

May 19, 2014

Councilmember Felipe Fuentes, Chair
Energy and Environment Committee
200 N. Spring Street, Room 410
Los Angeles, CA 90012

CC: Mayor Eric Garcetti
Los Angeles City Council
The Board of Water and Power Commissioners

RE: Analysis of ratepayer impacts of Bay Delta Conservation Plan

Dear Councilmember Fuentes and Committee members:

A recent analysis conducted by the Ratepayer Advocate on the costs of the Bay Delta Conservation Plan to Los Angeles ratepayers fails to present a thorough financial analysis of this controversial project to build new tunnels under the San Francisco Bay Delta. The analysis cites unrealistic figures, and does not address the policy consideration of whether Los Angeles ratepayers should be subjected to additional rate and tax hikes for a project that will not deliver more water or create local jobs. We urge the Committee to support Councilmember Koretz's "One-Water" motion to undertake a comprehensive cost and policy analysis of the Department of Water and Power's future water supply sources and the cumulative impacts of these investments on Los Angeles ratepayers.

The Ratepayer Advocate's analysis of BDCP's financial impacts on Los Angeles ratepayers is inadequate as the BDCP lacks a financial implementation plan and a reliable cost estimate of the construction, financing, and mitigation of the project. The analysis cites a cost estimate of \$25 billion dollars to support its estimate that the tunnels will cost ratepayers \$1 to \$6 per month. This cost estimate is based on 2012 dollars and the dubious assumption that energy prices will remain constant throughout the first 40 years of operating the project. An independent analysis conducted in 2012 by EcoNorthwest, an independent economic consulting firm found that, based on a total cost estimate of \$47 billion, the tunnels would cost Los Angeles ratepayers several billions of dollars and could raise water bills an additional \$6 to \$19 dollars per month for 40 years for a total impact of \$5000 to \$9000 per household.

Recent press reports have revealed the cost of the tunnels, with interest, to be as high as \$67 billion, a figure prepared by financial advisors to the Westlands Water District, an agricultural irrigation district and a chief proponent of the BDCP tunnel plan. The California Department of Water Resources has admitted their own cost estimates are preliminary and subject to change, and DWR director, Mark Cowin, has stated that a \$51 to \$67 billion estimate is "reasonable".ⁱ

The BDCP would unfairly force higher rates on Los Angeles ratepayers at a time when they will be using less water from the Delta. While the BDCP's principal financial backers, including the Metropolitan Water District, the Westlands Water District, and the Kern County Water Agency, have stated their demand that the tunnels either increase or maintain high levels of water exports for themselves, LADWP is planning to reduce imports from the Delta by an average of 50 percent.

Yet, Los Angeles ratepayers would be subject to pay construction and debt service costs of the BDCP tunnel plan regardless of the amount of water LADWP imports from the Delta. According to a recent Standard and Poor's analysis of the BDCP, "the majority of the cost increase will be debt service, which must be paid regardless of hydrological conditions, the amount of water delivered, or the amount of water sold."ⁱⁱ With hydrological conditions likely to become more erratic as a result of climate change, there is no firm guarantee that contractors will get the full amount of water that they have contracted for in any given year.

The already increasing price of imported water is a key factor why LADWP and many southern California cities are planning to reduce their purchases of Delta water from MWD. In 2012 MWD's General Manager Jeff Kightlinger stated to Western Water Magazine that "(In) the past five years, we had to basically double our rates...We're going to have to raise rates every single year nonstop, pretty much forever, and it's going to have to be more than inflation."ⁱⁱⁱ Sensing growing opposition to unjustified rate hikes throughout southern California, MWD is now poised to raise property taxes to pass on the costs of the BDCP to Los Angeles homeowners and businesses. Last year, the MWD board of directors voted to suspend their cap on property tax revenue they receive, citing increased financial obligations to pay for the BDCP.

The BDCP's future is in doubt as it faces major regulatory obstacles and major opposition throughout California and in Los Angeles. Consumer, environmental, and local organizations including Food & Water Watch, Sierra Club California, the Northridge South Neighborhood Council, the Palms Neighborhood Council, the River Project, and the California Water Impact Network oppose the BDCP on the grounds that it is an unfair tax on ratepayers that will siphon away funds needed for local water investments. Opponents have also noted the benefit to a few large and power corporate agriculture interests who already profit from receiving taxpayer-subsidized water. Finally because of the tunnels would have major environmental, economic, and health impacts on the Delta, there will likely be a prolonged legal and regulatory battle over whether the project is legally permissible, further delaying the project and making it more expensive.

The BDCP is a bad investment for Los Angeles ratepayers, particularly at a time when major investments are needed towards improving DWP's aging infrastructure and diversifying its water supply. LADWP has identified opportunities to augment groundwater storage, recycled water, and has estimated that each year there are over 1,400 water main breaks in its 7,200-mile network that need to be repaired or replaced. Increasing our local supply and fixing local infrastructure are cost-effective measures that create local jobs. As these necessary investments will require major investments, ratepayer

money should not be wasted on constructing new tunnels that would primarily benefit special interests.

We urge you to ensure LADWP uses ratepayer dollars wisely and invests in projects that create real economic and environmental benefits to Los Angeles' water supply. Recent actions and press reports on LADWP have tarnished its image and diminished the confidence that the Los Angeles ratepayers have in their water department. Greater oversight from this committee, the City Council and Mayor Garcetti is needed to protect ratepayers and restore confidence in LADWP.

We urge the Committee to pass Councilmember Koretz's "One Water" motion as a positive step towards protecting ratepayer dollars and maximizing their benefit towards creating local jobs and diversifying LADWP's water supply.

Sincerely,

Adam Scow, California Director, Food & Water Watch

Conner Everts, Executive Director, Southern California Watershed Alliance

i

http://www.mercurynews.com/ci_24795356/delta-tunnels-plans-true-price-tag-much-67

ii

https://www.globalcreditportal.com/ratingsdirect/renderArticle.do?articleId=1258528&SctArtId=214529&fm=CM&nsl_code=LIME

iii

http://switchboard.nrdc.org/blogs/bnelson/the_southern_california_trend.html