



BREN SCHOOL OF ENVIRONMENTAL SCIENCE & MANAGEMENT

GARY LIBECAP, DISTINGUISHED PROFESSOR OF CORPORATE ENVIRONMENTAL MANAGEMENT <http://www.bren.ucsb.edu/>

ROOM 4412 BREN HALL

SANTA BARBARA, CA 93106-5131

September 3, 2017

California Supreme Court

Re: Review of the appellate court's opinion in *San Diego County Water Authority v. Metropolitan Water District of Southern California, et. al.*, Supreme Court Case No. S243500 (Court of Appeal Nos. A146901, A148266),

My letter in Support of Petition for Review (Cal. R. Ct. 8.500(g))

Dear Justices:

I am Gary D. Libecap, Distinguished Professor of Corporate Environmental Management at the Bren School of Environmental Science and Management and Distinguished Professor of Economics, University of California, Santa Barbara. My primary research interest is on water markets and their role in promoting wise management, allocation, and use of California's surface and groundwater resources. As part of my work, I oversee the Sustainable Water Markets Program at the Bren School that involves Masters and PhD students in the study and implementation of sound freshwater management based on water markets and exchange. It is in California's overarching policy interest to promote water markets and exchange. Doing so does several things important to the state and this critical resource: 1). Water trading provides information on relative values, which is critical for decisions about water allocation across competing uses. 2). Water trading and markets generate water prices that encourage conservation. Users reduce consumption and owners conserve so as to release water to other users via the market. 3). Water trading moves water from uses that are relatively less valuable and have flexibility in adjustment to uses that are more valuable and have less flexibility in adjustment to drought and other supply constraints.

With this in mind, I urge you to review the appellate court's opinion in *San Diego County Water Authority v. Metropolitan Water District of Southern California, et. al.*, Supreme Court Case No. S243500 (Court of Appeal Nos. A146901, A148266). The court's ruling reversed the trial court to allow the Metropolitan Water District to include water supply costs from the State Water project in its charges for transportation only to the San Diego Water Authority.

September 3, 2017

My concerns are three: 1). Water supply charges from the SWP are shifted from water consumers to agencies for transporting other water. Doing so reduces water supply costs to Met consumers and thereby lowers the incentive for them to conserve water. 2). This economically-inappropriate assignment of supply costs to agencies that are purchasing transport service only raises the costs of transporting water and use of water markets and exchanges that are particularly critical for the flexible movement of water in Southern California and for reduced reliance upon SWP water crossing the Sacramento Delta and the associated environmental issues at hand. 3). Met engages in monopoly pricing of water transport services and hence charges above the marginal cost of service. Doing so changes incentives for efficient and critical uses of water transportation systems in Southern California.

Sincerely,

A handwritten signature in black ink, appearing to read "Gary D. Libecap", with a stylized flourish at the end.

Gary D. Libecap
Professor