High Today, Higher Tomorrow* at http://www.sdcounty.ca.gov/grandjury/reports/2010-2011/WaterRatesFinalReport.pdf This concern is being raised in retail water rate-setting proceedings across Southern California.

exceeded revenues in three of the last four fiscal years.[5] However difficult it is to explain to water ratepayers, we all know that fixed costs are not reduced with reduced sales – and, that it is essential that fixed costs be paid. But MWD's proposed rate increases go far beyond covering fixed costs – the budget actually *increases* spending on projects that are *not necessary* at this time of reduced demand for MWD water.[6]

This is why we recommend that conservation funding for the next two years be suspended.[7] While we understand the popularity of these programs, these expenditures are simply not necessary to "incentivize" water conservation at a time when water sales are already down more than 30% at MWD and most retail water suppliers. Retail ratepayers are already being asked to fund the difference between fixed costs and the amount of revenue available from reduced sales. It isn't fair – or even logical – to also ask our ratepayers to pay for even more water conservation right now – they need and deserve to take the "break" that suspension of these payments would provide in the form of lower water rates.[8]

<u>Renewed Call for Moratorium on Use of MWD Ratepayer Dollars to Pay for Member Agency Water Projects</u> – MWD has also been relying on its outdated Integrated Resources Plan[9] and unrealistic water sales projections to support its continued payment of MWD water ratepayer dollars to subsidize member agency water supply projects. These projects are not owned or operated by MWD, and MWD has no right to the water supply. MWD has failed to demonstrate that these payments benefit the customers of any member agency other than the agency receiving the payments.[10] The bald statement that these projects "will strengthen regional

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[5] February 14, 2012 MWD Board Letter 8-2, page 60, note 5 and attached Remarketing Statement.

[6] Staff continues to rely on an outdated Integrated Resources Plan (IRP) and unrealistic sales projections to support its expenditures.

[7] We note that although MWD continues to budget conservation at $20 million annually, its actual expenditures are significantly less. This is all the more reason to eliminate this spending from the proposed budget.

[8] MWD should continue its conservation program except for the payment of financial subsidies. The Water Authority supports increased water conservation as part of a sensible, long-term plan that takes water rate impacts into account. Ratepayers are already highly motivated to conserve water due to higher water prices. MWD should not pay for state-mandated conservation requirements at the retail level. See Director Steiner's August 15, 2011 letter to Mr. Foley re: Board Memo 8-7 – Adopt the Long Term Conservation Plan and revised policy principles on water conservation – OPPOSE. Finally, the Water Authority would support increased conservation investments by MWD – now and in the future – that are based upon a calculable demonstration of need and avoided water supply cost (e.g., reduced take from the Delta).

[9] See Director Steiner's October 11, 2010 letter to Chairman Brick re: Adoption of the 2010 Integrated Resources Plan – OPPOSE and attachments. MWD's IRP is not a useful or realistic planning tool and cannot be relied upon to assess the need for water supply investments by MWD (and thus the benefits to MWD's customers). Although the IRP stated that it would rely upon "adaptive management" to adjust to changed circumstances, *MWD has failed to adapt* to the fact that its water sales are down by more than 30%. MWD has also consistently failed to inform the public about the rising cost of water or include in its own planning the likely impact of higher water costs on demand for MWD water.

[10] If the Water Authority is successful in its challenge of the Water Stewardship Rate to pay for these water supply projects, the costs will be redistributed to all other MWD member agencies and fall

water supply reliability," absent a substantial factual basis and analysis connecting the facts to the conclusion, is insufficient to support MWD spending under Proposition 26 or other legal requirements.

Stop Underwriting Peaking Costs of Los Angeles and Other Agencies – The Water Authority has calculated that the annual benefit to the City of Los Angeles Department of Water and Power under the current MWD rate structure – resulting from MWD's failure to identify and allocate the costs of annual peaking – is $35 million to $40 million *per year*. *The Water Authority is not the only agency underwriting these costs – ratepayers from Orange County, Ventura County, Riverside County and San Bernardino County are also paying for LA's annual peaking.* This is because the current rate structure fails to account for the costs associated with annual peaking, including the cost of water, distribution and storage capacity necessary to serve these sporadic annual demands.[11]

Many agencies, including the Water Authority, have *some* annual and seasonal peaking that is not accounted for in MWD's cost of service. These costs should be identified and charged to the agencies that are benefitting from the investments necessary to meet their water supply needs. We raised this issue in our February 3, 2012 letter to Business and Finance Committee Chairman Grunfeld, copied to MWD's General Manager and Chief Financial Officer (copy attached). Nearly one month later, on March 6, 2012 – after the budget workshops had already been concluded – we received a response from the CFO that did not address the substance of this issue, but stated that, the issue "is worded as a statement or position and should be addressed through the Board or Committee process" (copy attached). On March 8, we responded to the CFO's letter, again presenting this issue in the form of a question. We asked,

> Does the MWD cost of service currently capture and charge to the agencies that benefit, the full costs of system "standby" capacity and supply that enables year-to-year (annual) peaking off MWD?

We still have not received a response from the CFO, from MWD management or from the Chairman of the Board or Chairman of the Business and Finance Committee. *Properly assigning these costs would result in additional water rate reductions for many ratepayers throughout MWD's service area.* We ask that you support our request at the April board meeting that this issue be addressed through the board or committee process, as suggested by the CFO – and, that adoption of *rates* be deferred until the board receives a full explanation why these costs are not accounted for or properly assigned in MWD's cost of service. By copy of this letter, we are also

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disproportionately on the agencies – and their customers – that have not been rewarded with rich subsidy contracts.

[11] Staff's February 17, 2012 presentation to the Member Agency Managers on the Proposed Biennial Budget, Revenue Requirements, and Water Rates and Charges Fiscal Years 2012/13 and 2013/14, slide 7, is incorrect. While it correctly states that additional physical capacity must be designed into the system and additional capital costs are incurred, and that these costs include portions of distribution and regulatory storage, it is incorrect in its statement that MWD's capacity charge "recovers the costs of the system used to meet peak demands." This is not accurate even as to seasonal peaking, let alone annual peaking, *which is not accounted for in MWD's cost of service allocations.*

asking the General Counsel to advise us, in writing, whether she agrees with the CFO that the MWD board has the option, as a "policy" matter, to *not charge the cost of the services*, *facilities and supplies attributable to annual peaking to the agencies that benefit.*

SUMMARY

We urge the board to adopt a budget that caps the "average" rate increases at 3% for 2013 and 2014. Further, we recommend that the adoption of water rates and charges be deferred until MWD management has provided a cost of service analysis that properly accounts for and assigns all MWD costs – including the cost of annual peaking – to the agencies that benefit.

Sincerely,

Lynne L. Heidel Keith Lewinger

Lynne Heidel	Keith Lewinger	Fern Steiner	Doug Wilson
Director	Director	Director	Director

Attachments:
1. Water Authority's letter to MWD re biennial budget dated February 3, 2012
2. MWD response to Water Authority's comment letter dated March 6, 2012
3. Water Authority's response to MWD letter dated March 8, 2012

cc: Jeff Kightlinger, MWD General Manager
Gary Breaux, MWD Chief Financial Officer
Marcia Scully, MWD General Counsel
San Diego County Water Authority Board of Directors

San Diego County Water Authority
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February 3, 2012

Aaron Grunfeld
Business and Finance Committee Chairman
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

Re: Proposed Biennial Budget and Associated Rates and Charges for 2012/13 and 2013/14

Dear Mr. Grunfeld:

First, we want to thank you for your commitment to hold budget workshops so the board may review, ask questions and understand the proposed budget.

We have reviewed staff's proposed biennial budget and associated rates and charges for 2012/13 and 2013/14, as well as the slides presented at the January workshop. Based on this preliminary review, we are providing you with the comments, requests and questions which are attached. In order to facilitate the board's deliberation of these issues, we request that staff respond to our comments and questions in writing prior to the next budget workshop.

We look forward to continuing this important dialogue at the next budget workshop.

Sincerely,

Lynne L. Heidel Keith Lewinger Fern Steiner Doug Wilson

Lynne Heidel	Keith Lewinger	Fern Steiner	Doug Wilson
Director	Director	Director	Director

Attachment

cc: Jack Foley, MWD Board Chairman
Jeff Kightlinger, MWD General Manager
Gary Breaux, MWD Chief Financial Officer

MWD Budget Workshop #1 – January 24, 2012

San Diego County Water Authority (SDCWA)'s MWD Delegates' questions and comments on proposed biennial budget and associated water rates and charges for FY 2012/13 and 2013/14

All references are to Budget Memo 8-1 for the January 10, 2012 Board meeting or to the power point presentation at the January 24, 2012 budget and rate workshop.

1. ***The Board must take steps to "right-size" MWD in order to ensure that revenues – based on more reasonable demand projections – are sufficient to pay MWD's costs.***

    - MWD's water deliveries declined almost 500,000 acre feet over the last four years from 2.26 million acre feet (MAF) in 2008 to 1.68 MAF in 2012. Moreover, the 2012 delivery figures included 164,000 acre feet of San Diego County Water Authority's (Water Authority) QSA transfer water and 225,000 of "one-time" discounted water sales that would not have occurred at full price. MWD's 2010 Regional Urban Water Management Plan (RUWMP) shows its average year sales in 2030 will be 22% lower than projected in MWD's prior RUWMP just five years ago. MWD's sales projections are flat or trending downward and yet, the Board has taken no meaningful actions, in terms of programs or staffing, to reduce the expense side of the budget to reflect this dramatic reduction in MWD sales.

    - What is basis of budget demand projections assuming full service sales of 1.5 MAF next year and in future years? The Board memo states that the sales estimate is "conservative," yet, this assumption is 200,000 acre feet more than this and last year's full service sales of 1.3 MAF.

    - MWD has not covered its operating costs in six out of the last eight years (2004-2011). The first order of business must be to reduce spending, consistent with budget cuts already implemented by most of the cities and retail agencies in Southern California.

    - Given that retail demand is down 20% or more across the MWD service area, we recommend a moratorium on all subsidy programs designed to further reduce MWD sales (and revenues). The moratorium should remain in place until MWD updates its IRP projections and conducts a comprehensive study to evaluate the need for MWD to pay for such programs. This recommendation should not be interpreted to suggest that the Water Authority does not fully support the development of local supply projects including increased water use efficiency, but rather, that funding should be at the local level.

    - The budget notes that replenishment water will be sold at full service rates, however, it does not appear to account for the cost of "incentives" or "rebates" that are also part of the staff recommendation for a revised replenishment program. Please identify the amount and cost of service category to which these incentives or rebates are assigned. What rate is proposed to generate the revenue to pay the cost of these incentives or rebates?

2. ***MWD should reasonably spread cost burdens among current and future rate payers; it should not raid revenues intended for capital projects to pay operating expenses, and should not overburden future rate payers by deferring OPEB funding.***

    - The budget includes a reduction of PAYGo revenue collections in 2012/13 that is inconsistent with the Board's adopted policy. If the Board approves this recommendation, MWD will have failed to follow its own PAYGo funding policy in eight out of the last ten years (2005-2014). Funding capital projects at such low PAYGo levels unfairly shifts obligations from current ratepayers to future ratepayers. Moreover, several years of midyear reallocation of PAYGo funds intended for capital to meet operating expenses has distorted cost of service. The Board should not continue to apply revenues that are collected for capital projects to pay operating costs.

- The proposed budget continues to shift a disproportionate share of unfunded OPEB liability to future ratepayers. The funding schedule presented at the January workshop to begin ramping up payments to match MWD's Annual Required Contribution (ARC) does not go far enough. MWD should cut costs now in order to increase funding to match its ARC.

- A greater share of MWD's Capital Improvement Program (CIP) now consists of R&R projects. Indeed, the January workshop presentation showed R&R expenditures represent about two-thirds of CIP costs over the two years reviewed. Aside from the misuse of PAYGo to pay operating expenses, we would also suggest that the Board consider changing its PAYGo funding strategy so it is *proportionate* to the total CIP over time. This would ensure that current ratepayers are not being asked to pay a disproportionate share of R&R.

3. ***MWD must properly account for the cost of storing water.***

Based on data assembled from the proposed budget, the supply and delivery balance is as followed:

Supply/Demand	2012/13	2013/14
State Water Project (Exchange)* Net to MWD	1,260 TAF (120 TAF) 1,140 TAF	1,140 TAF (108 TAF) 1,032 TAF
Colorado River**	727 TAF	890 TAF
Total supply to MWD service area	1,867, TAF	1,922 TAF
Total MWD demand**	1,700 TAF	1,700 TAF
Excess supply	167 TAF	222 TAF

*The budget document does not describe the exchange; if this is not MWD's exchange obligation with Coachella and Desert Water, please provide details.

**The budget document includes Water Authority's QSA water at 172.7 TAF and 177.7 TAF for 2012/13 and 2013/14, respectively, as both supply and demand. MWD does not report the local water supplies and associated demand of its other member agencies, and has no basis for treating Water Authority's QSA water differently. In accordance with the terms of the Exchange Agreement, the revenues generated from payments made under the Exchange Agreement should be treated as transportation or wheeling revenues.

- Staff reported at the workshop that it plans to store 300,000 acre feet of water this year, which is more water than is estimated to be available for storage in the supply and delivery balance. What is the source of the water staff is planning to store, and, how are the costs of that water captured in the cost of service? How much funding is included in the budget to pay for storage costs? Finally, is the energy cost of moving the water into storage being captured in the System Power Rate or through Supply Programs?

4. ***The cost of service does not recover the costs of system "standby" capacity and supply that enables year-to-year peaking off MWD.***

   - Many agencies peak off the MWD system from year-to-year, depending on hydrology and the availability of local water supplies. MWD has developed and continues to develop water supplies and incur storage and facility costs in order to meet these demands, but is not fully allocating the costs associated with these investments from the agencies that benefit from them. MWD must change its rate structure in order to account for and allocate these costs so that they are borne by the agencies that benefit by being able to peak and then roll off the MWD system.

5. ***The Delta Supply Surcharge should be continued because the purpose for which it was established by the Board has not changed.***

   - Please provide the basis of the staff recommendation to delete the Delta Surcharge. Given the rationale stated in Board Memo Revised 8-3 dated April 14, 2009, the Delta Surcharge should remain in place. In fact, the budget states at page three that increased funding is being included to aggressively pursue exactly the type of projects the Delta Surcharge was intended to cover.

   - Was the Delta Supply Surcharge combined with the Tier 1 supply rate? If not, how were these costs reassigned?

6. ***Staff needs to provide more information why individual rate components are increasing or decreasing; and, take steps to better smooth rate increases at the retail level.***

   - The proposed individual rates and charges include changes that vary significantly from the "average" 7.5% increase staff reports. Since no agency pays "average" rates, information needs to be provided on why individual rates and charges are increasing or decreasing. Please provide the data supporting the System Access Rate increases. Also, please provide the data supporting the supply rate decrease.

   - Staff should also explain why some elements show decreases one year and increases the next year – or vice versa, and, present alternatives to avoid swings in the rates and charges.

7. ***Staff must track all rate component costs and expenditures, not just the Water Stewardship Fund.***

   - MWD tracks over- and under- expenditures for revenues collected under Water Stewardship rate, but not others. What is the basis for this disparate treatment? For example, although MWD has a Treatment Surcharge Rate Stabilization Fund, when fund revenues are insufficient to pay those costs, MWD uses General Fund revenues to cover the difference. The net effect is that raw water customers are subsidizing treated water customers. We request that MWD provide a cost of service analysis for all rate components and identify or develop internal tracking mechanisms to prevent cross-subsidies.

8. ***All operations and staffing should be "right-sized" to reflect reduced demands.***
   - What were staffing levels and budget in 2008? What are they today?
   - What criteria has staff used to "optimize" staffing levels?
   - Are the staffing levels recommended in the budget higher than current actual levels? If so, why?
   - Please provide a list of the O&M association dues that total $5 million annually.

9. ***A contingency plan should be included in the proposed budget.***
   - The biennial budget should include a contingency plan that would automatically be triggered mid-year to reduce *current costs* in the event projected revenues are lower than budgeted.
   - Similarly, the budget should provide a plan that describes in detail how MWD will apply excess funding in the event projected revenues exceed expenditures. This is especially important in light of the recent draw-down of reserves, raids on the PAYGo fund and cross-subsidies that have been created by the failure to track individual rate components – or to budget so that projected revenues are reasonably expected to be sufficient to pay MWD's expenses.

10. ***Even if it is unwilling to update or modify its cost of service analysis generally – which it should – MWD must at a minimum provide a new cost of service analysis to ensure compliance with Proposition 26.***
   - Even If the Board does not require staff to update or modify its cost of service analysis, or, support a moratorium on local projects spending to mitigate the impacts of reduced demands and MWD revenues, staff must identify the benefits it claims are associated with these payments and demonstrate that those benefits are received by those paying the charges and that the amount of the charge is reasonably related to the benefits. The benefits that have been stated but which have not been supported by any data or analysis include (1) capacity will be made available that is otherwise not available for the transportation of MWD water; (2) investments MWD would otherwise need to make in other facilities and/or water supply will be avoided as a result of these payments; and (3) MWD needs and will benefit from the local water supply it is paying for. Please provide the analysis required by Proposition 26.

THE METROPOLITAN WATER DISTRICT
OF SOUTHERN CALIFORNIA

Office of the General Manager

March 6, 2012

Director Lynne Heidel
Director Keith Lewinger
Director Fern Steiner
Director Doug Wilson
San Diego County Water Authority
4766 Overland Avenue
San Diego, CA 92123

Dear Directors:

Request for Information from San Diego County Water Authority on the Proposed
Biennial Budget and Associated Rates and Charges for FY 2012/13 and FY 2013/14

Director Keith Lewinger has highlighted some areas of the February 3, 2012 letter sent to Aaron Grunfeld, Chair of the Finance and Insurance Committee, that he felt had not been addressed during the Board workshops on the budget and rates and charges or in the other materials provided to the Board. Additional information on each of these areas is provided below.

Replenishment Rate - As discussed at the January 24, 2012 Budget and Rates Workshop, the budget and rates proposal does not include a replenishment rate. Therefore, the costs of any incentives and rebates have not been included. Discussions on the replenishment program are continuing with the member agencies and will be brought back for the Board's consideration at some point in the future.

Storage of Water - The proposed budget includes approximately $14 million in both fiscal years for the cost to utilize the Central Valley storage programs. These costs are recovered in the Tier 1 Supply Rate. The cost of moving water through the conveyance system is recovered in the System Power Rate and includes water moved into and out of storage.

Statement on Peaking by Member Agencies - This highlighted area is worded as a statement or position and should be addressed through the Board or Committee process.

Delta Supply Surcharge - This was presented and discussed at the January 24, 2012 Budget and Rates Workshop (slide 47). The Delta Supply Surcharge recovered the additional costs of acquiring transfers to offset pumping restrictions due to the Biological Opinions. Projected State Water Project and Colorado River Aqueduct supplies will meet demands at 1.7 MAF and additional transfers are not necessary. As noted in response to a question at the February 28, 2012 meeting of the Special Committee on Bay-Delta, the costs of the work on the Bay Delta Conservation Plan are included in the conveyance and aqueduct service function and recovered in the System Access Rate.

Increases and Decreases in Individual Rate Components - This was presented and discussed at the January 24, 2012 Budget and Rates Workshop (slides 43-54) and at the February 13, 2012 Budget and Rates Workshop (slides 6-9).

Tracking of Rate Components - Metropolitan sets rates prospectively based on a revenue requirement using a Cost of Service study. The revenue requirement is based on forecasted expenditures and offsetting revenues as established through a budgeting process. Revenues are tracked against budget for reporting purposes. There is no true-up based on the actual versus forecasted expenditures and revenues in any rate category.

The Water Stewardship tracking mechanism was established at the request of several member agencies to ensure that monies generated through the Water Stewardship Rate were spent for the purpose of providing Local Resource Program incentives and Conservation Credits funding. As of June 30, 2011, the Water Stewardship balance was $1.6 million.

List of O&M Association Dues - Attached is a schedule of O&M association dues that approximate $5 million in the proposed FY 12/13 and FY 13/14 biennial budget.

Proposition 26 - The cost of service and ratemaking process are undertaken to assure that Metropolitan's rates and charges are no more than necessary to cover Metropolitan's reasonable costs and that they are allocated among member agencies and other users of Metropolitan's system in a manner reasonably related to their benefits and burdens on Metropolitan's system. The cost of service study and the deliberative process that the Board uses to consider and adopt the resulting rates and charges, which includes board letters, workshops, and presentations, provide the foundation for the Board's reasonable determinations of rates and charges.

I hope you find this additional information helpful as we move towards finalizing the budget and rates and charges for the biennial budget for FY 12/13 and FY 13/14.

Sincerely,

Gary Breaux
Assistant General Manager/Chief Financial Officer

Attachment

cc: J. Kightlinger
MWD Directors

Association Dues
Metropolitan Water District

Template Type	Org/Vendor/Provider	Description	2012/13 Proposed	2013/14 Proposed
Memberships	SWC - Annual Bay/Delta Fund (SWC)	MWD participates in the SWC's Bay-Delta Committee, which uses the fund to advance analysis and improvements related to Bay –Delta and to manage legal issues affecting water rights, water quality and operations.	1,590,000	1,638,000
	State Water Contractors - Dues	MWD is a member of the SWC. The Dues Fund pays for staff and administrative cost. MWD's representative is one of nine members of the SWC board.	1,000,000	1,030,000
	State Water Project Contractors Authority Special Project Committee(SWPCA-SPC)	The Delta Specific Project Committee of the SWPCA provides information and oversight of DWR's BDCP and DHCCP efforts. The fund is MWD's participation share in the SFCWA as well as paying for administrative costs.	714,100	735,500
	Six Agency	Association of six California water agencies with interests in the water and power resources of the Colorado River system. Contribution is a percentage of the budget for the association as determined by agreement between the six agencies. (Includes $18K in 2012/13 and $18.5K in 2013/14 for MWD portion of Colorado River Authority of California).	639,000	658,170
	State Water Contractors-Energy Fund	MWD participates in the SWC's Energy Committee, which funds energy development, FERC relicensing and legal matters related to energy issues.	360,000	370,800
	SWPCA - DHCCP	Fund audit activities on the design and construction activities related to BDCP	350,000	350,000
	Municipal Water Quality Investigations (MWQI)	MWQI specific project committee of the SWPCA provides supplemental project assistance to DWR's MWQI program. The fund provides services that DWR is unable to implement on a timely basis.	134,000	134,000
	State Water Project Contractors Authority (SWPCA)	The SWPCA provides contract services to DWR to help with immediate and long-term project management, operational and maintenance needs.	62,600	64,500
Total Memberships			**4,849,700**	**4,980,970**

San Diego County Water Authority
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March 8, 2012

Gary Breaux, Chief Financial Officer
Metropolitan Water District of Southern California
P.O. Box 54153
Los Angeles, CA 90054-0153

RE: Proposed Biennial Budget and Associated Rates and Charges for 2012/13 and 2013/14

Dear Gary:

In your March 6, 2012 reply to our February 3 letter regarding the Proposed Biennial Budget and Associated Rates and Charges for 2012/13 and 2013/14, you responded to our Question Number 4, that "this highlighted area is worded as a statement or position and should be addressed through the Board or Committee process."

We are happy to place our concern in the form of a question:

> Does the MWD cost of service currently capture and charge to the agencies that benefit, the full costs of system "standby" capacity and supply that enables year-to-year peaking off MWD?

We would also appreciate knowing whether your statement means that MWD staff believes that the MWD board of directors has the option, as a "policy" matter, to not charge the cost of these services, facilities, and supplies to the agencies that benefit?

We would appreciate a prompt reply to this letter in advance of the public hearing on Monday.

Sincerely,

Lynne L. Heidel   Keith Lewinger   Fern Steiner   Doug Wilson

Lynne Heidel	Keith Lewinger	Fern Steiner	Doug Wilson
Director	Director	Director	Director

cc: Metropolitan Water District Board of Directors
Jeffrey Kightlinger, MWD General Manager
Marcia Scully, MWD Interim General Counsel