Q. If FPUD and RMWD detach from SDCWA, would it possible for SDCWA to sell the water that it otherwise would have delivered to FPUD and RMWD to some other member agencies, thereby recouping lost revenue?

A. SDCWA is committed to paying for 78,700 AF of canal lining water through 2112. It is committed to paying IID for 200,000 AF of conserved water through 2047, with the possibility of a 30 year extension beyond that. Under the exchange agreement, SDCWA is committed to paying MWD to convey this water for the same period of time as in those underlying supply contracts. This is a commitment by SDCWA to pay for 278,700 AF of QSA water per year.

In addition, SDCWA has a 30-year Water Purchase Agreement with Poseidon Resources to purchase 42,000 AF of water annually from the Carlsbad Desalination Plant upon commencement of commercial operations, which occurred in December 2015.

Together these purchase commitments total 320,700 AF per year and run at least through 2045.

If SDCWA needs to deliver more water to member agencies than 320,700 AF/yr, it can obtain the additional water as a member agency of MWD at an annual cost which varies in part with the volume of water purchased from MWD.

If SDCWA needs to deliver less water to member agencies than 320,700 AF/yr, it must still make its committed annual payments that are keyed to the receipt of 320,700 AF/yr.

If there are no operational constraints on how SDCWA receives and distributes QSA water, Carlsbad water and MWD-supplied water, SDCWA would be able to sell water to other member agencies that it otherwise would have delivered to FPUD and RMWD as long as the other member agencies demand for water from SDCWA exceeds 320,7000 AF.

However, if the other member agencies demand for SDCWA water falls short of 320,7000 AF in a future year through 2045 or later, SDCWA would not be able to recoup from the remaining member agencies the full amount that it has committed to paying that year.

Q. If FPUD and RMWD detach from SDCWA, would it possible for SDCWA to sell the water that it otherwise would have delivered to FPUD and RMWD to some other water agency that is *not* a member agency, thereby recouping lost revenue?

A. In theory, one mechanism by which SDCWA might recoup lost revenue is to sell water that otherwise would have been delivered to FPUD and RMWD to a *non-member* water agency. Logical possibilities are to sell water to MWD itself or to individual member agencies served by MWD. The water distribution systems serving MWD and SDCWA are sufficiently interlinked that this ought to be possible in principle, although there could be some operational complications and constraints.

The major impediment to doing this is the hostility that has existed for much of the past three decades between SDCWA and MWD.

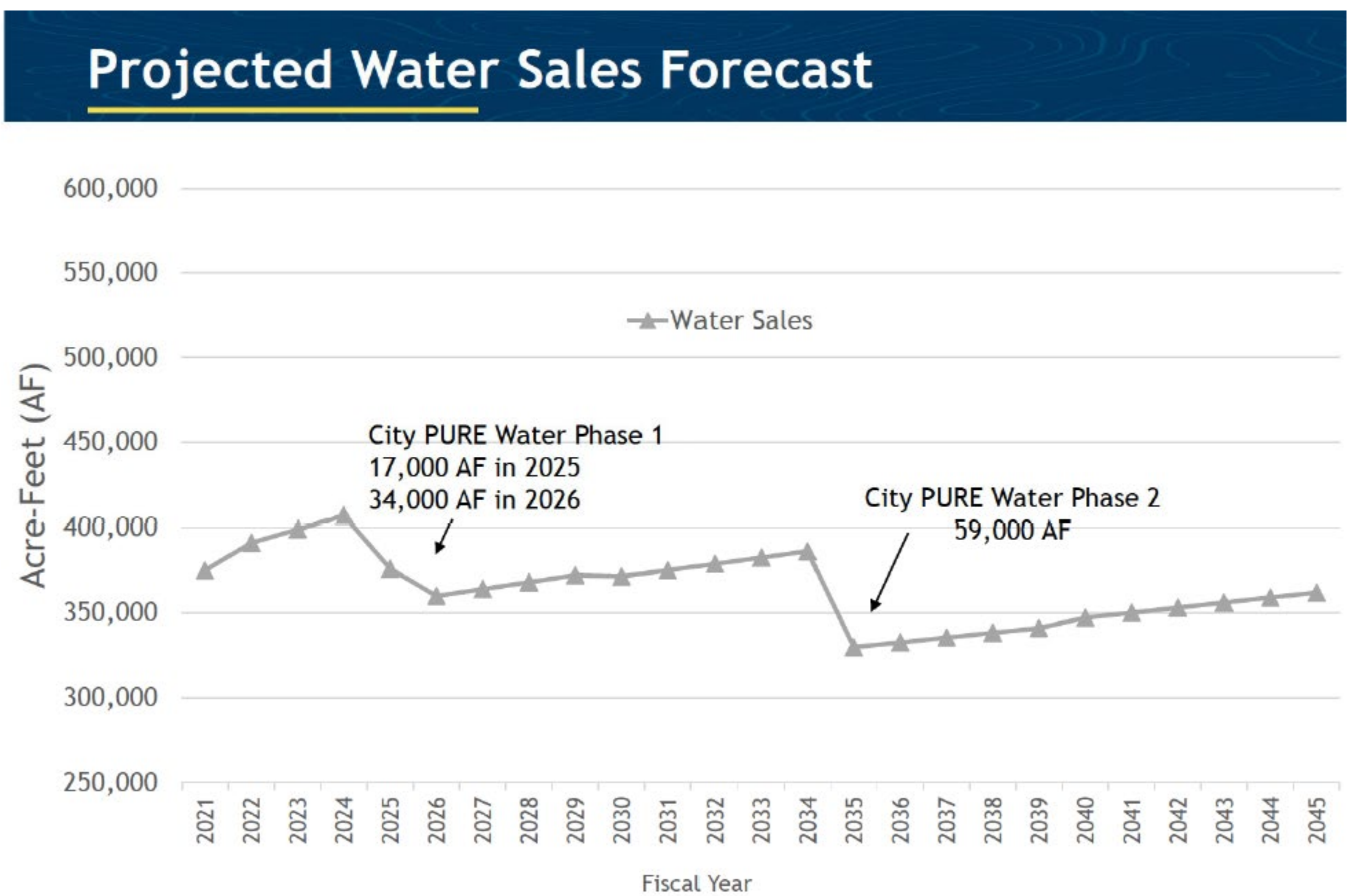
From a purely economic perspective, Southern California as a region would be better served if there could be a more open and collaborative relationship between MWD and SDCWA, its largest single customer.

This is not likely to emerge overnight.

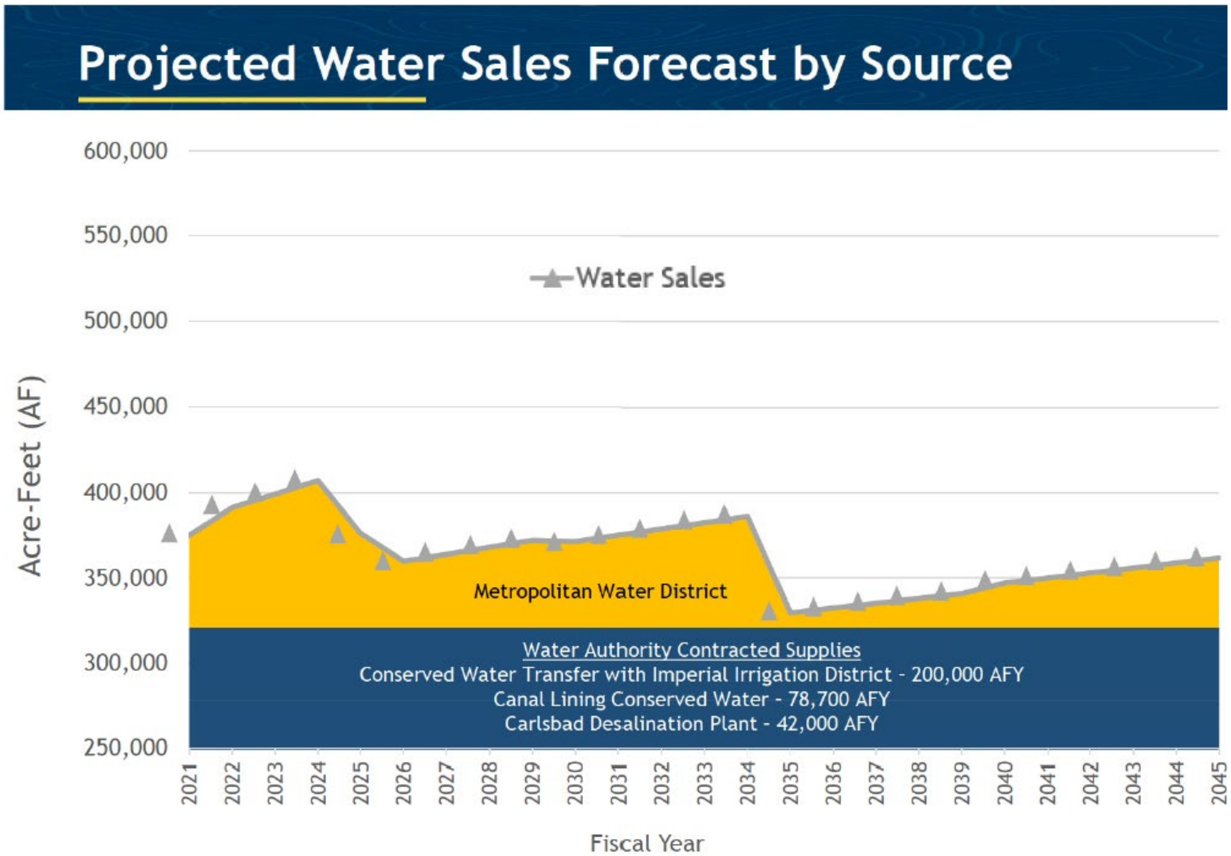
It will take good will and a greater focus on the economic and physical challenges to the region's future water supply situation. I am assuming that it might take a decade or so before those emerge.

Q. How likely it is that SDCWA could find itself being asked to deliver less than 320,700 AF/yr to its member agencies if FPUD and RMWD were to depart?

A. At a SDCWA Board Meeting on 6-10-2021, Kelley Gage, SDCWA Director of Water Resources, presented a graph showing a forecast of SDCWA water sales through 2045. The graph is reproduced below:



She presented a second graph comparing this sales forecast with SDCWA's water purchase commitment of 320,700 AF (marked in solid blue):



The lowest level of deliveries to member agencies in this forecast is projected to occur in 2035, by which time 116,770 AF of additional local supplies are projected to have come online within the SDCWA service area compared to what existed in 2020.[1] SDCWA deliveries to member agencies projected for 2035 amount to about 325,000 AF.

The sales forecast assumes no detachment by FPUD or RMWD. If FPUD and RMWD departed as member agencies of SDCWA, that would reduce this sales forecast. I am guessing that the sales reduction might amount to a combined total of about 17,500 AF annually.[2] If so, that would push SDCWA deliveries to member agencies without FPUD or RMWD in 2035 down to about 307,500 AF.

The analysis just presented suggests that SDCWA will be able to deliver its committed purchase of 320,700 AF every year through 2034, but would fail to do so in 2035. However, it would be unwise to place too much weight on this analysis because there is considerable uncertainty in

[1] These are additional local supplies from groundwater, recycled water, and potable re-use. Between 2021 and 2025, 36,365 AF are projected to come online; between 2026 and 2030, another 20,945 AF is projected to come online; and between 2031 and 2035, an additional 59,640 AF is projected to come online.

[2] I do not know the specific level of deliveries attributed to FPUD and RMWD in this sales forecast.

the forecast of annual sales – there is really a probability distribution spread (a confidence interval) around each of the numbers in the graphs.

A major source of uncertainty is the possible occurrence of drought during the period from now through 2035. A drought might reduce local supplies, thereby increasing member agency demands on SDCWA. A drought might also accelerate the development of local supplies, thus reducing member agency demands on SDCWA. Moreover, a drought coupled with mandated urban conservation, as happened under Governor Brown in 2015 – 2016, and may be imminent this year under Governor Newsom, could have the effect of limiting member agency demands on SDCWA below the levels projected in the graphs.

Thus, there is a real chance that, if FPUD and RMWD depart, SDCWA could on some occasion face member agency demands that fall short of its commitment to pay for 320,700 AF.

Q. Does the possibility that, if FPUD and RMWD depart, SDCWA could on some occasion face member agency demands that fall short of 320,700 AF suggest a possible alternative to a departure fee?

A. A possible approach would be for FPUD and RMWD to commit to jointly purchase water from SDCWA over the next 10 years in every year when SDCWA deliveries to member agencies fall short of 320,700 AF. FPUD and RMWD would commit to purchase the amount by which SDCWA deliveries to other member agencies fall short that year of 320,700 AF, up to a joint cap of, say, 17,500 AF.

That would leave some important details to be resolved, including what charges FPUD and RMWD would pay SDCWA -- would they pay that year's SDCWA all-in melded SDCWA rate per AF or something else?