October 25, 2021

Adam Wilson
Moderator
San Diego LAFCO
2550 Fifth Avenue, Suite 725
San Diego, CA 92103

Subject: Response Letter to Dr. Hanemann's Draft Report dated October 11, 2021

Dear Mr. Wilson,

This letter is the response from the Rainbow Municipal Water District to the draft report from LAFCO Consultant Dr. Michael Hanemann dated October 11, 2021. The comments made by FPUD in their letter on the topic are supported by RMWD and are incorporated herein by reference. This document will provide some general comments about the report followed by some specific comments on particular content in the report. We hope that the Ad-Hoc Committee, LAFCO staff, and LAFCO Commissioners find this information helpful.

The Content of the Report Ignores State Law, LAFCO Policies, and Established Case Law

In a number of areas in this document, Dr. Hanemann indicates that he did not consider the various statutes (CWA Act, Cortese Knox Hertzberg Act) or existing San Diego LAFCO Policies (L-108 in particular) in his analysis. While an academic exercise that is unbound by legal realities is an interesting endeavor, for the purposes of the Ad-Hoc Committee, LAFCO staff, and the Commission, a study that ignores the reality of laws and policies may give the readers an incomplete foundation for considering the results of the analysis. After all, even lay people—people who are neither rate consultants nor attorneys specializing in the constitutional limitations imposed on rate setting by the requirements of Propositions 218 and 26—understand the basic constraints under which public agencies in the state of California must operate. Similarly, a simple reading of the County Water Authority Act would provide even lay people an understanding of what the legislature intended when a member agency of a county water authority departed. We believe that the Ad-Hoc Committee, LAFCO staff, and the Commission would have been better served to have had the analysis performed within the context of these laws and policies, rather than an analysis disassociated from legal requirements and constraints. For this reason, we request that the Ad-Hoc Committee, LAFCO staff, and the Commission keep the applicable legal requirements and constraints in mind as it reviews Dr. Hanemann's analysis.

The Format of the Report Should be Clarified

Various readers with whom we have shared the report had a similar question about the "Q&A" style of the report: whose questions are being answered here? Based on our participation in the entire process it appears to us that the questions being posed were created by Dr. Hanemann himself – in addition to the answers. We are not saying that the questions were leading or in any way not produced faithfully, but an average reader may not be aware that the questions were produced by the person answering them. We would like to see some sort of explanation of the somewhat unusual format of the report so that readers understand what they are seeing within the report.

For the convenience of readers, the following comments will be identified by the page number in which the information appears in the report.

Executive Summary – Page 10

The report refers to a "decadal analysis" prepared by SDCWA as the basis for some of the conclusions related to financial impacts of detachment. Were water sales stable from year to year this might be an appropriate method of analysis, but, as the report clearly indicates, they are not. The financial impact needs to be based on the impacts at the time of detachment, not what they would be a decade ago. Further, the SDCWA analysis is grossly inflated with costs that are not true costs – such as the discussion about reserves. It should be noted that SDCWA's reserves were built using funds from FPUD and RMWD ratepayers – funds that will remain with SDCWA upon detachment. Both agencies submitted estimates of financial impacts as part of our application packages and subsequent submittals, but no mention of these is included here.

We would expect an analysis to look at information from all sources and evaluate each on the merits rather than just take one at face value for the report.
These numbers are also inconsistent with other information in the report and information produced earlier in the process. Dr. Hanemann had previously calculated an annual reduction of ~$9.3 million based on current demands. Given that FPUD demands will drop significantly and RMWD projects continued decline in demand, how does the impact increase to the point of $33.9 million which is almost our entire total revenue contribution? How did Dr. Hanemann verify SDCWA's calculations and demand projections? The net revenue impact also excludes that there is a capital

savings of $30-$40 million to SDCWA and the remaining member agencies by eliminating the need to build the North County ESP Pump Station. If RMWD and FPUD do not detach, this project will need to be built in the next few years, or else the previous payments made by both agencies for the ESP facilities would be for services not provided.

Executive Summary – Page 10

The report here concludes, erroneously, that SDCWA generates a deficit of $935 for each acre foot not sold in a given year. This flawed analysis (that reappears on page 43) incorrectly uses averages as a basis for reaching this conclusion. We had well known team of financial consultants led by Dr. Tom Chesnutt (with co-authors Richard McCann, Ph.D, and Daven Pekelney, Ph.D), who also works with SDCWA on such matters, to evaluate the report. His review is attached to the joint RMWD/FPUD letter submitted separately. As Mr. Chestnut indicates, this analysis is incorrect. Essentially, this method of analysis would indicate that SDCWA receives a "profit" on each AF of water sold, something that is inconsistent with legally required Cost of Service principles.

Executive Summary – Page 12

Here, and on page 64, Dr. Hanemann indicates that EMWD is making assumptions in their technical memorandum on water supply reliability, but the reality is that Dr. Hanemann is making speculative forecasts of potential future conditions. EMWD's analysis follows both MWD's long standing adopted policies on water supply allocations as well as the past practices of MWD over the last few decades. It is not an assumption to rely on policies and past practices – it is an assumption to think they may change, as Dr. Hanemann does here.

LAFCO's role is not to try to predict what a deliberative body may or may not do in the future. MWD may change their policies in the future, but there is no indication that this is imminent nor is there any information to indicate how they might change. To say that it might change in the future and therefore EMWD's analysis is "optimistic" is speculative reasoning. Dr. Hanemann also speculates about future disagreements that "might perhaps arise" in the future without any factual basis to support such an assertion. We wonder why this document, which is supposed to evaluate the facts on record, has strayed into such an arena? Speculation of the future is not helpful information for the ad-hoc committee, LAFCO staff, nor the Commission.

Is It the Same Water Question – Page 22

Here Dr. Hanemann gets into a discussion about whether the water would be the "same water" in detachment. An academic argument is made about the "ownership"

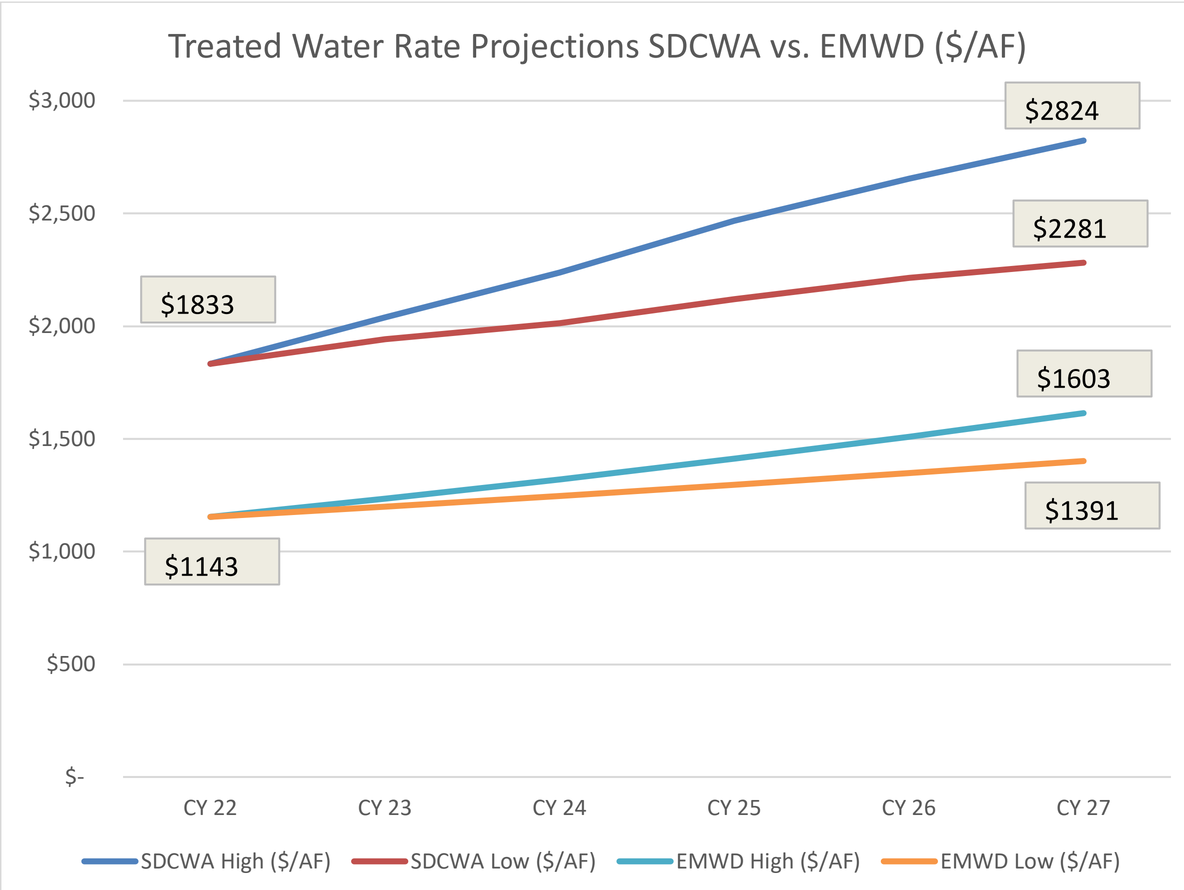
of the water and how it won't be the same, but for all practical purposes on how laypeople view the matter it is the same water. We understand that SDCWA has a desire to bring impacts on the Delta into this discussion, along with arguments related to QSA reliability. However, the report inaccurately portrays both.
The report seems to indicate that once the agencies are part of EMWD they will be getting "MWD" supplies, not EMWD supplies. The concept described in this statement is inconsistent with other statements about whose water is whose. Both agencies currently take water directly off MWD pipelines that are designated as SDCWA supplies. When the change occurs both agencies will be receiving EMWD supplies off those same MWD connections. It is erroneous to say that somehow when the change occurs the agencies will receive only MWD supplies. The relationship between MWD member agency and sub agency will be the same with EMWD as with SDCWA – just at a much lower cost.

On page 24 Dr. Hanemann quotes a number of passages from the Appellate Court decision in the MWD/SDCWA rate case. Here, the courts agreed that the QSA transfer was an exchange of a like amount of water – SDCWA would have Colorado River delivered into MWD's system where it would blend with water from MWD's own sources (SWP and Colorado River). The blended water would then be delivered to SDCWA with the blend being at the sole discretion of MWD. In wet years in the north, MWD sends nearly 100% SWP water down to SDCWA, but in most years it is a blend.

This underscores the fact that the water that FPUD and RMWD get from SDCWA will be the same in terms of SWP content irrespective of whether they are with EMWD or SDCWA. There is no difference in the percentage of SWP water either way as the blending that occurs is the same for all water delivered within the entire Skinner service area of MWD. Accordingly, as part of its findings in this process, LAFCO should document that there would be no increase – or decrease – in the amount of SWP water that RMWD or FPUD would receive when they are part of EMWD.

SDCWA Water Costs Drivers – Page 32

The report presents a series of charts and data from SDCWA about the per acre foot cost of QSA water relative to other sources of supply, particularly MWD supplies. Dr. Hanemann's conclusion is that the increase in QSA supplies as a percentage of SDCWA's total supplies is not the driver for SDCWA rate increases. While we agree that declining demands are a significant driver in per acre foot price escalation, we, along with many SDCWA member agencies, do not agree that the QSA supplies (excluding canal lining) are cheaper than MWD supplies. If it is not QSA supplies driving the cost differential, how then can we explain the huge disparity in costs between EMWD and SDCWA? The table below shows the most current rate forecasts from SDCWA and EMWD (MWD +$11) for the next five years:



What is it that makes SDCWA's water in the current fiscal year about $700 more expensive than the same water from EMWD? While we disagree with the conclusion that QSA water is actually cheaper, an additional component is the cost of infrastructure and facilities that we do not use – and have not used. FPUD currently uses no SDCWA infrastructure and RMWD currently takes 75% of its water (transitioning to 100% by 2023) off MWD pipelines. These extraordinary differences in the cost of water is the sole reason for detachment proceedings.

Fixed Costs – Page 35

This section is based on a discussion of fixed vs variable costs for an agency, but in particular as it refers to long term water purchase contracts or debt payments. We agree that take or pay water purchase contracts are fixed and debt payments are fixed. However, we do not agree with the manner in which Dr. Hanemann categorizes certain costs as "fixed". Arguably, Table 4 includes a number of items that would not be considered by many in the water industry as true "fixed costs" (as with debt service or take or pay contracts). For example, while CIP is an important part of any agency's budget, the costs associated with CIP are not fixed. Many agencies balance budgets by moving CIP around. Similarly, operating department costs are also not fixed in the same way as debt service or take or pay contract obligation – they can be adjusted through operational efficiency improvements, energy reduction, or any number of other ways. Additionally, CIP and operating department costs are often modified within planning horizons to account for changed conditions, different priorities, and policy considerations. We are also unclear how "grant expenditures" is a fixed cost, as grants, by their very nature, are not operating expenses at all, but revenue used to offset CIP and operating costs, as the case may be. Dr. Chesnutt also provides more information about how fixed costs are inaccurately portrayed in his report.

At the end of Page 36, Dr. Hanemann makes a clear point about MWD supplies – they are discretionary in nature. In every planning level document produced by SDCWA, including their 2020 UWMP, the net purchases from MWD ***exceed*** the forecasted demands for both RMWD and FPUD combined. In practical terms, this means that SDCWA will not strand any QSA or desal obligations, but if you accept Dr. Hanemann's conclusion that MWD supplies are ***more expensive*** than QSA, SDCWA will actually save money through detachment. This is one of the logical inconsistencies that we find throughout the report – how can a cost saving measure (detachment leading to the purchase of less of a more expensive supply) come with some "obligation" to pay for the cheaper supplies? In this scenario, SDCWA saves money ***AND*** gets payments from the detaching agencies – something that we have a hard time understanding both logically and legally.

SDCWA Revenue Impacts – Starting on Page 39

Here the report contains less of an analysis (which is what we would have expected) and more of a recitation of SDCWA data. We see no reference to information that had been submitted by FPUD and RMWD as part of the report here. Rather than cite the documents already on record we will provide the information here – again. As we have stated previously, we do not argue that SDCWA will not see reduced revenues – we never have. The argument for detachment is that under State Law we are allowed to detach and that we currently pay a grossly unfair share of the costs at SDCWA for which we receive no benefit.

In June 2021, Dr. Hanemann delivered an earlier draft on this topic in which he calculated the total impact of detachment. In that report he transposed some numbers from the spreadsheet into the report (something that was pointed out via email on June 17, 2021 and confirmed with Dr. Hanemann on June 29th in a Zoom call) which inflated the net impact by $2M per year. The net impact of detachment of both agencies calculated at that time by Dr. Hanemann was ~$9.3M per year.

Here we see a greatly inflated set of values including references to reserve draws which Dr. Hanemann himself points out he was not able to account for – and yet included in the calculation. The analysis here relies on SDCWA numbers – without, apparently, any detailed analysis. If the concept of reserves was to be included they should at least be accounted for and understood by the writer and readers of the report.

I think it would be beneficial to both applicants, the Ad-Hoc Committee, LAFCO staff, and the Commission to have Dr. Hanemann explain a few things here:

- Why were the calculations changed so radically from June to October?
- Why were costs from SDCWA included without being validated?
- Why were cost estimates from the applicants not evaluated at all?

As mentioned above, while SDCWA may want to look into the past to calculate financial impacts from detachment, detachment won't happen in the past. Detachment, if approved by LAFCO, will happen in the future. There are several factors that this "past is prologue" approach fails to recognize fully:

- FPUD's demands will decline sharply starting in a few weeks with the Santa Margarita Conjunctive Use Project coming online
- RMWD's ag demands are expected to continue to decline due to oppressive water costs – ask any farmer
- RMWD will be completing its transition off SDCWA aqueduct connections to avoid the $175/AF transportation charge. That transition is underway and we expect to have >75% of demands off MWD connections for FY22 and a complete transition by the end of 2023.

For the convenience of Dr. Hanemann, the Ad-Hoc Committee, LAFCO staff, and the Commission, we include a true calculation of the net impact to SDCWA below:

Year	SDCWA Value	Actual High	Actual Low
CY 2022	$ 35,284,140	$5,743,960	$4,808,085
CY 2023	$ 38,613,447	$6,151,604	$5,168,935
CY 2024	$ 32,501,811	$5,792,304	$4,878,518
CY 2025	$ 35,549,084	$6,453,567	$5,456,243
CY 2026	$ 43,783,416	$6,893,912	$5,846,881
CY 2027	$ 45,748,709	$7,355,614	$6,256,399
CY 2028	$ 28,172,440	$7,839,721	$6,685,722
CY 2029	$ 11,197,175	$8,347,332	$7,135,818
CY 2030	$ 11,797,175	$8,879,600	$7,607,704
CY 2031	$ 12,028,693	$9,480,748	$8,139,009
Average	**$ 29,467,609**	**$7,293,836**	**$6,198,331**

The spreadsheet that was used to develop this chart has been provided for LAFCO to review and/or share with any interested party. This table is based on SDCWA's rates and charges and our own internal forecasts of demands. None of us can predict future demands exactly, but the difference in net impact from this table to what was in the report is based on a flawed method of analysis, not subtle demand differences.

Fixed and Ongoing Obligations – Page 44

Dr. Hanemann indicates that all SDCWA member agencies have imposed upon them a "fixed and ongoing" financial commitment – something that Ad-Hoc Committee Member Kimberly Thorner of Olivenhain MWD raised issue with at the October 4, 2021 Ad-Hoc Committee meeting. While in the abstract one may conclude this, the reality is that under SDCWA's system of rates and charges, ***no member agency takes on any commitment for future years beyond what is in the rate structure***, and all member agencies are obligated only to pay in accordance with that rate structure. This has been clarified with SDCWA's General Counsel Mark Hattam several times.

Of the various charges noted, only the Infrastructure Access charge is truly fixed, while all other "fixed" charges are based on the three and five year rolling averages of demands. In past conversations with Dr. Hanemann, it is clear that he believes this not to be the best way to go about it, and while we may or may not agree with his sentiment, the reality is that **THIS IS** how SDCWA has chosen to "commit" agencies to future payments as their demands decline—and therefore, this should be the baseline for Dr. Hanemann's analysis. The most recently added SDCWA charge, the Supply Reliability Charge enacted as the desal plant was coming online, was the result of a lengthy process where different fixed charges were evaluated by the SDCWA Board.

The SDCWA Board, through its Fiscal Sustainability Committee, evaluated truly fixed charges which were ultimately not selected in favor of a five year rolling average for the Supply Reliability Charge. SDCWA's leadership evaluated the appropriate length for such commitments and determined that a period of five years was appropriate. This period of commitment is now the established SDCWA policy which member agencies utilize when assessing financial savings in their cost projections for potential new local supply projects.

Based on this backdrop, it is somewhat puzzling that Dr. Hanemann, on page 45, concludes that a ten year period is the appropriate period for an ongoing obligation. In several Ad-Hoc committee meetings Dr. Hanemann has referred to a situation in Australia that appears to have informed him as to this being the appropriate period of time. We do not think that this reorganization application should be evaluated based on the laws and practices of a foreign country—especially when Dr. Hanemann has made clear that not even the applicable legal requirements and constraints of California law inform his opinion. Indeed, even SDCWA policies that set the period of time for financial commitments for agencies who reduce demands. Five years is the local SDCWA policy, so the selection of a ten year period seems arbitrary.

Departure Fee – Starting on Page 44

There are a number of issues, factual and legal, with the conclusions drawn in this section. On the legal side, our respective counsels have submitted detailed letters outlining how California law, both in the County Water Authority Act and Cortese Knox Hertzberg (CKH), clearly outlines how this process was meant to proceed as determined by the legislature. We will not restate those here – they are all on the LAFCO website.

On the factual side, the analysis leaves out many key components. It appears that the analysis limited itself to liabilities only and did not factor in any of the assets, both monetary and infrastructure, that the detaching agencies will leave behind to benefit the remaining member agencies. As noted in our letter to LAFCO dated September 24, 2021, SDCWA has assets worth over $3.4 Billion, and using the SDCWA calculations on actual percentages of all funds received by member agencies in its history, combined RMWD and FPUD will have paid for over $240 Million of those assets – all of which will still continue to benefit other member agencies. It should be noted that the vast majority of these assets never directly benefitted RMWD and FPUD at any time.

The analysis also fails to recognize that SDCWA will save between $30 Million and $40 Million instantly upon detachment since they will no longer be obligated to build the final part of the Emergency Storage Project that can actually move ESP water into our full service areas. Our ratepayers have been paying for this for two decades but remain the only agencies without the service. Our ratepayers have paid a similar percentage of all SDCWA reserves (totaling ~$260 Million) – money that will be left behind to benefit other ratepayers. It is inappropriate to make a calculation just on liabilities and not include some recognition of the contributions to infrastructure, CIP savings, and reserves.

There are two main options presented for the departure fee, with the first being a rather odd "Pay But Don't Take" contract. Essentially, option one says that FPUD and RMWD should pay for QSA water that we will never receive but would still be delivered to SDCWA for sale to other member agencies. There are numerous problems with this concept including, but not limited to the following:

- Wouldn't this violate basic cost of service requirements for FPUD and RMWD to pay for a service (water) and then give it away?
- A requirement that the Districts pay SDCWA for water they will not have access to, when that same water may be sold by SDCWA to other entities creates a

problem under the California Constitution.   As you are aware, Proposition 26 defines a tax to include, in part,

> "any levy, charge, or exaction of any kind imposed by a local government, except the following: *(certain subsections excluded for brevity)*
> … A charge imposed for a specific government service or product provided directly to the payor that is not provided to those not charged, and which does not exceed the reasonable costs to the local government of providing the service or product."

- Doesn't SDCWA plan to use and sell all this water to other member agencies under the planning horizon? Wouldn't SDCWA have cost of service challenges in selling the same water twice?
- Earlier in the document Dr. Hanemann concluded that QSA water is actually less expensive than MWD water. Since FPUD and RMWD leaving provides more QSA water versus MWD water for remaining agencies, isn't that a net benefit to SDCWA and the remaining SDCWA member agencies?
- What also prevents SDCWA from contracting the sale of some of this water with MWD or a MWD member agency?

Simply stated, the entire concept that RMWD and FPUD would pay for water that is not delivered to them is unlikely to be considered to be legal by any court in the State. This option is untenable in its construction and should be dismissed forthright by LAFCO.

For the second option Dr. Hanemann proposes some sort of contractual arrangement in which FPUD and RMWD would agree to purchase QSA water deliveries should SDCWA's total demand drop below 320,000 AF/YR during a selected time period. This option does not have the glaring legal deficiencies of option one, and thus could be the basis for substantive discussions.   If, in fact, should this threshold be reached during the five year time period (to be consistent with existing SDCWA policy) and the water was actually delivered to the agencies, this accommodation could potentially be considered by LAFCO.   Note that this is not something that is consistent with state law in any way, shape, or form, so the legal aspects of this arrangement would need to be evaluated carefully.

As Dr. Chestnutt indicates in his analysis, having FPUD and RMWD be the sole " backstop" for SDCWA's declining demands fails to recognized that virtually all SDCWA member agencies are reducing their demands.   Whether through ongoing conservation or from local supply projects such as San Diego's Pure Water project, the future of SDCWA demands is likely to be lower than it is today – irrespective of detachment.   Should this concept be considered, any arrangement that would have the two agencies "backstop" demand reductions should be established so that it is consistent with their relative share of the causal factors of demand reduction.

Another way to look at this is to consider what the impact to SDCWA would be if FPUD and RMWD simply contracted for water supplies from a third party – much like SDCWA has done with QSA. In this arrangement the “fixed” costs to RMWD and FPUD would drop off over a three to five year time span – just as they will with other member agencies who develop local supplies. On several occasions Dr. Hanemann has concluded that local supply development has very similar financial impacts on SDCWA. We are puzzled that these oft repeated conclusions failed to make it into this draft report in a material way.

The table below indicates what the total payments to SDCWA would be were these external supply contracts to be executed by the two agencies. It should be noted that no LAFCO approval is required for such a situation, so this whole process could be avoided by any SDCWA member agency so inclined to pursue this option.

	Roll off Year	1	2	3	4	5
	2022	2023	2024	2025	2026	2027
Customer Service	$ 561,671	$ 374,447	$ 187,224	$ -	$ -	$ -
Storage	$ 1,052,561	$ 701,707	$ 350,854	$ -	$ -	$ -
Supply Relibility	$ 661,244	$ 528,995	$ 396,746	$ 264,498	$ 132,249	$ -
IAC	$ 604,000	$ 604,000	$ 604,000	$ 604,000	$ 604,000	
SDCWA Pmt	$ 2,879,476	$ 2,209,150	$ 1,538,824	$ 868,498	$ 736,249	$ -
Roll-Off Period	$ 8,232,196					

As this table indicates, the only charge that remains after five years is the Infrastructure Access Charge (IAC). Should this long established and repeatedly affirmed structure at SDCWA be followed, the total payments by RMWD and FPUD would not only be much lower than SDCWA’s claimed amounts, they would be consistent and fair in terms of how financial impacts are handled at SDCWA. While if such a methodology was adopted by LAFCO in the detachment proceedings, the IAC would fall away, the nearly $40 Million in instant CIP savings combined with the value of other assets and reserves would cover that amount for decades to come.

Another factor missing in the analysis is the benefits that lower cost water would bring to the primarily agricultural regions of the detaching agencies. Agriculture is the #1 economic activity within RMWD and is a big element of economic activity in FPUD. The loss of agriculture from high water rates has had significant economic impact in terms of the amount of products produced, lost income and jobs, and negative impacts to property values near dead groves. Any true analysis on economic impacts should evaluate both sides of the equation.

It would be inappropriate for LAFCO to choose to treat the detaching agencies in ways that are radically different than other member agencies whose actions have financial impacts on SDCWA. State Law and fairness should be the guide here.

On the Topic of Predatory Pricing – Page 58

Here Dr. Hanemann delves into some personal thoughts about how water wholesalers price their services and makes some conclusions about MWD's inclusion of SWP costs in its transportation rates. Unfortunately economists don't interpret or write the law. This issue was already litigated and it was found by the Courts that MWD can charge SWP costs as part of its overall transportation rate in much the same way FPUD and RMWD pay for Desalination Supplies they do not receive.

In addition, the comment about "predatory" pricing again reveals that Dr. Hanemann has ignored statutes and case law in this analysis. SDCWA and MWD are just concluding a lengthy legal case on just this topic and the court's final decision is clear – MWD may charge costs for SWP costs on the transportation rates for the QSA transfer. The pricing is not predatory, but legal, so while an economist may not agree with the courts, this disagreement is immaterial and the suggestion that there is some impropriety in the matter is inappropriate.

Also, within the rates and charges given to FPUD and RMWD currently there are many, many charges levied by SDCWA on our agencies that would be considered "predatory" using that same logic. Over 20 years ago SDCWA member agencies in the north took SDCWA to court using many of the same arguments that SDCWA used against MWD, but both lost. This question has been asked and answered by the courts more than once. Again, making comments about "predatory pricing" is inappropriate.

Supply Reliability Conclusions – starting on Page 64

The FPUD letter has a detailed response to some of these conclusions – I encourage the reader to review those as RMWD is in concurrence. The high percentage of agricultural customers for RMWD allow for substantial demand response and the mix of local supplies and agricultural customers allows for a similar ability for FPUD to meet our water supply needs. The EMWD Water Supply Reliability Memorandum provides a detailed analysis of how supplies and demands would be allocated using higher projected demands from FPUD and RMWD 2015 UWMP. The Hanemann report talks about theoretical differences in reliability under very uncertain future assumptions. FPUD and RMWD agree with the statements Dr. Hanemann made on October 4th 2021

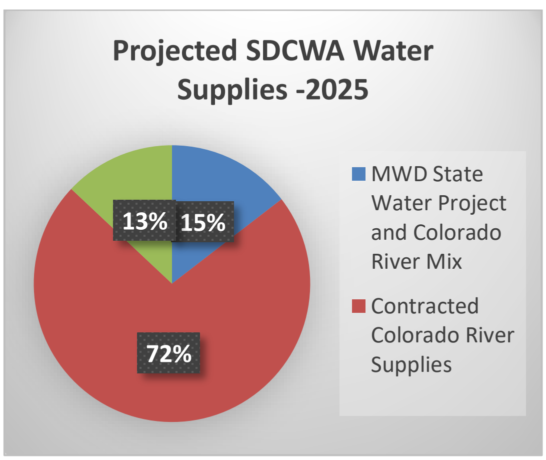
"I cannot quantify the difference at this time. My assessment is that I don't feel I can say that the difference in supply reliability is material. That's both because the

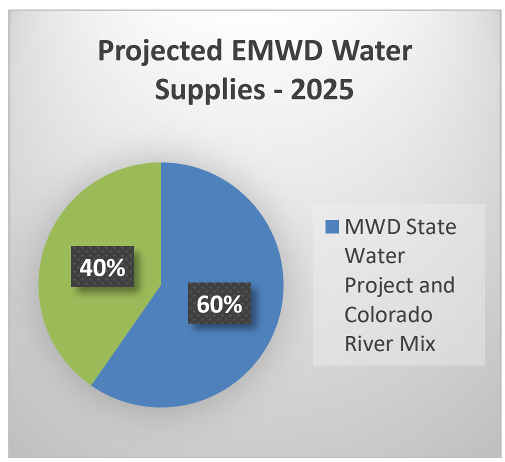
hydrology is uncertain, but it's also because water marketing will play a bigger role on the stage, and it may turn out that water supply reliability morphs from being not having enough quantity of water to having to pay more dollars for water."

We concur with this conclusion reached by Dr. Hanemann and believe this conclusion should be documented in the report.

In addition, in the report there is a great deal of attention paid to SDCWA's "diversity" in supply mixes when in reality SDCWA is now nearly completely dependent on one source – the Colorado River. As the Technical Memorandum from EMWD indicates, and EMWD has confirmed in Ad-Hoc Committee meetings, cutbacks to RMWD and FPUD will be based on their entire supply situation at the time of any cutback – not just on MWD supplies. Under LAFCO policies, the agency supplying water service is the main arbiter of whether they can supply the service, not third parties. To stray from this longstanding policy puts LAFCO at risk of constant battles over water supply for every routine development annexation – something LAFCO and SDCWA member agencies should consider carefully.

The charts below show the respective projected supply portfolios for SDCWA and EMWD. These charts clearly demonstrate that SDCWA is heavily dependent on Colorado River water – a source that Dr. Hanemann indicates will become less reliable over time. EMWD, on the other hand, has a much more diverse supply portfolio that will be more resilient to shortages from one source or another than SDCWA's "all eggs in one basket" approach. We feel that Dr. Hanemann's conclusion presented at the October 4, 2021 meeting quoted above is accurate based on a realistic view of the two wholesale providers.





Just as one could argue that the QSA supplies offer some sort of hedge against droughts, a similar argument could be made that the higher reliance on a source of water that Dr. Hanemann correctly concludes is under extreme stress undermines the hypothetical reliability that those supplies can offer. In his analysis, Dr. Chesnutt outlines the superior reliability of MWD supplies and the fact that SDCWA is dependent on MWD for reliability should the Colorado River supplies be disrupted by drought or earthquake. MWD holds several times its annual Colorado River allocation in storage in Diamond Valley Lake – just north of the two agencies. This supply provides MWD a much higher level of reliability during drought or aqueduct disruption than a contracted supply does. We support Dr. Hanemann's October 4th conclusion that the relative reliability difference between EMWD and SDCWA is immaterial.

Again, the comments by FPUD in their letter on this topic are supported by RMWD and are incorporated into this letter by reference. We look forward to a robust discussion of these matters at the next Ad-Hoc Committee meeting. Please let me know if you have any questions.

Sincerely,

RAINBOW MUNICIPAL WATER DISTRICT

Tom Kennedy
General Manager

cc: (via email)

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