CALIFORNIA STATE AUDITOR

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FACT SHEET

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The California State Auditor released the following report today:

Southeastern Los Angeles County

Various Reasons Affect the Rates Water Suppliers Charge and the Rate Increases They Have Imposed

BACKGROUND

A myriad of agencies are involved in the water delivery system serving southeastern Los Angeles (LA) County including retail water suppliers (retailers); local wholesalers; and the regional wholesaler for southeastern LA County—the Metropolitan Water District of Southern California (MWD), which sells imported water to local wholesalers and certain retailers. Retailers—cities or investor-owned entities—provide water directly to consumers while local wholesalers, such as municipal water districts, sell imported water or recycled water to retailers. The rates that consumers pay for their water needs help cover the costs of the different water agencies along the water supply chain. The California Public Utilities Commission (CPUC) oversees investor-owned utility companies and must approve any changes to those entities' rates.

KEY FINDINGS

During our review of the rates charged by the water suppliers as of July 1 for 2008 through 2012 in southeastern LA County, we noted the following:

- Although water rates charged by the three water retailers we reviewed—the City of LA Department of Water and Power (LADWP), the City of Downey Department of Public Works (Downey), and Golden State Water Company—increased over the period we examined; the increases varied among the three, ranging from 39 percent to 64 percent.
  - ✓ LADWP's rates rose due to increasing capital-related costs, the higher costs of purchasing water from the regional wholesaler, and implementing a modified tiered rate structure to encourage conservation.
  - ✓ Downey's water rate increases were primarily due to the cost of pumping groundwater and the cost of eliminating a deficit.
  - ✓ Golden State Water's rates grew because it implemented a new rate structure to encourage water conservation by charging a higher rate to consumers who do not conserve water and as a result of its investing in new assets to help maintain and replace aging infrastructure.
- The two local wholesalers we reviewed have roughly doubled their water rates during the period we examined largely due to increasing costs to finance and build infrastructure to develop alternative sources of water, such as to provide recycled water to its customers and thus rely less on imported water.
- The regional wholesaler's—MWD—rates are expected to rise by 75 percent from 2008 to 2014 due to capital improvements such as improving its water treatment facilities, and the higher cost of purchasing imported water through the State Water Project—a system that provides water throughout much of California.
- Downey's water fees may generate funds that exceed the cost of providing water services, which would violate the California Constitution. Downey transferred almost $1 million of these revenues to other funds and could not demonstrate that the transfers were for water-related purposes, and thus, we question the legality of the transfers.
- Because the consumer cannot choose among retailers, the consumer's physical location determines the retailer that will provide water, so there is a lack of competition to obtain the lowest rate. However, to help ensure that consumers are protected from unreasonable rate increases, the CPUC and LADWP use consumer advocate positions to independently analyze proposed rate increases and government-operated suppliers consider rates at public hearings.

KEY RECOMMENDATIONS

We recommended that Downey document in sufficient detail the uses of any funds generated from water fees including any transfers to other funds to ensure that it can demonstrate compliance with the California Constitution. We also recommended the Legislature consider enacting additional consumer protection mechanisms—such as including ratepayer advocacy positions similar to those used by the CPUC and LADWP—if it believes that the mechanisms available to consumers in southeastern LA County to protect against unreasonable rates or rate increases are not sufficient.