



July 27, 2021

Keene Simonds
Executive Officer
San Diego Local Agency Formation Commission
9335 Hazard Way, Suite 200
San Diego, CA 92123

VIA EMAIL

Dear Mr. Simonds,

We have received your request for an additional deposit of \$120,000 (\$60,000 for each district) for the additional analysis to be conducted by Dr. Hanemann. As we understand it, the original \$100,000 deposit has been largely utilized to develop the draft reports for water reliability and rate impacts.

After hearing the report by Dr. Hanemann at the Ad-Hoc Committee meeting on July 11, 2021, we want to express our concern about certain aspects of the analysis that are being conducted relative to our reorganization proposals. In the meeting, the San Diego County Water Authority (SDCWA) continued to raise a number of wide-ranging topics that are unrelated to our reorganization proposals, some of which are red herring issues.

As Executive Officer, you proposed three main topics of analysis that the Ad-Hoc Committee reviewed and approved—specifically: (a) water rate impacts, (b) water supply reliability and (c) potential departure/exit fee. The wide-ranging issues discussed during the meeting are important for our region, our state, and indeed the entire Western United States. But these complex statewide and regional issues have remained unresolved for decades and are likely to remain unresolved for decades to come. They are far afield from the topics that were to be the core of the analysis. Our concern is that this complex analysis on these statewide and regional challenges is being funded by our ratepayers, and at the end of this analysis there will not be a clear conclusion that can be used to provide any useful information to the Commission as they evaluate our reorganization proposals.

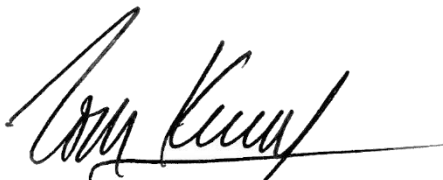
For example, SDCWA has indicated in some of its submittals to LAFCO that the cost of the Bay Delta Fix may in the future increase the Metropolitan Water District's (MWD) cost structure. We do not think anyone disagrees that something must be done at some point, but the timing, cost, and cost allocation of that project is unknown. Any attempt to quantify it at this point in time would be speculative at best. Even if one were to speculate the cost and MWD's share of those costs, to then speculate that somehow SDCWA would avoid these costs and the Eastern Municipal Water District (EMWD) would bear a greater share ignores the fact that SDCWA litigated this exact topic and lost. The Appellate Court decision clearly indicated that MWD may include costs associated with the Bay Delta system in its transportation

costs, which both EMWD and SDCWA pay at the same rate. All this said, this topic is well beyond the scope of our applications.

SDCWA has also postulated that MWD will, at some unknown point in the future, alter its rate structure to include more fixed charges. While this may be advisable from a fiscal sustainability standpoint (MWD has recognized this), we are aware of no current or near future proposals to do so, or any indication as to what form such a charge would take. Any attempt to predict with any accuracy what such a charge would be and how it would be allocated is, again, speculation. Accordingly, reviewing these “speculative issues” as part of LAFCO’s review of our applications is inappropriate. As Dr. Hanemann postulated in some emailed questions to RMWD, FPUD, and EMWD, MWD may choose to enact a per-meter charge to develop more fixed revenue. Should that come to pass, our customers will pay that charge per meter whether they are in SDCWA or EMWD.

If there is going to be an analysis of fixed and variable costs at MWD and their impact on future rates, it would also be important to analyze this impact at SDCWA. The current variable cost rate structure has allocated a disproportionate amount of costs on our customers, as demonstrated in the London Moeder Advisors analysis completed in September, 2020. Any adjustments in the current rates to collect more fixed revenue at SDCWA on true fixed costs such as population, meter equivalents or assessed valuation would shift these costs more equitably from our customers at a level far greater than the impact of our detachment.

In conclusion, our reorganization applications were submitted in accordance with the relevant statutes in the County Water Authority Act and the Cortese-Knox-Hertzberg Local Government Reorganization Act of 2000. LAFCO has an obligation to review these applications in accordance with these statutes. These statutes require the Commission to base its decisions on facts in evidence (with certain reasonable and factually supportable predictions of the future), not speculation of future events where there are a wide range of possible outcomes.



Tom Kennedy
General Manager
Rainbow Municipal Water District



Jack Bebee
General Manager
Fallbrook Public Utility District