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September 4, 2013

Dr. Gerald Meral
Deputy Secretary
California Natural Resources Agency
1416 Ninth Street, Suite 1311
Sacramento, CA 95814

Dear Jerry:

We look forward to having you and David Sunding at our September 12 meeting to discuss the economics of the BDCP. As you know, the Water Authority is conducting an assessment of several Delta fix proposals, including the BDCP preferred alternative. We are particularly interested in exploring the level of reliability assurance the San Diego region would be provided by these proposals and the range of financial obligations to which our ratepayers would be exposed.

Your May presentation to our board preceded the release of BDCP Chapter 8. We expected Chapter 8 to address many of the questions our directors raised with you during your presentation before them in May and the questions I provided by letter to you on August 28, 2012. You can understand our disappointment when we found that the most critical financing issues confronting the BDCP have yet to be addressed. The Water Authority's comments on the latest Chapter 8 draft were forwarded to you on July 30, 2013. We look forward to receiving a response.

As indicated in my prior correspondence, to assist in your preparation for September 12, we've summarized below questions you promised to answer when you spoke at our May Board meeting as well as a few questions raised by our board members since then. We would appreciate hearing your responses to these questions at the September 12 meeting. In addition, please note that at the July MWD meeting, our MWD delegates requested of Dr. Sunding that he provide specific information that would be valuable in informing the board on BDCP financing issues: 1) the detailed calculation that generated the "implicit water supply cost range" for BDCP; and 2) a complete cost benefit analysis to urban agencies, including the Water Authority. Both of these were referenced in Dr. Sunding's presentation to the MWD board. Dr. Sunding has informed us that he is not authorized to release this information to the Water Authority without the consent of the BDCP. I requested this information in my July 30 letter to you, and reiterate it here. Will you please provide these reports in advance of your September 12 appearance?

Questions

Project yield:

- A "decision tree" process is proposed to determine the yield of BDCP following the construction of the facilities, and thereafter, an adaptive management process will govern project operations. The cost-benefit analysis we've seen relies on a range of yields to determine the cost-benefit for contractors. How certain is BDCP on the range of yields to be produced following the decision tree/adaptive management process? Have the regulatory agencies agreed to provide any assurances that the yield from the high flow operational scenario would be the "floor" in terms of project yield?

Project financing mechanism:

- The project will benefit both contractors served by the State Water Project and Central Valley Project. How would the financial responsibilities for the federal contractors be structured?
- For the state contractors' portion, will it be financed through state revenue bonds similar to the existing structure? Will financing still depend upon the full faith and credit of the state of California? Will the state continue to require a step-up provision be included?
- Will property taxes be depended upon to provide the ultimate security for bond holders? Will the state rely upon contractors' existing taxing authority to back up their commitments to the BDCP? If so, would that require special legislation or a vote of the people?
- You have previously mentioned the possibility that the project may be financed through a joint powers agreement or a joint powers authority (or public financing authority) between project participants. We would appreciate it if you could clarify how each of these structures would work, and what the differences are between them.

Project cost sharing:

- At our Board May meeting, you mentioned that "it's hard to picture [parties financing things equally] sustaining itself." And that the BDCP is "not counting on any federal financing at all." You said that Dr. Sunding's report will show "the urban benefits of this project are enormous and … dwarf the ag benefits because … microchips (are) worth more than corn." You then said "that doesn't mean you have to change the proportional share of how you finance it … but ... will be a discussion between the ag and urban contractors… and [the Water Authority] will be undoubtedly an integral part of that." However, MWD management has repeatedly told its board the costs would be shared roughly half and half between the state water project contractors and the central project contractors, and within each contractor group, obligations would be divided based upon contract entitlement; and we have not heard anything otherwise from MWD management. And although we appreciate the opportunity to participate in the BDCP Finance Workgroup, the Water Authority has been excluded from finance negotiations. Please clarify how the project cost would be allocated between urban and agricultural contractors and how the Water Authority may participate in these negotiation discussions.

- In Dr. Sunding's BDCP cost benefit analysis for individual urban agencies, what assumptions were used in terms of cost sharing between the urban and agricultural agencies?
- BDCP anticipates 33 percent of the total project financing to come from public financing (federal and state). What would happen if the public share of the costs does not materialize? Who would bear those costs?
- You have stated that the anticipated cost of the preferred alternative is approximately $5 per month per household. What is the calculation and assumptions you have used for that projection?

Existing agreements:

- How would various agreements such as the coordinated operations agreement between state and federal governments and Monterey agreements, and existing contracts (both at the state and federal level) be impacted by the project cost-sharing negotiations?

Project benefit sharing:

- You mentioned at our May Board meeting that BDCP is a "voluntary project" and that the "state cannot impose these costs on anyone, including [the Water Authority]." You said if an agency decides not to be part of the project, that desire would be honored and the project would be financed without those agencies. If wholesalers such as MWD or Kern County Water Agency decide to proceed with a project, but one or more of their member agencies does not want to do so, how would that agency opt-out of participating in the project? How would that work?
- If some contractors opt out and the project is built, how would the project "benefits" be allocated? Who will be the arbitrator in determining how much project yield post-BDCP is from the new conveyance facilities, and how much is from existing facilities?

Existing obligations to address environmental issues:

- You indicated in May that costs related to existing biological opinions and CVPIA environmental mitigations are approximately $800 million. We would like to know how those obligations are being addressed in the context of BDCP, including who is paying for the existing obligations and who will be paying for these obligations as BDCP moves forward.

We look forward to seeing you and Dr. Sunding on September 12. If you have any questions before then, please do not hesitate to call.

Sincerely,

Maureen A. Stapleton
General Manager