



Analysis by the Office of Public Accountability (OPA) Understates the Likely Costs of the Bay Delta Conservation Plan to Los Angeles Ratepayers and Fails to Analyze Whether BDCP is a Sound Investment for Los Angeles

Several flaws in the recent analysis of the costs of the Bay Delta Conservation Plan (BDCP) by the Office of Public Accountability (OPA) lead to estimates that significantly understate the likely total cost of BDCP to ratepayers in Los Angeles. In addition, the analysis does not evaluate whether BDCP would be a good investment for Los Angeles ratepayers, or compare the financial investment in BDCP with a similar investment in stormwater capture, conservation, water recycling, and groundwater cleanup. OPA's analysis explicitly does not evaluate the cost effectiveness of the State's proposed BDCP plan or alternatives (see page 4). OPA concludes that at a cost of \$1.00 to \$6.08 per household per month (\$2.13 per household per month is OPA's "most likely" cost estimate), BDCP would be affordable for most ratepayers. However, a BDCP project that entirely eliminated water exports entirely would be "affordable" by OPA's calculation, because OPA's analysis does not consider the cost per acre foot of water or the cost-benefit of BDCP per household (instead, it just looks at the purported cost per household).

By not providing a cost-benefit analysis or comparison to other alternatives, OPA's analysis provides decision-makers with very little information with which to make decisions about BDCP and alternatives. This information is important not only to assess the costs and benefits of investing in BDCP for Los Angeles ratepayers, but because it may influence ongoing negotiations over who pays for BDCP, and whether Southern California ratepayers should subsidize agricultural contractors for the cost of BDCP.

Despite these flaws, we agree with many of OPA's recommendations in the Conclusions section regarding how to reduce the costs of BDCP to LA ratepayers, particularly with respect to maximizing development of cost-effective local water supplies and utilizing the lowest-cost BDCP conveyance project alternative that meets ecosystem and conveyance requirements (page 5). Similarly, we agree with OPA's recommendations that the water bond should maximize funding of local water programs and minimize the size of water bond programs such as additional water storage that does not support SWP operations.

FLAWS WITH OPA'S ANALYSIS OF THE COST OF BDCP TO LA RATEPAYERS

1. **Assumes Lower Interest Rates and No Capitalized Interest:** OPA uses a significantly lower real interest cost and omits any capitalized interest, which OPA states reduces the debt service cost by 40% as compared to LADWP's analysis (Page 3). There is no stated justification for excluding capitalized interest from the calculation; OPA's analysis states that the lower interest rate is based on current financial conditions.
 - a. Including capitalized interest would significantly increase the total cost of BDCP. A November 2013 estimate prepared by Citibank for the Westlands Water District estimated that including capitalized interest during the construction phase for BDCP ***would increase the total cost of BDCP by ~\$10 billion.*** LADWP's analysis also included some capitalized interest, although it likely underestimates the duration and magnitude of capitalized interest and associated costs.
 - b. Lowering the true interest cost likely underestimates the total cost over the life of the project, as current interest rates are at historically low levels but are starting to increase. Given that debt financing would be issued over several years starting in 2015 (in 2015, 2017, 2018, 2020 according to the Southern California Water Committee), assuming that historically low interest rates continue per OPA's analysis appears unjustified.

2. **Assumes MWD Water Purchases Cut by 50%:** OPA's analysis assumes that LA implements the water portfolio and water demand in the 2010 Urban Water Management Plan. (page 3)
 - a. OPA's analysis does not account for the costs to ratepayers of implementing the UWMP; those costs likely will not be insignificant, and the cost of BDCP is in addition to the costs of implementing the UWMP. However, OPA only looks at the cost of BDCP, and does not consider the total cost of BDCP plus the UWMP, and fails to determine whether rates as a whole will be affordable in 10-20 years.
 - b. OPA's analysis does not account for the costs to ratepayers if LA fails to achieve the reduction in reliance on the Delta anticipated in the UWMP (from 52% on average today to 24% in coming decades). ***Absent the cost of implementing the UWMP and cutting MWD purchases by more than 50%, it would appear that the cost per household for BDCP conveyance would be double OPA's estimate.***

3. **Assumes MWD only pays for 25% of the cost of BDCP:** OPA's analysis assumes that "conveyance costs are assumed to 'follow the water.'" (Page 3)
 - a. This assumption has potentially huge cost implications, and is unlikely to be true. OPA's analysis acknowledges that the agricultural community would like to see the costs assigned differently. (pages 4-5)

- i. The assumption that agricultural water users will pay for nearly three quarters of the costs of BDCP does not appear supportable. Westlands Water District has publicly testified to the Legislature that BDCP is not feasible, and other agricultural contractors also appear to be seeking urban ratepayers to subsidize agricultural contractors for the cost of BDCP. On the CVP side, no funding source has been identified to pay for the costs of BDCP relative to the Exchange Contractors (who account for approximately 15% of total Delta exports on average, and Friant has thus far refused to pay these costs) or the federal wildlife refuges South of the Delta. If agricultural contractors do not pay for their share of the costs, or if more districts drop out of BDCP, the costs to MWD, and thus to LA Ratepayers, would increase. Emails between water contractors in 2014 estimate that the costs of BDCP to urban districts could increase by 25 percent or more as a result of some agricultural contractors dropping out of BDCP.
 - ii. Second, documents regarding ongoing negotiations over paying for BDCP assume higher costs for the SWP (paying for 55% or 60% of the cost of BDCP, instead of 50%). That would result in increased costs for LA ratepayers as compared to OPA’s analysis, which appears to have assumed a 50:50 split between the SWP and CVP (as did LADWP’s analysis).
 - iii. Third, senior staff from Southern California water agencies have indicated that they expect to pay significantly more for BDCP than has been made public to date, because agriculture can’t afford its share of BDCP costs if you “follow the water.”

- 4. **Fails to Acknowledge Higher Rate Impacts in Dry Years:** OPA’s analysis only looks at costs in an average year, and does not consider costs of water in a dry year.
 - a. BDCP assumes lower water deliveries in dry and critical years than the status quo, which could result in a higher per acre foot charge in dry years. However, these are the years when LADWP is more dependent on water from MWD, due to reductions in water from the LA Aquaduct. As a result, there could be significant impacts to LA ratepayers in dry and critically dry years.

- 5. **Fails to Account for Impacts of MWD Rate Litigation:** OPA’s analysis does not account for the results of the MWD rate litigation.
 - a. The MWD rate litigation with San Diego County Water Authority, assuming the trial court decision is upheld on appeal, is likely to increase the cost of MWD water to LA ratepayers by changing how MWD rates are calculated. As a result, the cost of BDCP is likely to increase as well for LA ratepayers.

6. **Fails to Account for Increased Property Taxes from BDCP:** OPA’s analysis does not appear to include the impacts of BDCP on property taxes paid to MWD.
 - a. MWD is already maintaining a higher property tax rate in LA than would otherwise be required absent BDCP. It is not clear that this cost is included in OPA’s analysis (it did not appear to be included in LADWP’s prior analysis).
 - b. In addition, even if LADWP reduces water purchases from MWD under BDCP, MWD’s ad valorem property tax rate is predicted to be higher under BDCP, thus impacting homeowners and ratepayers in LA regardless of the level of water purchases.

7. **Relies on Unrealistic Total Cost Estimates for the Water Contractors:** OPA’s analysis assumes a \$17 billion total BDCP cost to water contractors.
 - a. The \$16.8 billion cost omits significantly understates the contractors’ share of costs for mitigation measures required by BDCP. For instance, BDCP assumes that the contractors do not pay any of the costs for Conservation Measure 2 (Yolo Bypass), which has a capital cost of \$719M. However, this is a mitigation measure already required by existing biological opinions, and is a cost that will be borne by the contractors. Increases in the total BDCP cost borne by the contractors will result in increased costs to LA ratepayers.

8. **OPA’s “Best Case” Scenario Assumes BDCP Comes in Under Budget:** OPA’s analysis includes a problematic range of potential facility costs
 - a. OPA includes a range of costs for the BDCP conveyance facility, including a significant (30%) increase in costs above the contingency included in BDCP. Given the significant cost overruns on recent major infrastructure projects in California (such as the Bay Bridge), including a cost contingency greater than that included in BDCP seems appropriate. However, OPA’s “best case scenario” for BDCP conveyance cost assumes that BDCP is 20% less expensive, which seems highly unlikely to occur.