

EID's "60-40" Cost Study a Hoax

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For all the "hoopla" given what they grandiosely tout as a cost of service study, EID's so-called "study" of costs all started with a bogus "60-40" cost split foundation. And once this "60-40" cost split was in place the shenanigans kept coming.

Sewer customers overcharged \$2.5 million annually (\$120 per sewer customer) of EID's annual \$40 million of overhead and debt costs:

Of \$60 million of direct, overhead and debt costs, EID's General Manager was the instigator and deciding force that **two-thirds** of those costs... the \$40 million costs for EID's huge debt and overhead... should be **split 60% to water rates and 40% to sewer rates***. EID's General Manager further decided that nearly \$10 million of property tax revenues should be **split the same 60%-40%**.

Under a 2002 legal ruling (Howard Jarvis Taxpayers Association vs. City of Roseville) one of the Court's findings was that **a substantial degree of cost specificity is required to prove that rates are cost justified, properly assigned, and legal. EID's General Manager is adamant** that a broad-brush "60-40" allocation of \$40 million (two-thirds) of EID's operating costs is "close enough for government work" and **that the Roseville ruling does not apply to EID.**

But to comply with the HJTA vs. City of Roseville ruling ([Click Here](#)), EID needs to **scrutinize each sub-category** of its \$40 million of debt and overhead costs **and be specific** as to how much of each and every sub-category belongs to water customer rates and how much belongs to sewer customer rates. When EID performs this required cost specificity they will find that an **additional \$2.5 million of these \$40 million debt and overhead costs belong in water rates and need to be removed from costs charged to EID's sewer rates.**

Agriculture and Small Farm customers undercharged \$1.5 million annually:

Once the 60%-40% cost allocation stage was instigated and effectively decided by EID's General Manager (through the five votes of himself and four subordinate employee panel members), the **Cost of Service panel ([Click Here](#)) spent more than one-third of its time wrangling on costs that the GM and Agriculture panel members didn't want 400 Agriculture customers to pay. This included special rules and cost exclusions** regarding such things as exclusion of water treatment costs, peaking factors and excess capacity costs; more special rules providing different conservation assumptions and different base years; extensive review of ten different base rates for different sized water meters (but heavily discounted to just 25% of the base rates Recreation Turf customers are forced to pay); a discussion on the "unfair impact" one issue had on growing blueberries; and extended haggling over just one percent on another agriculture cost component.

While many hours were spent on hundreds of thousands of dollars Agriculture didn't want to pay, **no time was spent on more than \$1.5 million of disproportionate overhead and debt costs other ratepayers pay to subsidize 400 Agricultural customers.** Further ignored were cost benefits to Agriculture from the economies of scale of having 38,600 non-Agriculture customers to pay more than 99% of the costs to maintain and administer the tens of millions of dollars of infrastructure that brings 17% of EID's water to just 400 Agriculture customers. **Without 38,600 other EID customers collectively paying \$1.5 million dollars extra each year, Agriculture would have millions of dollars more costs to absorb than the mere \$0.5 million in rates they currently pay.**

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The committee further listened to long harangues regarding Agriculture founding EID some 85 years ago and **claims that eighty-five years later, today's 400 Agriculture descendants of those EID founders should get more than \$100 million special credits against their rates for the value of EID's water rights... even though non-Agriculture customers have paid for, and continue to pay more than 99% of the costs associated with these water rights.** These pro-Agriculture panel member activists further overlooked that the irrigation district of their forefathers (i.e., EID's predecessor) went insolvent before new investors took over.

Also, speciously contended was that, even though **sixty years ago EID received just \$28,000 of property tax revenues,** certain agriculture panel members and one EID board member **argue that today's nearly \$10 million of property taxes should be applied 100% to subsidize Agriculture and other water customers** (Agriculture customers would disproportionately benefit, effectively taking 17% or more of these property tax rate offsets, even though 70% of EID's property tax revenues are sourced from sewer ratepayers and 28% comes from non-Agriculture "Water-only" customers.)

COS Panel was a "de facto" Political Action Committee"... and operated "behind closed doors":

Rather than an even-handed, impartial, detailed study of costs, **the panel's work had notable overriding characteristics of a political action committee (PAC).** With two citizen members from the 400 customer Agriculture community, two citizen members with heavy developer connections, and a politically-driven General Manager who effectively controlled five panel votes (his own and those of four subordinates), there "de facto" was **just one panel member whose first allegiance was even handed treatment for EID's 38,600 non-Agriculture water customers (i.e., residential, commercial, and Recreational**

Turf water customers) and 20,600 sewer customers.

Meanwhile, **EID's General Counsel failed to attend even one of the ten lengthy cost of service panel meetings conducted over ten months,** all of which were **conducted behind closed doors, without publicly pre-disclosed agendas or published minutes,** and hidden away from the "prying eyes" of the public. Whatever happened to EID's much ballyhooed claims of transparency and for that matter, whatever happened to the Brown Act?

During EID's 2011 redistricting panel meetings EID's General Counsel stated that math and numbers were his weakest academic skills in college. Perhaps his math and numbers weaknesses are why he shied away from participating in the cost of services panel meetings, instead relying on the repeated assurances of his colleague General Manager that all the numbers in the cost of services study have been, and are, 'copasetic'.

Rate Consultant not a Proposition 218 legal expert... instead followed GM orders:

EID's General Manager repeatedly has touted that the consultant he engaged to assist in designing new rates has "performed more than 120 cost studies" and is an "expert on Proposition 218". Yet, the consultant repeatedly has referred to himself as a "Rate Consultant" (not a "Cost Consultant") and repeatedly speaks of performing "rate" studies (not "cost" studies). **When asked by Board members whether EID complies with Proposition 218, the Rate Consultant repeatedly parsed his response by saying, "I am not a lawyer".** Regarding key cost assumptions incorporated into his very elaborate rate model, **he further repeatedly stated to the "Cost of Service" panel "I do what Jim (Abercrombie) tells me", and "Garbage-in, garbage-out".**

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In short, the Rate Consultant repeatedly, artfully (and honestly) dodges giving a straightforward testimonial regarding EID's compliance with Proposition 218.

Expert legal advice not solicited... while glowing testimonials given by Agriculture advocates:

Unlike the citizen member of the Cost of Services panel representing residential customer interests, **neither EID's General Manager nor General Counsel have sought independent expert legal advice from the HJTA experts regarding alleged Proposition 218 deficiencies of EID's rates**; more than a dozen issues regarding the legality of EID's rates have been challenged and outlined on www.FixEID.org ([Click Here](#))

Each time EID's General Manager reviewed the "cost of service" study "results" with EID's Board, the Agriculture community came forward "en masse" and gave great praise to the committee's work as "even handed, fair and comprehensive". But, wouldn't anyone if they received 17% of EID's water while paying less than 2% of EID's rate revenues?

No valid "study of costs" was performed... and the proposed new rates are NOT "fair and equitable" or legal:

Lost in all the General Manager's "hoopla" regarding his claimed "fair and equitable rates" and "compliance with Proposition 218" has been a **failure to perform a valid "study of costs"** for EID's 38,600 residential, commercial, and other non-agriculture water customers and 20,600 sewer customers. **Also overlooked has been ensuring that Hydro (i.e., electricity generation), Recreation, and Placerville take their fair share of EID's \$40 million of debt and overhead costs** (in fact, they take no quantified share). In total, **many millions of dollars** of debt, overhead and excluded Agriculture

costs have unjustly and **illegally** been **foisted into the rates of EID's residential, commercial, recreation turf, and sewer customers**. There ought to be a law!

The good news is there IS a law...

Article 13D of the State of California Constitution (more commonly known as Proposition 218) was passed by California voters **to protect ratepayers against unfair, non cost-proportional rates** such as those EID proposes to implement as per its current Proposition 218 Notice.

Ratepayers need to take action... Tell EID's Board of Directors to direct EID Management to:

- a) **fix EID's bogus "cost study"** and slipshod accounting included therein;
- b) **eliminate all Agriculture, Small Farm, and other illegal, politically biased rate preferences;**
- c) **ensure that EID's Hydro and Recreation operations recover their full costs**, including debt and overhead;
- d) **ensure that municipal wholesale water rates to Placerville recover full costs**, including debt and overhead; and
- e) **fulfill the full legal requirements of Proposition 218 and the HJTA v. Roseville ruling** (regarding cost-proportionality of rates and cost specificity).

* The cost split for overhead was subsequently changed to 62% water, 38% sewer.