

**Testimony of Dennis Cushman
Assistant General Manager
San Diego County Water Authority
Assembly Water, Parks & Wildlife Committee and
Budget Subcommittee No. 3 on Resources & Transportation
Oct. 19, 2011**

- 1. Can you explain the interest of the San Diego County Water Authority (SDCWA) in the BDCP and a Delta fix?**
- 2. More specifically, what is SDCWA's relationship to current BDCP efforts? Is SDCWA playing a role with regard to the BDCP? Does SDCWA consider itself a stakeholder? If so, why?**

Thank you Chairman Huffman, Chairman Gordon, and members of the committees. In answer to the first two questions, I would like to draw the committees' attention to page 2 of my handout.

We have an interest in a Delta Fix because -- if the Water Authority was a State Water Project contractor, it would be the third-largest, behind only MWD and the Kern County Water Agency. The Water Authority needs a reliable supply of water from the Delta, and we need a Delta fix that is financeable, affordable and that can be successfully implemented.

The Water Authority is the largest and steadiest purchaser of water from the Metropolitan Water District, which has two water supplies: the Colorado River, and the Bay-Delta. The Water Authority buys about 25% of MWD's water each year. And, because 80% of MWD's revenues come from the sale of its water, the Water Authority pays about 25 cents of every dollar MWD spends. Among MWD's 26 member agencies, the Water Authority has the largest stake in restoring water supply reliability from the Delta. The Water Authority also has the largest financial stake in the Delta fix.

MWD, in turn, is your largest customer, buying 50% of the State Water Project supplies and providing 50% of its revenues. MWD, in fact, is the very financial foundation of the existing State Water Project and the proposed Delta fix.

The Water Authority's profile at MWD is much different than its other member agencies. If you look at the red line on page 2, 20 of MWD's other 25 member agencies buy less than 5% of MWD's water, and contribute less than 5% of MWD's revenues. Of those 20, 15 buy less than 2% of MWD's water and provide less than 2% of MWD's revenues.

This is a major vulnerability for MWD, and to its ability to ensure it has a guaranteed source of revenues sufficient for it to meet its obligations to the state under its current take-or-pay State Water Project contract, which runs through 2035, and to provide an assured source of revenue to pay for its share of the Delta fix.

The Water Authority has been trying to persuade MWD to require take-or-pay contracts with its member agencies to ensure it has a guaranteed stream of revenue to meet its financial commitment to the state for the Delta fix. Indeed, the entire state has a stake

in ensuring that MWD's financial commitment to completing its share of a Delta fix is built on solid ground.

Question 3 asks: "If SDCWA considers itself a stakeholder, what opportunities has it had or does it have to be involved in the BDCP process?"

We have been actively engaged at MWD on Bay-Delta matters in support of a Bay-Delta fix. As Chairman Huffman will recall, the Water Authority also lobbied strongly for the passage of the 2009 Bay-Delta Bill Package, an effort we believe helped deliver the votes needed to pass that historic legislation. The Water Authority is also participating on three BDCP working groups created this year -- on Conveyance, Governance and Finance.

Question 4 asks: "Are there critical issues which SDCWA believes BDCP needs to address to develop and implement a successful plan."

Yes. We believe the most critical issue is determining the willingness to pay for a Delta fix by all of the water contractors – State Water Project Contractors and Central Valley Project Contractors. No one has addressed how much these agencies can and will commit to pay for an improved system. We are very concerned that the BDCP is designing a project alternative for which no one may be able to pay, want to pay or, most importantly, firmly commit to pay. We are now five years down the road of the BDCP process without these critical questions having been answered. No one would design a house without any consideration for the cost or the ability to pay for it, yet that is precisely what the current BDCP process is doing.

It's also important that the Legislature understand what is happening to water demands and water rates in Southern California, because these developments should be major factors in the ultimate decisions about Delta fix size and cost. Taking a look at page 3, MWD's water sales are down – way down. Water sales have declined by almost a third since 2008. The graph on page 3 shows that, according to MWD's own projections, long term water sales will remain much lower in the decades ahead. The blue line is MWD's adopted 2010 Urban Water Management Plan forecast for water sales through 2035. As you can see, MWD expects water sales to be 28% lower in 2020 and 22% lower in 2030 than it had projected earlier in its 2000 and 2005 Urban Water Management Plans.

So, why is this of such vital importance to the State of California? First and foremost, MWD pays the largest share of the State Water Project, and is expected to pay the largest share of the new facilities in the Delta. So, it's important to understand where MWD's money comes from: 80% of MWD's revenues come from water sales – 80%. Despite this fact, under MWD's current system of governance, rates and revenues, MWD's 26 member agencies are not required to buy any water from MWD. Yet, MWD says it will continue to rely upon water sales revenues to pay for the Delta fix. The Water Authority believes that to ensure a Delta fix gets built – a Delta fix the Water Authority needs -- it is important to strengthen MWD's ability to fulfill its financial commitments to the state by requiring firm, contractual commitments from its 26 member agencies to pay for the Delta fix.

At the same time MWD's water sales are way down, page 4 shows that MWD's water rates are up.... way up. Looking at the graph on page 4, since 2006, MWD has raised water rates by 75% -- that's double-digit rate increases averaging 15% a year. Now, on top of these big rate increases, the big Delta fix would raise rates by 20% or more. As MWD rates have risen – and continue to rise – local water supply projects -- recycling, Indirect Potable Reuse, groundwater and seawater desalination -- are becoming more cost-competitive and affordable. MWD's member agencies are responding to this new reality by developing new and expanded local water supply projects that will further reduce their water demands on MWD. Developing local water supplies and reducing reliance on imported water is sound public policy, but it's important that MWD adapt to this new reality to protect its long-term fiscal sustainability. Requiring take-or-pay contracts from its member agencies is one way in which MWD could both strengthen its finances and meet its financial obligations to the State.

Unfortunately as the statement on page 5 shows, MWD is not pursuing take-or-pay contracts with its member agencies. Last fall, in a public meeting in San Diego, MWD's General Manager said this about take-or-pay contracts:

“To date, most of our board members have said ‘we’re not so sure about that,’ and most of our member agencies have said ‘thanks, but no thanks, we prefer it the way it is.’ ...Should people make those firm commitments going into the future? So far, the member agencies have opted not to. They prefer it the way it is.”

The Water Authority believes preserving “the way it is” is not in the best interests of the State of California, MWD, or the Water Authority, nor does preserving “the way it is” improve the chances of actually getting a needed Delta fix financed and built.

As shown on page 6, the Water Authority is not alone in expressing concerns over Delta project financing. In May of this year, a broad-based coalition of urban water agencies and environmental organizations wrote a letter to the Administration urging an immediate focus on Delta financing, affordability of a Delta conveyance project, and the need for commitments to pay project costs by water end-users. This coalition urged the Administration to immediately begin the meetings of the Financing Working Group. The first meeting of the Financing Working Group is scheduled for October 27.

In conclusion, we believe these issues should be placed front-and-center in 2012. Chairman Huffman, the Water Authority urges you to convene additional hearings in 2012 to address the critical questions listed on page 7:

1. What is the real demand for Bay-Delta water?
2. What is the total cost, including mitigation?
3. Who is willing to sign contracts to pay?
4. And, should the state rely upon MWD to be the very financial foundation of the Delta fix without first requiring firm take-or-pay contracts with its member agencies?

Thank you.