

Statement of California Water Service Company to
Metropolitan Water District Board of Directors

Given by: Thomas A. Salzano

Good afternoon Ladies and Gentleman of Metropolitan Water District's Board of Directors.

My Name is Tom Salzano, I am with California Water Service Company. Cal Water is the largest privately owned water utility in California. Our Company provides retail water service to twenty districts throughout the state, delivering 95 Billion Gallons of water per year, approximately 300,000 Acre-Feet, to a population of 1,335,000 through nearly 365,000 services.

Four of our Districts; the Westlake, Palos Verdes, Hermosa-Redondo and East Los Angeles Districts, are in Southern California. Each purchases substantial amounts of water from Metropolitan. Our Westlake and Palos Verdes Districts are 100 percent reliant on the water that Metropolitan imports into Southern California. Our Hermosa-Redondo and East Los Angeles Districts have groundwater rights in the West and Central Basins and supplement their supply by purchasing water from Metropolitan.

These latter two Districts have been aggressive participants in your Seasonal Storage Service Program, and in its predecessor the Interruptible program. Cal Water was instrumental in developing and promoting the concept of In-Lieu Replenishment in the late nineteen sixties.

Because aggressive replenishment efforts were in place well before this recent extended drought, the West and Central Basin regions had sufficient water in storage in their groundwater aquifers to not only meet your call for reduced water purchases from Metropolitan, but to exceed it.

As a private utility, Cal Water understands and appreciates your need to develop a fixed income source. But, we are concerned about two subtle messages contained in your new rate structure.

- ◆ Equity is not an important factor in determining who will pay the needed fixed revenue charges.
- ◆ Conjunctive use programs are not important projects in Southern California.

The proposed rate structure eliminates one fixed revenue source, a parcel charge, and creates in its place a retroactive surcharge on the water that was purchased over certain prior years. This sends the message that, although MWD stands *ready to serve* all property in its service area, only those landowners who currently use water will pay for this *readiness to serve*. We don't think that this is an equitable exchange.

We are fully aware of the many years of political struggle that now require Metropolitan to reduce its reliance on property tax revenues. Yet, we would still prefer to continue the parcel charge. However, if this methodology isn't politically acceptable, then we can accept and live with the concept of the Readiness-To-Serve Charge as a fixed revenue source for Metropolitan. Provided that this charge is based upon the base supply of water and is not levied on water purchased under any surplus water storage programs.

Cal Water cannot accept the fact that you have included the prior purchases of Seasonal Storage water in the Readiness-To-Serve Charge. A year ago when the Readiness-To-Serve Charge was first discussed, the prior purchases of seasonal water were not part of the equation, but has since been added into the calculation.

Metropolitan Water District asked for our assistance in 1992-93 and 1993-94 fiscal years to maximize the delivery of imported water to Southern California, and we responded willing to help, in good faith that the rules of the Program were established and that participation made sound economic sense for our customers. But now, through the inclusion of Seasonal Storage Service in the Readiness-to-Serve Charge, you are changing the rules of this Seasonal "Game", in a game that has already been played. It appears to be an effort to take back the modest incentive that was realized as a result of our participation in this program.

The inclusion of seasonal storage water in the Readiness-to-Serve Charge sends the message that conjunctive use programs are not important projects in Southern California, and in fact, penalizes participants in this conjunctive use program.

Seasonal Storage Service is only supposed to be provided if Metropolitan's General Manager determines that sufficient water is available above the base supply needs. Apparently there was so much extra water in 1992-93 and 1993-94 fiscal years, that seasonal was available for 21 of the 24 months. Metropolitan urged us to participate. We were told that if we didn't participate Southern California would miss out on an excellent opportunity to bring in and place in storage a large quantity of surplus water.

Cal Water jumped in and purchased 22,284 AF of seasonal water in those two years (ELA 16,395 and HR 5,889). An unprecedented annual average of 11,141 Acre-Feet per year. This will result in an added expense of \$280,000 in the first year of the Readiness-To-Serve Charge.

One of the many quirks of the Seasonal Storage Program is that to qualify for the reduced priced seasonal storage water, you actually have to buy more non-interruptible water at the higher price than otherwise would be necessary if you do not participate in the seasonal program at all. This is in addition to the extra water that is purchased as seasonal storage water. This quirk has to do with the seven month winter and five month summer, and the baseline calculation methodology.

As a result of this quirk we would still pay an even greater share of a Readiness-To-Serve Charge that was based just on Non-Interruptible water, simply because of our participation in the seasonal storage program. Let me give you an example: See East Los Angeles Table at end of Statement

Again this in instead of the 8,400 AF annual purchases that we would have needed from Metropolitan had we not participated in Seasonal. That's right, participation in Seasonal Storage makes our Met bill go way UP, not DOWN.

So, why do we participate at all?

Not all of the incentive is provided by Metropolitan. Without the regional contribution from the Water Replenishment District, Seasonal Storage would not work. Our calculations show that in the 1992-93 and 1993-94 fiscal years we realized a reduction in total water cost of approximately \$33 per Acre-Foot of In-Lieu water. This incentive to buy more of your water only exists because the Water Replenishment District provided an In-Lieu Rebate of \$112 per Acre-Foot of In-Lieu water. Yet, Metropolitan's new rates will claim \$25 of this \$33 incentive.

Now please realize, you are not penalizing Cal Water, you are penalizing our ratepayers. Water Costs are direct pass through expenses, as are any Savings that are realized by our operational mode. Cal Water does not earn on these items. As a regulated utility we can only earn on our investment in utility plant; the pumps, pipes, valves and meters that are necessary to deliver water.

We urge you to reconsider your proposed rate structure. What is the intent of the Readiness-To-Serve Charge. If as your literature states, it is to compensate Metropolitan for the debt service for capital improvements associated with meeting the quality and reliability needs of existing water users, then a Readiness-To-Serve Charge is acceptable on our base requirement. But, it should not be charges on water that we bought under special conditions as a means of helping the region store surplus water. We do not expect seasonal storage service to be as reliable as Non-Interruptible service, therefore we should not have to pay as if it was that reliable.

Had Cal Water known at the start of the Game that the rules would be changed so drastically after the Game was over, and that these changes would mean that we would lose the game rather than win it, we never would have played the game.

East Los Angeles District

If we do not participate in Seasonal Storage Service

	1992-93	1993-94
Annual Demand	20,160 AF	20,209 AF
Groundwater Pumping Right	<u>- 11,774 AF</u>	<u>- 11,774 AF</u>
Needed Non-Interruptible Water to Supplement Supply	8,386 AF	8,426 AF

If we participated in Seasonal Storage Service

Annual Demand	20,160 AF	20,209 AF
Qualified Seasonal Storage	- 6,326 AF	- 10,069 AF
Groundwater Pumped	<u>- 2,588 AF</u>	<u>- 37 AF</u>
Purchased Non-Interruptible Water	11,246 AF	10,103 AF.