



CA Save Our Streams Council

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California Department of Water Resources Contract Extension
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Via email: 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, if adopted, would rely on water sales to meet as yet undisclosed costs and the resulting long-term debt will saddle ratepayers with increased interest and unknown costs for two to three future generations of Californians.

We agree with both agency groups—SWP contractors and the Department of Water Resources representatives—that each is accountable to elected officials, ratepayers and taxpayers. As such the electorate deserves greater transparency and full disclosure of the costs of this SWP water diversion system including emergencies, maintenance, replacement and reserve projects, and the full cost of any new capital projects, such as the peripheral tunnels project or BDCP—and the total revenues needed to cover these costs.

Central to the water supply contract extension negotiations is a determination of the safe yield of the State Water Project. Federal scientists estimate the snowpack of the Sierra Nevada range could lose 80% of its winter snowpack by the end of the century [87 years].¹ Relying on paper water as collateral for revenue bonds is an unwise folly.²

It is understandable DWR would desire an “emergency” fund to assist with variable costs associated with running such a large state water supply system. But “emergency” by definition means unexpected or unforeseen. The SWP replacement costs, along with the seismic retrofit of the California Aqueduct, dams and bridges are known and expected costs. It is expected that the SWP will coexist with water shortages and droughts. Climate change is not unexpected and will bring variable hydrology, and increased need for flows and cold water to ensure survival of salmon runs and other beneficial uses.³ Power costs due to aging infrastructure and expiring power contracts are increasing costs. As a result, any contract extension must provide for an equitable process to govern the distribution of shortages and address reduced revenues due to the lack of water sales and increased power costs.

As noted in the latest negotiation session [July 10, 2013], the SWP water rights and supply system are owned by the taxpayers of the State of California with attendant public trust and legal duties to ensure operation of the system does not harm these beneficial uses and run afoul of federal and state water quality laws.

The water supply contract extension amendments and refinancing relies on revenue from the sale of water as collateral for repayment of the debt. Thus any water contract extension beyond the existing term of 2035 needs to disclose:

1. The baseline capital debt and interest remaining on the existing SWP project;
2. The capital replacement costs for the SWP water supply system that is more than 50 years old;
3. The seismic retrofit costs of existing dams, bridges and aqueducts at the existing SWP system;

¹ USGS scientist Tom Suchanek <http://www.usgs.gov/newsroom/article.asp?ID=3148> & http://www.almanacnews.com/news/show_story.php?id=10886

² http://www.moodys.com/research/Moodys-assigns-Aa1-rating-to-California-DWRs-Central-Valley-Project--PR_273014 “The rating primarily reflects the strong take-or-pay nature of the water supply contracts from which debt service payments are derived, and the critical, long run importance of the Department’s water supply to its contractors. Also key to the rating are the largest contractors’ strong credit standings, and the Department’s ability to withstand a large amount of delinquencies by contractors with the help of the 1.25x rate covenant and step-up provisions. These considerations largely offset the risk that would otherwise be posed by the tightening legal and regulatory environment for water exports from the Sacramento-San Joaquin Bay Delta, and the volatile annual precipitation levels.”

³ Sacramento River Chinook salmon spawning this year [2013] are threatened by the relaxation of water temperature standards on the upper Sacramento River combined with the violations of water quality standards in the Delta that are the result of the over-allocation of scarce water supplies and diverting too much water in a dry year. http://www.waterboards.ca.gov/waterrights/water_issues/programs/bay_delta/decision_1641/conservate/docs/05292013swrcb.pdf http://www.waterboards.ca.gov/waterrights/water_issues/programs/bay_delta/decision_1641/conservate/docs/05242013swrcb.pdf

4. Increased power costs from expiring contracts and lower output.⁴
5. Total capital costs for any “new” projects;
6. Clear provisions to allocate water shortages; and
7. Clear provisions as to how cost over runs will be allocated to the contractors and ratepayers.

Prior to extending the existing water supply contracts and debt obligation, DWR should complete a financial disclosure analysis with independent review to ensure taxpayers are not being asked to subsidize costs that should be paid for by the SWP contractors. And further, such independent analysis needs to ensure that the water supply contracts do not put undue risks or commitments on the state's general fund and the taxpayer.

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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⁴ Hoover and SCE supplemental power contracts expire in 2017. Damage to existing project power plants has increased operating costs. “Recently, maintenance issues at the Hyatt Power Plant interrupted hydropower generation, and a fire last November destroyed the Thermalito Power Plant. This has not resulted in loss of water supplies, but does increase the costs of running the project as hydropower not generated by the project must be purchased from elsewhere.”
<http://mavensnotebook.com/2013/04/17/dwr-announces-state-water-project-negotiations-to-start-in-may/>



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cc: Interested Parties