COMMENTS TO LCRA ON WATER PRICING APRIL 16, 2014

Fair water pricing by LCRA will drive conservation and new supplies

For years now, LCRA has provided the majority of our Colorado River water supply to about 200 downstream agricultural irrigation customers, so that these customers can grow rice and turf grass. This agricultural irrigation water, considered “interruptible water,” has been provided at a financial loss to LCRA.

The legislation that created the LCRA specifically requires LCRA’s Board to establish and collect water rates that are “reasonable and nondiscriminatory." In addition, LCRA must establish and collect rates that will cover its expenses. It is hard to argue that the current water pricing structure meets any of these requirements.

In recent weeks, LCRA has proposed changes to its current water rates. This latest proposal would raise the rates for interruptible irrigation water so that it will begin to pay enough to cover the cost of the canal systems in years when these agricultural interruptible customers purchase stored water from the upstream lakes. The proposal would include additional contributions from two of the four irrigation districts toward the costs of LCRA’s river operations. This is a step in the right direction to correct the situation, but it does not go far enough. The proposed water rates for the irrigation customers do not come close to covering LCRA’s expenses for delivering this water to them.

Meanwhile, LCRA’s proposed rate changes would also raise the rates for its municipal, domestic, and industrial customers in Central Texas, known as “firm water” customers, who are currently paying the highest rates of any river authority in Texas, about 2 ½ times what the neighboring Brazos River Authority charges its municipal customers. In addition, firm water customers pay a reservation fee (1/2 of the firm rate per acre-foot) for water that is not currently used, but is theoretically reserved for their future use.

Historically, these firm customers have covered the entire cost of operating the LCRA river system, either by direct water costs or from the 3% each firm customer pays into the Public Service Fund (PSF). The PSF has been used to pay for annual losses from rice farmer shortfalls.

The dramatic increases in firm water rates are intended to assist LCRA in recovering the costs and expenses of operating and maintaining various aspects of its river operations. However, these costs include the operation and maintenance of canal systems that deliver water only to a limited number of downstream irrigation customers.

Additionally, two of the four irrigation districts have contracts with LCRA that provide them with even more favorable terms and rates for obtaining interruptible irrigation water, which further discriminates against LCRA's other water customers and imposes even greater burdens on firm water customers in Central Texas.

LCRA faces challenges to its cost recovery mandates in years when some interruptible irrigation water is curtailed or cut-off. In those years, LCRA continues to incur the costs of its river operations, and someone has to cover the costs of the irrigation canal systems. Firm customers may be willing to consider a reasonable and nondiscriminatory rate structure that asks them to contribute toward some costs when interruptible customers are not able to purchase stored water from the Highland Lakes. But they are opposed to covering the costs of the irrigation canal systems through the firm water rates, and they expect irrigation customers to pay their proportional share of river operation costs.

In order to satisfy the minimum requirements of LCRA's statutory obligation for "reasonable and nondiscriminatory" pricing, the following additional changes to LCRA's proposed water rates must be made:

* LCRA's agricultural interruptible customers must go immediately to full cost recovery pricing and stay at full cost recovery pricing. The fact that one group of customers has been undercharged for years is not an excuse to continue to undercharge them. LCRA has foregone hundreds of millions of dollars of revenue by undercharging the customers that use the majority of the water -- revenue that could have been used to minimize the loss of water in the irrigation canals and fields, to construct downstream storage reservoirs, and to develop additional water supplies.

* Irrigation customers must bear the costs of operating their own canal systems. It is not appropriate to charge other customers for this cost, whether or not these irrigation customers receive stored water from the Highland Lakes. **No other LCRA customer has its water delivery costs and expenses subsidized by other customers.**

* System-wide costs that cannot be charged to particular interruptible customers as a result of LCRA's past contractual decisions must be charged equally across the entire remaining customer base, not just shifted to firm customers. Where appropriate, these existing contracts should be reviewed and updated if their implementation results in unfair pricing or violations of law.

* All water should be charged for appropriately. Water released from the Highland Lakes by customer request and not used, and water pumped from the river for irrigation customers and lost in distribution, is not paid for today. In a typical year, this lost water is about as much as the entire City of Austin uses in a year. This water should be charged to the downstream interruptible customers in order to help recover costs and drive appropriate conservation efforts.

Water is a critical resource. Under the existing water rates, downstream irrigation customers used more water per acre of rice in 2011 than they did in 1990, while the City of Austin has steadily reduced its per capita water usage.

Proper pricing will ensure that water is used properly, that conservation efforts are encouraged, and that the LCRA is financially viable, which is important for the entire Colorado River basin. Perpetuating unfair pricing continues to undermine all these goals.

Jo Karr Tedder

President, Central Texas Water Coalition

512-715-0015