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February 14, 2014

Honorable Chris Brown
City of Hawthorne
4455 W. 126th Street
Hawthorne, CA 90250

Dear Mayor Brown:

Metropolitan Water District Rate Setting Process

On behalf of West Basin Municipal Water District (West Basin), I am reaching out to inform you of an important issue related to Metropolitan Water District of Southern California (MWD) and their current rate setting process. Several San Diego County Mayors sent correspondence to cities throughout Los Angeles County opposing any MWD rate increases. The San Diego County Water Authority has organized this campaign, motivated by their pending lawsuit against MWD and its other member agencies. As the member agency representing your city on the MWD Board of Directors, West Basin would like to respond with the facts.

MWD is collecting more revenue than projected because Southern California water agencies have been forced to rely more on MWD's imported water supplies and storage reserves during these extreme drought conditions. Revenues higher, or lower, than planned budgets are common in an industry highly dependent on unpredictable changes in the Earth's water cycle. MWD is also recommending fiscally prudent actions to help its customers by using these additional funds now in ways that will lower and stabilize rates in the future. These recommended actions include paying down long-term unfunded liabilities; using cash instead of new debt for sorely needed capital infrastructure repair and replacement; and of course, replacing stored water consumed to meet demands during the drought.

West Basin, as well as MWD, is dedicated to maintaining stable, predictable and relatively low-rate increases to ensure that our investor-owned and municipal water retailers have the tools and opportunity to plan accordingly. As part of this effort, we encourage your feedback and thoughts on this matter.

If you would like to receive updates on the Metropolitan rate setting process, or would like additional information about this important issue, please contact Rich Nagel, General Manager or Fernando Paludi, Water Resources Manager me at (310) 217-2411.

Thank you for your attention to this matter and I look forward to working with you in the future.

Sincerely,

A handwritten signature in cursive script that reads "Donald L. Dear".

Donald L. Dear
Board Member

Enclosure Fact Sheet re: SDCWA vs MWD and impact on West Basin communities

**Metropolitan Water District of Southern California
Rate Structure Challenge by San Diego County Water Authority**

FACT SHEET

On June 11, 2010, the San Diego County Water Authority (San Diego) filed a lawsuit challenging the water rates and charges adopted by Metropolitan's governing Board. The lawsuit, if successful, would unfairly and significantly increase the cost of water to water users outside of the San Diego region.

Consider the following:

- As the primary provider of imported water for a six-county region, Metropolitan and its Board of Directors must fairly allocate the costs of water through its rate structure. More than a decade ago, Metropolitan began a comprehensive three-year process with extensive public input to develop a new regional pricing system. The new pricing system was adopted by Metropolitan's Board and put into effect in 2003. Suddenly after seven years, San Diego is suing Metropolitan over its publically developed and adopted rate structure.
- Metropolitan is a regional cooperative of twenty-six member cities and public water agencies (including San Diego) that collectively provide water for 19 million residents. Metropolitan sets rates through an open and transparent process that assures equity and fairness throughout its 5,200 square mile service area. The water system funded through these rates provides Southern California with a reliable supply of high quality water that benefits all residents and businesses and serves the region's \$1 trillion economy.
- The bulk of Metropolitan's costs are associated with transporting and delivering water supplies. Metropolitan gets its water from the Colorado River – over 200 miles to the east – and from Northern California's Feather River system – over 400 miles away. The water moves through a complex system of pipes, canals and aqueducts. San Diego's lawsuit seeks to avoid paying its fair share of maintaining this transportation system – at the expense of the system's other users. (See "cost shift implications" chart attached)
- San Diego's lawsuit would also undermine Metropolitan's successful regional water supply reliability programs. These programs are critical to the ongoing successful development of water conservation, recycling and groundwater recharge, which are all important elements of a sustainable, environmentally sound, and cost effective water resource "mix."

Metropolitan's rate setting policies fully comply with all applicable state laws and are adopted by its Board of Directors. As a result, we fully expect San Diego's unfortunate lawsuit will be appropriately rejected by the courts. If you have any questions about the lawsuit or this issue, please contact us and we can provide a full briefing.

NET PRESENT VALUE (NPV) OF ESTIMATED COST SHIFT FROM SDCWA TO EACH MEMBER AGENCY ¹				
MEMBER AGENCY	2010 COST SHIFT	NPV OF COST SHIFT (20 YRS)	NPV OF COST SHIFT (40 YRS)	NPV OF COST SHIFT (67 YRS) ²
City of Anaheim	\$395,643	\$11,932,976	\$25,693,664	\$44,465,741
City of Beverly Hills	\$206,426	\$6,226,018	\$13,405,642	\$23,199,953
City of Burbank	\$246,125	\$7,423,367	\$15,983,733	\$27,661,626
Calleguas MWD	\$2,045,196	\$61,685,032	\$132,818,039	\$229,856,376
Central Basin MWD	\$922,969	\$27,837,614	\$59,938,970	\$103,731,048
City of Compton	\$47,810	\$1,442,001	\$3,104,865	\$5,373,314
Eastern MWD	\$1,682,165	\$50,735,672	\$109,242,263	\$189,055,876
Foothill MWD	\$197,113	\$5,945,120	\$12,800,823	\$22,153,247
City of Fullerton	\$165,729	\$4,998,542	\$10,762,684	\$18,626,020
City of Glendale	\$365,520	\$11,024,438	\$23,737,432	\$41,080,264
Inland Empire Utilities Agency	\$1,427,709	\$43,061,059	\$92,717,556	\$160,458,034
Las Virgenes MWD	\$414,161	\$12,491,500	\$26,896,258	\$46,546,964
City of Long Beach	\$568,768	\$17,154,590	\$36,936,658	\$63,922,992
City of Los Angeles	\$7,556,953	\$227,924,846	\$490,759,752	\$849,314,286
MWD of Orange County	\$4,348,454	\$131,153,470	\$282,395,034	\$488,715,987
City of Pasadena	\$396,423	\$11,956,507	\$25,744,331	\$44,553,425
City of San Fernando	\$2	\$53	\$114	\$197
City of San Marino	\$17,663	\$532,724	\$1,147,043	\$1,985,085
City of Santa Ana	\$223,080	\$6,728,299	\$14,487,136	\$25,071,599
City of Santa Monica	\$211,244	\$6,371,320	\$13,718,503	\$23,741,393
Three Valleys MWD	\$1,189,494	\$35,876,275	\$77,247,533	\$133,685,440
City of Torrance	\$338,527	\$10,210,289	\$21,984,435	\$38,046,507
Upper San Gabriel MWD	\$149,266	\$4,502,011	\$9,693,572	\$16,775,804
West Basin MWD	\$2,170,196	\$65,455,148	\$140,935,720	\$243,904,925
Western MWD	\$1,354,678	\$40,858,356	\$87,974,773	\$152,250,121
BENEFIT TO SAN DIEGO CWA / COST SHIFT TO OTHERS	\$26,641,314	\$803,527,229	\$1,730,126,532	\$2,994,176,224

¹ NPV Costs distributed to other Member Agencies according to share of FY 09 Firm Water Purchases

² 67 years based on remaining term of SDCWA's water transfer agreements