

CENTRAL TEXAS

WATER COALITION

**COMMENTS OF CENTRAL TEXAS WATER COALITION (CTWC)  
ON PROPOSED ADDITION OF \$13 MILLION INTO LCRA'S  
"AGRICULTURE RESERVE FUND"**

*ACTION TO BE CONSIDERED AT THE WEDNESDAY, AUGUST 19, 2020*

*BOARD MEETING -- AGENDA ITEM 15*

*Comments submitted via email on August 18, 2020*

The Central Texas Water Coalition (CTWC) appreciates the opportunity to provide the LCRA Board and Management with these written comments on an action item to be considered at the upcoming LCRA Board Meeting on Wednesday, August 19, 2020: **Item 15**. The proposed action for Board consideration involves an enormous amount of money and has significant consequences for all of LCRA's water customers. We respectfully request that you postpone your decision on this item until you have had additional time to conduct a thorough review of the issues and questions presented by the proposed action.

**Background**

The Board Agenda materials for Item 15 include a statement that "Staff recommends funding the Agricultural Reserve Fund with \$13 million from management reserves." We are aware that the Board established an "Agriculture Reserve Fund" at its December 10, 2019 Board meeting as an amendment to "LCRA Board Policy 301 --- Finance." LCRA Board Policy 301 (as amended in December 2019) includes a list of several Special Funds created to address various goals, and the "Agriculture Reserve Fund" in Section 301.609 is the newest one of those funds:

**Board Policy 301.609 - Agriculture Reserve Fund.** LCRA will establish a fund specifically to be used for mitigating rate shock to customers. The monies for the Agriculture Reserve Fund may come from any source approved by the Board. The Board must approve all expenditures from the Agriculture Reserve Fund. The Agriculture Reserve Fund is part of the revenue fund and accounted for separately.

For some unknown reason, this Fund, like the "Agricultural Water Conservation Fund," appears to benefit only LCRA's Agricultural Irrigation Water Customers – not its Firm Water Customers. It is difficult to understand why only the selected customer group has been chosen as the beneficiary of these subsidy Funds.

Consistent with the public comments and questions raised about the new Fund at the time of its presentation late last year, CTWC remains extremely concerned about the creation and funding of a program intended to solely benefit one specific customer group: LCRA's agricultural interruptible water customers. This decision seems inconsistent with and contradictory to the laws and principles relevant to water sales and water rates, including LCRA's own Board Policy 501 -- relating to Water Resources. For example, Board Policy 501 emphasizes LCRA's commitment to take initiative in appropriate management, planning, programs and projects to control, preserve, use, develop, conserve and manage the water supplies under its jurisdiction, guided by such principles as maximizing its water supplies in a cost-effective manner, and preferring a basinwide approach to benefit both upstream and downstream interests when pursuing water supply strategies. *See* Board Policy 501, Section 501.201. Providing millions of dollars to assure that LCRA's downstream agricultural customers do not experience "rate shock" does not fall within these stated guidelines. Instead, such distributions of funds appear

to promote water rates that are artificially low and therefore hinder LCRA's stated commitment to meet or exceed state water conservation requirements and to provide leadership in promoting the conservation of water. *See* Board Policy 501, Section 501.30. To CTWC, it appears that a multimillion dollar fund to "mitigate rate shock" to its Agricultural Customers is another way of saying that LCRA will use funds that are unrelated to a water customer's financial investment in obtaining water to set water rates that are artificially, and preferentially, low rates. As a result, LCRA may then ignore its actual cost-of-service for providing water to that preferred customer group – and may impose a higher financial burden on its other customers.

These practices cannot be reconciled with the legal framework for setting water rates, as clearly stated in LCRA's own Board Policy 501:

**Board Policy 501.602 - Water Rates.** LCRA's rates will be just and reasonable, not unduly discriminatory, and set to fully recover LCRA's costs to control, store, preserve, conserve, use, plan, develop, manage, distribute and sell the water supplies under its jurisdiction, consistent with state law. The rates will be designed to allow LCRA to be self-supporting in providing these services and with the goal of providing for a stable and predictable flow of revenue.

### **Contradictions and Conflicts**

In recent years, LCRA's presentations and publications have clearly stated LCRA's awareness of, and commitment to, the need to achieve full cost recovery from its interruptible water customers. For example, at a presentation in Marble Falls in 2014, an LCRA manager's PowerPoint presentation included a slide acknowledging that LCRA's irrigation water rates do not cover its costs and asserting that: "LCRA's long-term goal is to achieve full cost recovery through interruptible rates." LCRA described its Rates Philosophy as one that "should allocate the costs of managing the water system in a fair and equitable way." CTWC supports that philosophy and is very concerned that the proposed action is a giant step backward toward achieving such a goal.

In a handout entitled "How Water Rates are Determined" dated March 2014, LCRA announced changes in its rate-setting practices and provided well-written statements of the laws governing its ratemaking decisions. Importantly, this publication states that "LCRA is required by law to fully recover costs. Costs for interruptible customers are currently under-recovered, and LCRA needs to achieve full cost recovery for providing that water." A copy of this publication is attached for reference. Again, the proposal to provide \$13 million toward subsidies of interruptible water rates is in conflict with the laws, policies, and philosophies that LCRA has presented. We are not aware of any changes in Texas law that would support such drastic changes in the water rates framework that LCRA has acknowledged and asserted as the appropriate method for assessing water rates for its customers.

### **Conclusion**

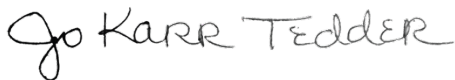
CTWC respectfully requests the Board's consideration of these comments, as well as the specific questions below, prior to taking action on Item 15:

1. What is the source of the "management reserves" that will provide \$13 million for the Agriculture Reserve Fund? How much money will be left in the "management reserves" after this proposed withdrawal?
2. How will LCRA replenish or recover the \$13 million that it proposes to use to subsidize water rates for its Agricultural Customer group through this Fund?
3. Will LCRA's Firm Water Customers be provided with a similar fund to mitigate rate shock for their increasing water rates?

4. How did LCRA arrive at the \$13 million figure as an appropriate amount to place in the new Agriculture Reserve Fund? What is the basis for that calculation?
5. How will the \$13 million be disbursed? Over what period of time?
6. Does LCRA Staff expect to recommend the addition of more money into this Fund in 2020? Or in the next five years?
7. Will this new Reserve Fund replace other methods of subsidizing rates for Agricultural Irrigation Customers? Or will it serve as an additional method for mitigating water rate increases for this Customer group?
8. How will the Agriculture Reserve Fund assist in LCRA's stated goal to achieve full cost recovery for water rates charged to its downstream interruptible customers?
9. The latest proposed 2021 Regional Water Plan for the Lower Colorado River basin includes a number of agricultural water conservation projects proposed by LCRA. Instead of funding its Agriculture Reserve Fund with \$13 million, would LCRA consider expending that money on implementing conservation projects that would benefit its interruptible customers and assist in preserving water resources for the entire basin?

Thank you very much for your consideration of these comments, and please contact me if there are any questions. We are hopeful that these comments and questions will inspire further discussion between Board members and Staff during the upcoming Board meeting, and we would always welcome the opportunity for dialogue and discussion of these important matters with all of you.

Sincerely,



Jo Karr Tedder  
President

Attachment: " How Water Rates are Determined" (LCRA, March 28, 2014)

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