

August 2, 2021

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OTHER
REPRESENTATIVE

County of San Diego

VIA EMAIL

Keene Simonds
Executive Officer
San Diego County Local Agency Formation Commission
9335 Hazard Way, Suite 200
San Diego, CA 92123
(Keene.Simonds@sdcounty.ca.gov)

RE: Fallbrook/Rainbow Correspondence of 7/27/21

Dear Mr. Simonds:

This letter is in response to July 27 correspondence from Rainbow and Fallbrook complaining about Dr. Hanemann's work for LAFCO. We ask that you provide this letter to Dr. Hanemann, and to the Advisory Committee members.

The Fallbrook/Rainbow letter claims that Dr. Hanemann is not analyzing the proper subject matter, and that some of the topics he is examining are "red herring" issues irrelevant to the applications. Not so. The letter is in error, and reveals the extent to which the applicants themselves have failed to consider material factors associated with the applications which could have a potentially negative impact on their own ratepayers. Ironically, while the applicants seek to minimize review, the extreme drought now being experienced by most of California serves to highlight the importance of the issues before LAFCO.

Dr. Hanemann, due to the breadth of his background in California water issues, is performing work that normally would be done by multiple experts and writing reports on various subject areas, as agreed by all parties at the outset and assigned to Dr. Hanemann by LAFCO. As a result of this efficiency, LAFCO has saved Rainbow and Fallbrook costs that would have made this process far more expensive.

Moreover, Dr. Hanemann is not looking at irrelevant issues, as asserted by Fallbrook and Rainbow. To the contrary, he is looking at the core issues presented by the applications regarding water supply reliability and cost. The applicants came to LAFCO with unsupported claims that MWD water (via Eastern) is not only just as reliable as Water Authority water, but that it is the "same water," which it is not. The applicants also made unsupported claims that Rainbow and Fallbrook ratepayers will save money via rate differentials over coming decades by changing wholesale suppliers. These claims

cannot be accepted at face value. To the contrary, LAFCO has a duty, which it is performing in part through Dr. Hanemann, to fully investigate the applicants' claims. Attempts to objectively review and understand all the issues associated with the differences in reliability between the wholesale agencies, and all the issues that affect their current and future pricing and water rates are essential to a determination by LAFCO on the merits.

Unfortunately, as they did in the applications themselves, it appears that the applicants have made unrealistic and unsupported promises to the elected officials who serve on their respective Boards of Directors and to the public they serve as to the likely timing and cost of the LAFCO process. Having triggered a complex process that implicates many diverse and interconnected issues, the applicants should not be heard to complain now about the time and cost of the analytical process necessary to evaluate the impacts to Rainbow and Fallbrook customers and property owners, and to impacts on the rest of San Diego County rate payers.

The stated purpose of the applicants' proposals pending before LAFCO – prominently featured in their public relations campaign and even in their recent Proposition 218 notice — is a claimed substantial decrease in Rainbow and Fallbrook customers' water rates. However, the Rainbow and Fallbrook July 27 letter is an admission that these agencies have not conducted any substantive analysis of the rates likely to be imposed by MWD in the future in order to pay for the very MWD projects the applicants are relying on to ensure water supply reliability for their customers. Without these additional investments that will no doubt increase MWD rates, MWD itself acknowledges that its future water supply reliability cannot be assured. As a result, Rainbow and Fallbrook customers could find themselves 100% dependent on an agency in which they have zero right to water.¹ The impacts of that scenario in today's severe drought environment in California are a core component of the analysis.

Finally, in considering the applicants' objections to the costs of Dr. Hanemann's work, we would also call to LAFCO's attention that Fallbrook and Rainbow have spent many hundreds of thousands of their ratepayer dollars on lobbying and public relations activities to criticize and blame the Water Authority, including incorrect factual statements and conjectures about the detachment process and its potential results. These activities include the creation of at least one fictional entity called "Ratepayers for Water Choice" to make it appear as if members of the public are supporting a change, but in fact this entity is nothing more than Fallbrook and Rainbow themselves.²

We fully support Dr. Hanemann and LAFCO taking the time necessary to complete due diligence review of these applications, as planned by LAFCO and the Advisory Committee.

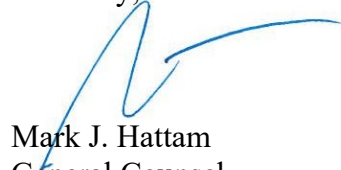
¹ See Water Authority September 18, 2020, Response to LAFCO at pp. 78-85, especially discussion of preferential rights at pp.82-85.

² Buried at the bottom of this fake "ratepayer" group's website is this admission: "Ratepayers for Water Choice is a collaborative educational outreach effort by the Fallbrook Public Utility District and the Rainbow Municipal Water District."

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The Water Authority remains committed to fact-based analyses of the complex issues posed by the applicants' proposal. Thank you for your consideration of these issues.

Sincerely,



Mark J. Hattam
General Counsel

Cc via email:

Sandra L. Kerl, General Manager, San Diego County Water Authority
Kristina Lawson, Counsel, San Diego County Water Authority
Jack Bebee, General Manager, Fallbrook PUD
Paula C. P. de Sousa, Counsel, Fallbrook PUD
Nick Kanetis, Deputy General Manager, Eastern MWD
Tom Kennedy, General Manager, Rainbow MWD
Alfred Smith, Counsel, Rainbow MWD
Water Authority Board of Directors