

Water Authority Fighting for Lawful Water Rates at MWD

Illegal Water Rates Cost San Diego County Ratepayers Billions



DIVERSIFICATION

Enhancing Water Supply Reliability

The San Diego County Water Authority is suing the Metropolitan Water District of Southern California to stop illegal water rate overcharges and its retaliatory business practices that illegally target and discriminate against the Water Authority and its ratepayers.

These practices, if not stopped, will continue to cost local water ratepayers tens of millions of dollars annually. In 2012, the overcharges are expected to be \$40 million. By 2047, the overcharges could exceed \$2.1 billion.

The Water Authority's lawsuit currently includes six causes of action against MWD. Three claims relate to how MWD's rate structure illegally overcharges San Diego County ratepayers tens of millions of dollars annually for the transportation of water.

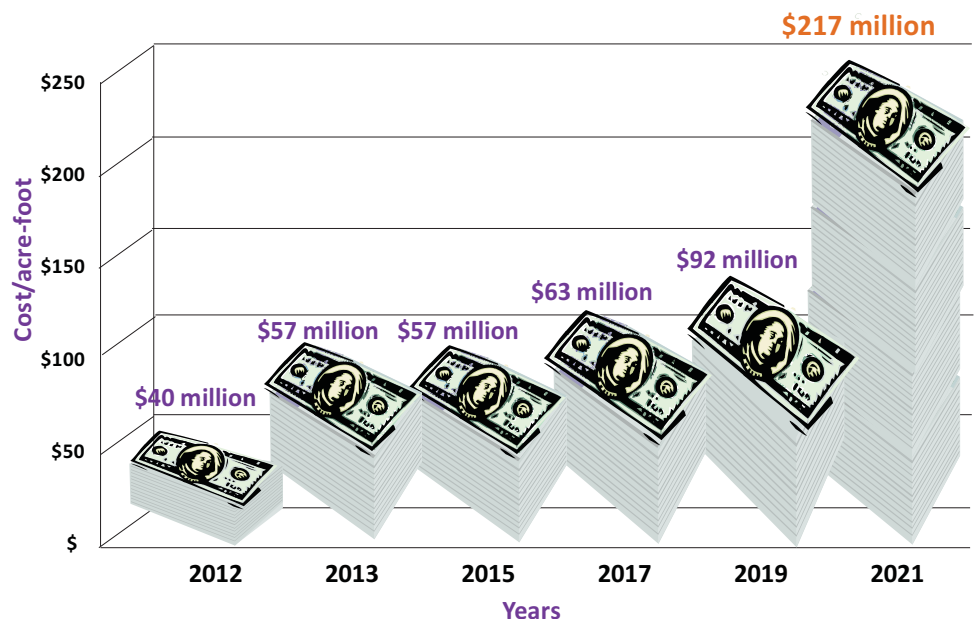
The Water Authority is the only MWD member agency that has secured its own Colorado River supplies and pays fees to use MWD's pipes to transport that supply. MWD has systematically overcharged the Water Authority for transporting these supplies.

Another claim relates to the violation of a 2003 contract with the Water Authority, where MWD agreed to charge lawful rates for transporting water. The lawsuit also asks the judge to overturn a punitive contract provision that punishes the Water Authority for challenging MWD's rates in court.

Finally, the suit asks the court to require MWD to properly calculate the Water Authority's Preferential Right to purchase MWD water. MWD has failed to include payments the Water Authority makes to the agency for transportation in the calculation of the Water Authority's Preferential Right, in violation of state law.

Impact of MWD Overcharges to Water Authority Ratepayers*

MWD's illegal rate structure charges a disproportionately high rate to transport the Water Authority's independent Colorado River supplies. As the Water Authority's Colorado River water supplies reach the maximum annual amount in 2021, those overcharges will grow to as much as \$217 million annually.



*Based on \$40 billion cost to fix the Bay-Delta.

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The case has been assigned to San Francisco Superior Court Judge Richard A. Kramer. The Water Authority expects a Superior Court decision by the end of 2012.

The Imperial Irrigation District and the Utility Consumers' Action Network have joined the lawsuit as interested parties on the Water Authority's side. Eight MWD member agencies joined in the suit on MWD's side.

Why are MWD's Rates Illegal?

MWD is required by law to charge rates that reflect the actual, reasonable and proportionate costs of serving each class of its customers. The Water Authority's lawsuit claims MWD is improperly charging hundreds of millions of dollars annually in water supply costs to its System Access Rate, System Power Rate and Water Stewardship Rate. These three rate components comprise MWD's transportation charge.

System Access Rate is paid by MWD member agencies that buy MWD water or use MWD's facilities to transport water not purchased from MWD. More than 80 percent of MWD's State Water Project water supply costs – amounting to hundreds of millions of dollars annually – is assigned to this water transportation rate category, in violation of California law. These costs belong in the Water Supply Rate category.

System Power Rate recovers the costs of energy needed to pump water to Southern California. It is a charge applied to every acre-foot of water transported by MWD. The rate currently includes Department of Water Resources' energy costs for the State Water Project, which MWD does not own or operate. The costs of power needed by the state to deliver water supply to MWD's connections in Southern California are a supplier cost and part of the cost of that water supply. However, MWD improperly assigns that cost to its own transportation rate category. These costs belong in the Water Supply Rate.

Water Stewardship Rate recovers the cost of providing financial subsidies to MWD's member agencies for developing new local water supply projects. These subsidies are used for conservation, recycled water, desalination, or other new water supplies. However, MWD charges these water supply costs as a water transportation service. Because this rate pays for water supply development, it should be applied to the Water Supply Rate.

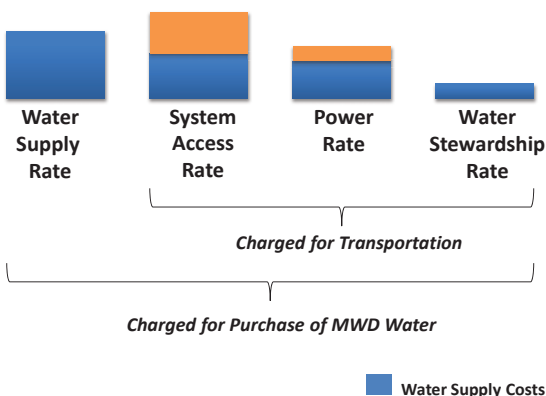
Water Supply Rate is supposed to recover the costs MWD incurs to acquire water supplies. This should include supplies it imports from the Colorado River, State Water Project and money it spends to support the development of new local water supplies and water conservation. All of these water supply costs belong in the Water Supply Rate category.



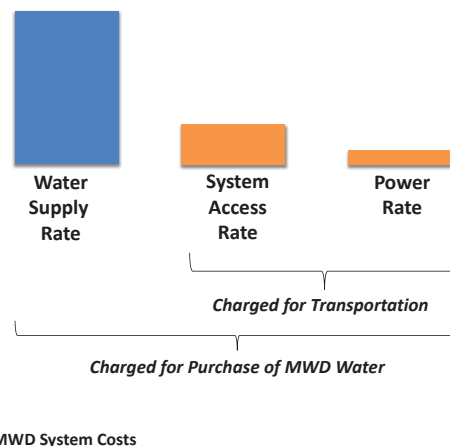
Water conserved by the All-American Canal Lining Project is an important part of the Water Authority's Colorado River water transfer supplies.

MWD's Current Rate Structure

MWD's Rate Structure Misallocates Water Supply Costs to the Transportation Charge



How MWD Rate Structure Should Be



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For more information on this issue, visit www.sdcwa.org/mwdrate-challenge