



## Lake Powell Pipeline Economic Analysis

*Response to university professors regarding the project's financial feasibility*

*The following was filed by the Utah Board of Water Resources in response to public comments submitted to the Federal Energy Regulatory Commission (FERC). See Attachment G in the Lake Powell Pipeline Economic Analysis, January 16, 2019.*

Some commenters have continued to express concern over the financial feasibility of the LPP based on work performed by certain university professors, although information rebutting significant elements of their analysis has previously been provided to project opponents and others, including through the FERC public comment process. The fundamental errors identified that invalidate the professors' analysis, include, but are not limited to, use of:

- a misleading and inconsistent price of water in the calculations;
- flawed assumptions concerning the impact of elasticity of demand upon future water use and amount of revenue generated;
- flawed assumptions regarding whether ample alternate sources of water exist; and
- assumptions ignoring the significance of utilizing the repayment approach outlined in the Lake Powell Pipeline Development Act, such as accelerating the payment timeline.

### Inaccuracies of University Professors' Financing Claims

UNIVERSITY PROFESSORS' CLAIM	CLAIM INACCURACIES
Lake Powell Pipeline construction costs begin to be incurred in 2015	<p><b><u>Erroneous time frame, disconnect</u></b>                      Repayment of debt is assumed to start more than a decade too early, creating a disconnect between the cost and the base population who will pay for it. LPP debt payments will not commence prior to 2026.</p>
Repayment cost for the LPP would be as much as \$258 million per year	<p><b><u>Assumes straight line amortization</u></b>                      Assumed LPP is financed like a home (i.e., straight line amortization), an oversimplification. Ignores the repayment terms of 2006 Lake Powell Pipeline Development Act as well as the realities of major capital project financing.<sup>a</sup> Prior amortization scenarios also contained calculation errors.</p>

Notes

<sup>a</sup> A financing plan specific to the LPP will be developed when final information is available for the project, respecting existing economic and market conditions.

## Inaccuracies of University Professors' Financing Claims con't.

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<p>Repayment of the LPP through water rates would require an increase up to 2,000 percent</p>	<p><b><u>Underestimates current water rates</u></b> Used inaccurate wholesale water rates and marginal water prices ranging from \$0.45 to \$1.00 per 1,000 gallons instead of an actual average retail rate for residential customers of approximately \$2.50 per 1,000 gallons.</p> <p><b><u>Overstates WCWCD water delivery</u></b> Assumed WCWCD provided 100% of water (actual was 45%).</p> <p><b><u>Exaggerates needed rate increases</u></b> These assumptions led to an exaggerated water rate increase of 2,000%, which would equal \$52.50 per 1,000 gallons if applied to the current average rate.</p>
<p>WCWCD fails to consider price elasticity of demand in its evaluation</p>	<p><b><u>Price elasticity is included in WCWCD evaluation</u></b> WCWCD's calculations used a price elasticity of water demand of approximately -0.5, applied to the total retail water price.</p>
<p>Applying price elasticity of demand eliminates need for LPP</p>	<p><b><u>Incorrect price elasticity calculation</u></b> Used inaccurate water rates in price elasticity calculations, which exaggerated the reduction in demand caused by rate increases.</p>
<p>The WCWCD's LPP plan creates a large subsidy funded by state taxpayers</p>	<p><b><u>Unfounded assumptions</u></b> Ignored statutory requirements<sup>b</sup> that the Districts repay the preconstruction and construction capital costs with interest.</p>

Notes

<sup>b</sup> Utah Code Ann. Sections 73-28-402(4) and 403(1)