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Via email: [watercontractextension@water.ca.gov](mailto:watercontractextension@water.ca.gov)

**Re: Comments on State Water Project (SWP) WATER SUPPLY CONTRACT EXTENSION  
Negotiation Project**

The undersigned respectfully submit the following comments regarding the SWP water supply contract extension negotiation project, which proposes to extend existing water supply contracts for 40 to 75 years. These extended contracts would rely on water sales to meet as yet undisclosed costs, while extending ratepayer debt to repay the increased interest and unknown costs for two to three future generations of Californians.

As noted in background documents, the original contract with the people of the State of California assumed a cost of \$1.75 billion in general obligation bonds to fund the construction of the State Water Project. Additional debt to fund full construction, maintenance and operation costs has been required, however. Revenue bonds of \$7 billion have been sold, with \$2.3 billion still outstanding.<sup>1</sup> All of this debt is backed by ratepayers and water sales, if water is available.

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<sup>1</sup> <http://www.water.ca.gov/swpao/watercontractextension/>

For decades urban ratepayers invested millions of dollars to ensure an urban preference during times of shortages. This preference was an insurance policy whereby these municipal water users would receive water on a priority basis during times of water shortages. In closed door SWP contractor sessions, without ratepayer or public participation, this preference was removed. Given droughts, climate extremes, and uncertainty of State Water Project water supplies, any contract extension must include an objective to reinstate this preference and these contract provisions that were removed without ratepayer notice or participation. This urban preference requirement would ensure that decades of promises, contract obligations, and ratepayer investments by these users, who pay the bulk of the project costs, would not be abrogated.

Under the terms of the Monterey Settlement Agreement and good business practices, any extension or refinancing of SWP project debt needs to clearly disclose total costs, total interest payments, amounts of water projected to be available for delivery, and needed capital reserves for replacement of this aging infrastructure. Additionally, public disclosure of all costs associated with these contract extensions must be honestly and completely displayed in intelligible language. For example, if this contract extension project proposes to “indirectly” or “directly” finance any “new” as yet unapproved capital expenditures, such as the Governor’s proposed approximately \$25 billion twin tunnels construction costs with estimated debt, operations, and other costs totaling \$51.4 billion<sup>2</sup>—these costs also need to be disclosed to the public and ratepayers before obligating them to this multi-generational contract extension.

The proposed contract extensions and repayment period will saddle generations with debt and massive interest payments. Prior to any adoption of these proposals, contracting agencies must, under current law, seek approvals from ratepayers disclosing the full costs (including interest and debt payments) and need prior to adopting these obligations that use their property taxes or rate dollars as collateral.

As announced, DWR proposes to disclose at the next negotiating session the costs of the SWP contract extension to state taxpayers under the Davis-Dolwig Act. Hopefully this disclosure will address legislative criticism of how these allocations have over allocated costs to the public for recreation and fish and wildlife enhancements that should be paid by SWP contractors.

By over-allocating SWP project costs to recreation, DWR and the SWP contractors over charge the public for SWP costs and exaggerate recreation benefits or fish and wildlife enhancements of the SWP project. For example the public is charged for “recreation” at the Edmonston Pumping Plant—a facility closed to the public, and yet 3.1 percent of the annual SWP operational costs are allocated to the general fund and thus, the taxpayers.<sup>3</sup> These inflated recreation costs, along with regulatory permit condition costs under

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<sup>2</sup> See Chapter 8 Administrative Draft BDCP documents (p. 8-86 & p. 8-88) & <http://mavensnotebook.com/the-bdcp-road-map/project-costs-and-financing/> & [http://www.mercurynews.com/science/ci\\_22791436/next-big-step-jerry-browns-23-billion-delta](http://www.mercurynews.com/science/ci_22791436/next-big-step-jerry-browns-23-billion-delta) & <http://www.latimes.com/news/local/la-me-delta-cost-20130530.0.3249093.story>

<sup>3</sup> [http://www.lao.ca.gov/analysis/2009/resources/res\\_anl09004003.aspx](http://www.lao.ca.gov/analysis/2009/resources/res_anl09004003.aspx) Also see Legislative Analyst Report that raised concerns about DWR’s methodology for calculating Davis-Dolwig costs documented in the 2009 report, *Funding Recreation at the State Water Project*.

FERC relicensing, must be paid by the State Water Project Contractors and should not be allocated to the general taxpayer.<sup>4</sup> As documented by the Legislature, allocating regulatory compliance costs of SWP operations to Davis–Dolwig and thus, the general fund, rather than including them in charges to SWP contractors (users of the water system), shifts these costs that should be considered costs of doing business by the SWP as typically public utilities are required to do.<sup>5</sup> DWR does not have the power to continue to obligate the general fund for these inflated SWP costs without Legislative approval.

In summary, the State Water Supply Project contract extension project should accurately reflect all costs, including interest, anticipated under any “refinancing” or debt reauthorization. We do not believe that past court rulings meant to provide DWR with a blank check of debt authorization in *Warne v. Harkness*, 60 Cal.2d 579. Critical to this accurate reflection of the costs should be an honest appraisal of replacement costs and emergency provisions for pump failures or repair costs. Just one example is the miles of the California Aqueduct impacted by subsidence. Further, this debt refinancing also must include accurate data regarding the amount of water that may or may not be available for sale over any given repayment period, especially given climate change. Finally this debt refinancing necessarily needs to include “op out” provisions for those contractors who either will not benefit or do not want to participate, or whose ratepayers do not want the added expense of proposed “new conveyance tunnels” that are likely to be exorbitantly expensive and will not provide benefits sufficient to warrant the additional construction, operating and debt costs.

Any changes to current debt loads and contract costs demand DWR and the SWP Contractors understand ratepayers and taxpayers are at a breaking point. Water rates are projected to more than double over the next ten years under existing operating costs, replacement and power costs. Full disclosure of debt costs and new construction proposals need to seriously consider the ability to rely on ratepayers to foot the bill and whether water supply projections are accurate to support such increased debt loads.

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<sup>4</sup> [http://www.lao.ca.gov/2009/rsrc/reforming\\_davis-dolwig/davis-dolwig\\_030909.pdf](http://www.lao.ca.gov/2009/rsrc/reforming_davis-dolwig/davis-dolwig_030909.pdf) “There a number of facilities in the SWP that are regulated under FERC, including Lake Oroville—a site in the final stages of renewing a license for a further 50 years of operation. As part of the relicensing process, DWR has agreed to provide recreation facilities that will cost an estimated \$500 million over the 50 years of the license. The Department of Water Resources (DWR) plans to allocate these costs to Davis-Dolwig and hence to the state..... Currently, these regulatory-related costs for providing recreation at Lake Oroville amount to approximately \$1.5 million annually. However, DWR has estimated that these regulatory-related costs could increase to \$11.5 million per year, for a period of 50 years.”

<sup>5</sup> [http://www.lao.ca.gov/2009/rsrc/reforming\\_davis-dolwig/davis-dolwig\\_030909.pdf](http://www.lao.ca.gov/2009/rsrc/reforming_davis-dolwig/davis-dolwig_030909.pdf) pg 9

Thank you for consideration of these views from groups representing hundreds of thousands of ratepayers and taxpayers throughout the State of California.



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