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In reply refer to: L2010-0009

March 10, 2010

VIA FACSIMILE: (530) 295-1208

Erica Sanchez, Policy Analyst
El Dorado County Local Agency Formation Commission
550 Main Street, Suite E
Placerville, CA 95667

Re: Clarksville Business Park Annexation, LAFCO File No. 2009-01

Dear Ms. Sanchez:

On behalf of El Dorado Irrigation District (“District”), I am writing to inform LAFCO of new information affecting the conclusions of the District’s 2009 Water Resources and Service Reliability Report (“2009 Report”).* LAFCO may find this information relevant not only to the above-named application, which I understand is scheduled for hearing on March 24, 2010, but also for pending or future annexations to the District.

Specifically, the District and Sierra Pacific Industries (successor in interest to Wetsel-Oviatt) have executed an amendment to the Wetsel-Oviatt Settlement Agreement described at pages 25-26 of the 2009 Report. The amendment releases three-fourths of this contractual commitment, or 1,303 EDUs, through December 31, 2014. This amendment means that EDUs available for sale in El Dorado Hills now exceed contractual commitments by approximately 700 EDUs.

The District believes that for annexation decisions, LAFCO should focus on the District’s *supply-based* firm yield – not whether existing infrastructure constraints would enable the District to sell a meter *today* to the newly annexed property – because annexation is a far cry from a commitment to serve. A supply-based firm yield inquiry yields ample grounds for LAFCO to find that the District has sufficient ability to serve annexed properties: According to the 2009 Report, the District’s system-wide supply-based firm yield is 60,550 acre-feet (versus 47,294 acre-feet of existing and potential demands), and the supply-based firm yield for El Dorado Hills is 24,550 acre-feet (versus 12,070 acre-feet of existing and potential demands).

* The 2009 Report is available online at:
http://www.eid.org/doc_lib/02_dist_info/2009WaterResourcesReport.pdf

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Even if LAFCO focuses on the District's infrastructure-constrained firm yield in El Dorado Hills, however, the amendment to the Wetsel-Oviatt agreement means that the District has sufficient EDUs available for sale to enable Clarksville or other qualified applicants to seek a service commitment on the first day they come within District boundaries. Thus, the annexation would be justified even by this standard.

Review of 2009 Report Results

The 2009 Report shows that as of January 1, 2009, 3,597 unallocated Equivalent Dwelling Units ("EDUs") were available for sale in the District's El Dorado Hills Supply Area, which includes the lands of the subject application. These EDUs are subject to the El Dorado Hills Contractual Commitments described in Section 7 and summarized in Table 10 of the 2009 Report. As of January 1, 2009, the total commitments in the El Dorado Hills Supply Area amounted to 4,192 EDUs.

It should be noted that since the District began tracking its contractual commitments in the 2004 Report, contractual commitments have exceeded the EDUs available for sale in El Dorado Hills in every year except 2005. The same would have been true for years prior to 2004, had the District been accounting for future potential demand in this way. Thus, the results of the 2009 Report are by no means new.

It is also important to realize that a contractual commitment is not a commitment to serve. All contractual commitments remain subject to the District's meter availability policies and its "first come, first served" practices. The District makes a commitment to serve only when a meter is purchased.

Rather, a contractual commitment gives the benefited party a preferred status when the EDUs available for sale do not exceed contractual commitments. During those times, only the beneficiaries of a contractual commitment are eligible to purchase the available EDUs – aside from a limited provision in the Weber Dam Advance Funding Agreement, there is no "general pool" of EDUs available for purchase by those who have no contractual commitment.

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Effect of the Wetsel-Oviatt Amendment

In contrast, when the number of EDUs available for sale exceeds contractual commitments, any potential customer otherwise qualified to apply for service may purchase available EDUs. The recently executed Wetsel-Oviatt amendment created this condition for the first time since 2005. Available EDUs now exceed contractual commitments by approximately 700 EDUs. Thus, any qualified customer in the El Dorado Hills Supply Area can now purchase service, whether or not they are the beneficiary of a contractual commitment. Later this year, the District will issue the 2010 Report, which will reflect this change.

Given the current housing market, it is nearly certain that EDUs available for sale will continue to exceed contractual commitments throughout the amendment's five-year term. When the Wetsel-Oviatt contractual commitment subsequently increases to its former level, either the infrastructure-constrained firm yield will have significantly increased due to additional infrastructure improvements, or the former status quo will resume for EDUs available versus contractual commitments.

The key future infrastructure improvements in El Dorado Hills are: expansion of capacity at the El Dorado Hills Water Treatment Plant from 26 to 31.5 million gallons per day, construction of expanded raw water intake from Folsom Reservoir via additional pumps at the existing facility and/or construction of the new Folsom Lake Intake Pump Station and temperature control project; and construction of appropriately sized transmission mains.

The District's Position

To summarize, the District believes that the effect of the Wetsel-Oviatt amendment is significant to certain potential customers already within EID's boundaries, but irrelevant to LAFCO's annexation decisions. The District's Water Resources and Service Reliability Report is a very conservative planning document, because it measures the *present* availability of EDUs for sale by taking infrastructure constraints into account, while also assuming that all active demand, latent demand, and other system demands will continue undiminished.

This approach has two important consequences. First, by taking all potential demand into account, it ensures that the District *will never compromise service commitments to existing customers by adding a new one*. Second, by accounting for constraints of the existing infrastructure, it ensures that the District *can provide immediate service to a new customer*.

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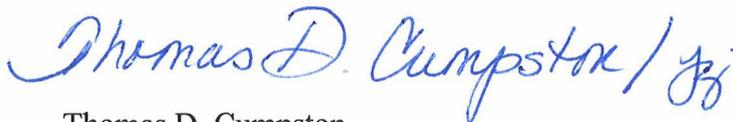
Therefore, although the Water Resources and Service Reliability Report's calculation of EDUs available for sale is vital to the District's decisions on meter sales, an annexation calls for a very different analysis, because unlike a meter sale, an annexation is in no way a commitment to service – immediate or otherwise. In fact, a property newly annexed to the District is typically at a preliminary stage of development, years away from requesting or requiring any commitment to serve.

Rather than focusing on EDUs and contractual commitments, therefore, LAFCO should be looking at the Report's assessment of the District's water supply-based firm yield versus existing and potential demands. To the extent that infrastructure plans are relevant, they apply to LAFCO's deliberations on the Plan of Service for the annexation – to determine whether necessary infrastructure will be constructed within the time frame anticipated in the Plan of Service.

Even if LAFCO does depart from the methodology of past annexation decisions, such as its 2005 approval of the Carson Creek annexation, and focuses instead on current EDU availability versus contractual commitments, the recent amendment of the Wetsel-Oviatt contractual commitment has created a surplus of approximately 700 EDUs available for sale, in excess of current contractual commitments.

The District appreciates the opportunity to communicate this information to LAFCO, and hopes that it will be useful to LAFCO's deliberations on this and future applications to annex to the District. Please do not hesitate to contact our Engineering Director, Brian Mueller, our Customer and Development Services Manager, Lori Grace, or the undersigned with any questions.

Sincerely,



Thomas D. Cumpston
General Counsel

TDC:pj

cc: James M. Abercrombie, General Manager
Brian Mueller, P.E., Engineering Director
Lori Grace, Customer and Development Services Manager