
**BEFORE THE METROPOLITAN WATER DISTRICT OF SOUTHERN
CALIFORNIA**

**PUBLIC HEARING ON PROPOSED WATER RATES AND REVENUE
STRUCTURE
AND
1995-96 WATER RATES**

STATEMENT BY THE CALIFORNIA AVOCADO COMMISSION

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**COMMENTS OF THE CALIFORNIA AVOCADO COMMISSION ON THE
METROPOLITAN WATER DISTRICT OF SOUTHERN CALIFORNIA'S
PROPOSED WATER RATES AND REVENUE STRUCTURE AND 1995-96
WATER RATES**

**Public Hearing
Two California Plaza
Room 311, Third Floor
350 South Grand Avenue
Los Angeles, California 90071**

Good afternoon, ladies and gentlemen. My name is Don Reeder. I am Chairman of the California Avocado Commission's Water Team and a farm manager. I am here today on behalf of the Commission, avocado growers, and the southern California agri-business in general. I am accompanied today by Thomas A. Bellamore, Vice President of the Commission.

I would like to make a few general comments before addressing Metropolitan's proposed new rate and revenue structure and proposed 1995-96 water rates.

General Comments

First, let me express our appreciation to the Board for instituting the interim agricultural water program. The program provides agri-business with some degree of water supply certainty and relief from the recent rapid water rate increases while we (1) better define the socio-economic, environmental, and water management values and importance of southern California agri-business to The Metropolitan Water District of Southern California, its member agencies, and the region as a whole and (2) establish an appropriate basis for the cost of agricultural water.

It is important to remember that we are dealing with a beneficial water use, not just a water management program. Water management programs are means for meeting the quantity and quality needs of a beneficial use. Unlike water management programs which can be curtailed, changed, or started readily, a beneficial water use and the associated local and regional socio-economic, environmental, and water management benefits, once lost or curtailed, may not be reinstated. In the case of avocados, it takes a six-year investment before a tree matures and becomes commercially viable.

Decisions with regard to agri-business beneficial water use are of great local and regional importance. A large portion of southern California agri-business involves land which otherwise may have little or no productive and taxable value, eg. steep, rocky

slopes and utility rights-of-way corridors. It has made and continues to make major financial contributions to the development of the State and southern California water infrastructure. As a result of marketplace economics, it involves high value crops and commodities which are uniquely tied to the land and other local environmental factors. It employs and self-finances affordable best management practices and technologies with respect to water and other cultural practices. Its water quality requirements are generally less than those of other economic beneficial water uses. Most agri-business in southern California, however, is inherently sensitive to rapid changes in water costs inasmuch as it represents the major operating cost component, particularly in the production of tree crops such as avocados.

The Commission, through its water team, is working cooperatively with Metropolitan and its member agencies in an effort to better define the socio-economic, environmental, and water management values of southern California agri-business. We want to continue to be an active and constructive water management partner in resolving southern California's and the State's water supply problems. We are trying to coordinate and integrate our efforts with those of Metropolitan and its member agencies so that the best information is available in the decision-making process.

Second, it is important to remember that public infrastructure is intended to support State, regional, and local socio-economic and environmental goals and that infrastructure cost sensitivity and least cost analysis should be viewed relative to achieving these goals, as opposed to cost sensitivity only for individual public agencies. Furthermore, in these regards with respect to water infrastructure, it is also important that water supply, water and waste water treatment, and flood control facilities and capital improvements be viewed collectively. For example, giving greater priority to flood control and waste water treatment works to increase local water supplies may be the least cost alternative for these works when water infrastructure is examined collectively.

Third, let me state that the Commission supports necessary and affordable efforts to increase water supply reliability and recognizes that this will require substantial capital improvements that, in some cases, were not even envisioned a decade ago. The current Statewide shift in water supply strategy to a higher reliance on conserving excess water in years of above normal precipitation, water transfers, and on greater local water conservation and development will require substantial capital improvements at all levels. We also envision substantial capital improvements will be required for the long-term Bay-Delta agreement for environmental and water supply improvements. How these improvements are financed are critical to an area's and the State's economic and environmental well-being.

The Commission believes that when deliberating over rate structure and setting rates, Metropolitan and its member agencies should give due consideration to the total costs borne by the rate payer and the cumulative weight of all rate-related actions. Incremental increases, like a six percent hike in the wholesale cost of water, by itself, may

not have a major impact, but when coupled with other increases by member agencies and sub-agencies, the collective impact may literally force a customer out of business.

We are concerned about the cumulative costs of capital improvements, how costs will be assigned, and the manner in which they will be passed on to users. It is difficult to assess the impact of Metropolitan's proposed new water rate and revenue structure not knowing how the associated costs will be passed on by the member agencies. This is compounded further by the unknown future financial obligations that may be imposed on Metropolitan relative to the long-term Bay-Delta agreement for environment and water supply improvements.

As stated Metropolitan's supporting water rate and revenue documents, "recent evidence indicates that reductions in water supply reliability will discourage plant and equipment investment in the State, which will translate directly into lost production, reductions in income, and lost jobs." It is also recognized that the availability of reliable and affordable water supplies benefits all persons and lands of the State. Consequently, a portion of these capital improvement costs should be borne by the State or water service area as a whole. At the same time, the costs for required improvements which benefit a specific use should appropriately be borne by those users. We believe further work needs to be done on defining the basis for apportioning cost responsibility.

We also believe it is important to continue to examine financing and rate/revenue structure options and to establish a better mechanism to determine the impacts and consequences of the options. We also urge that the Bay-Delta agreement continuing process include the examination of financing plans and options, and a means for determining the cost sensitivity, impacts, and consequences of options.

Comments on New Water Rate and Revenue Structure and 1995-96 Water Rates

With respect to Metropolitan's new water rate and revenue structure and its proposed 1995-96 water rates we offer the following comments and observations.

The Commission would like to commend Metropolitan for its leadership in trying to develop a fair and equitable water rate and revenue structure, and means for stabilizing water rates and controlling rate increases. The Commission supports the principle that reliability and delivery costs of water be paid in part by land assessments because properties benefit from legal access to water whether the water is actually used or not. By the same token, it also recognizes that socio-economic, environmental, and water management benefits of a beneficial water use may be broad and of system-wide benefit. It also concurs that land assessments and other charges would provide a firmer revenue base than water sales revenue which may be highly variable, and, in turn, would increase the probability of substantial water rate swings. The difficulty arises as to what is the fair and equitable split between water rate and land based assessments that best achieves local, regional, and State socio-economic and environmental goals.

Metropolitan's new revenue structure proposes four new charges which it believes will provide a firm revenue base to meet its scheduled capital improvement program and help stabilize water rates and water rate increases. Those charges are a readiness-to-serve charge, a new demand charge, a connection maintenance charge, and a treated water peaking charge. As previously stated, it is difficult to determine the impact and consequences of the new charges and 1995-96 water rates because it is not known how member agencies will pass on those costs.

1. Readiness to Serve Should Reflect the Interruptible Status of Agricultural Water Deliveries

The readiness-to-serve charge is said to be set to recover the principal and interest payments on non-tax supported debt service for capital improvements associated with meeting the reliability and quality needs of existing users. Since agri-business, under the interim agricultural water program, has lesser reliability than other users, we believe that the lesser reliability should be reflected in the readiness-to-serve charge, if any, assigned to agri-business.

The Commission supports the proposed option of offering member agencies the opportunity to use the existing water standby charge to meet their readiness-to-serve charge obligation under the proposed new water rate and revenue structure. It also recommends that consideration be given to allowing increases in the water standby charge to accommodate increases in a member agency's readiness-to-serve charge.

2. New Demand Charges Should Not Be Applied to Agricultural Water

With respect to the new demand charge, the Commission believes that, given the reduction in agriculture that has occurred in Metropolitan's service area, and the industry's historic contribution to water infrastructure, the charge should not be applied to the interim agriculture class of service. The historic demand base to be used in determining the new demand charges should also allow for changes in agri-business water use from different crop types and variations in climatological conditions. For other classes of service, the Commission believes that the new demand charge should be set at the full level of \$1,621 per acre-foot in 1995-96, as opposed to the proposed five year phase-in, so that demand increases above a demand base are not being subsidized by other charges.

3. The Treatment Surcharge Should Not Be Applied to Agricultural Water

The treatment surcharge is stated to provide for increased capital and operating/maintenance costs for treatment of water to meet more stringent water quality regulations. Since a higher level of treatment is not required for agri-business, the surcharge should not be a component of the rate applied to this sector. The Commission does support including treatment costs to meet demands for treated water through a treated water new demand charge.

4. Stabilize Agricultural Water Rates During IAWP Evaluation Period

The Commission believes that the rate for interim agriculture water should remain stable, particularly while the value of the Interim Agricultural Water Program (IAWP) is being evaluated. The socio-economic benefits to the region which would result from rate stability far outweigh any revenue gains which may be realized through incremental increases, while still allowing for achievement of local, regional, and State socio-economic, environmental, water management goals.

If an increase must be applied, however, it is more equitable to use the same percentage rate for the two classes of service. The commodity water rates proposed for 1995-96 are proportionally higher, on a percentage basis, for interim agriculture water than they are for noninterruptible classes of service. For example, the proposed increase for treated, noninterruptible service is 3.4% compared with a 5.1% increase for treated interim agriculture water.

The Commission appreciates the opportunity to appear today to comment on Metropolitan's new water rate and revenue structure and proposed 1995-96 water rates. Again, allow me to restate our commitment to being an active and constructive water management partner in resolving southern California's and the State's water supply problems.