Small Towns Tell a Cautionary Tale About the Private Control of Water

By Tim Reiterman, Times Staff Writer
May 30, 2006

In San Jerardo, a tidy but poor farmworker cooperative encircled by the black earth of Salinas Valley fields, residents have been drinking bottled water for almost five years because the tap water they buy from a private company is unsafe.

Nearby, families in the modest town of Chualar are still smarting over monthly water charges that in some instances ballooned by 1,000% or more.

And about 40 miles to the northwest, the Santa Cruz Mountains hamlet of Felton voted last year to tax each household up to $700 a year to take control of the local for-profit water system after the new owner proposed a series of rate increases.

These communities are fronts in a statewide battle over the price, quality and reliability of water that investor-owned utilities are supplying to nearly one in five Californians.

In the late 19th century, private companies delivered water to most of the state's homes and businesses. Today about 80% of the state's people live in large cities and towns served by publicly owned utilities. About 140 for-profit companies provide water to more than 6 million people, mostly in suburbs and smaller communities.

Supporters of government-run water systems point out that they, unlike investor-owned utilities, do not need to pay taxes or produce a profit. But big companies contend that they can operate with less overhead per customer.

At the core of the dispute are philosophical differences over whether an indispensable resource should be controlled by private firms.

In San Jerardo, a farming co-op of converted military housing several miles from Salinas, residents still are paying for their tap water, although it was declared unsafe in 2001 when Alisal Water Corp. found high levels of nitrates in a company-owned well serving the community of 250.

Since then, the company has been providing households with three five-gallon bottles of purified water each week for drinking and cooking. Residents complained that it was not enough.

Monterey County recently began providing 10 additional gallons weekly to families that needed more, said co-op manager Horacio Amezquita.

"It is better because people ran out of the 15 gallons," he said. "Right now, it is working, but when summer comes, people will use more water."

Down the street, fieldworker Manuel Alcala said he doesn't like paying $35 to $45 a month for tap water his family of five cannot drink — and that cannot be used to wash his baby's bottles. "The water is no good," he said.

In 2004, U.S. District Judge Jeremy Fogel fined Alisal and its owners $500,000 for violations of the Safe Drinking Water Act that Fogel said jeopardized the health of thousands of customers in several communities around the county. Federal officials said it was the largest penalty ever imposed on a water utility.

The judge ordered the sale of the company's eight small water systems. Investor-owned utilities with nearby service areas are buying the largest ones.

Residents of San Jerardo are still waiting for a clean, adequate water supply, though recently a public water district moved to acquire the co-op's system and devise a plan to remedy its water supply problem with government funding.

Marc Fairman, lawyer for Alisal, said that, despite the violations cited by the federal government, the Salinas-based company "never had any kind of serious health problems with their systems."

In nearby Chualar, residents who had been paying $21 per month for water got a rude introduction to privatization two years ago, when Monterey County sold the town's water system to California-American Water Co.

A monthly charge of more than $200 prompted Rebecca Trujillo, a farmworker whose husband owns a concrete business, to call Cal-Am's customer service line in Illinois. She said she was told there must be a serious leak.

But that was not the problem — and Trujillo was not alone. Some monthly bills exceeded $500.

With approval from the California Public Utilities Commission, which regulates investor-owned water companies, Cal-Am had started assessing Chualar customers the same rates as its customers in a Carmel Valley neighborhood of million-dollar homes.

The rates were designed to encourage conservation by steeply increasing charges for households that used more water than a typical family of four. But Chualar's households often are much larger than that.

When residents protested at a PUC meeting in San Francisco, Cal-Am agreed to restore the old rates until more reasonable ones could be developed.

The residents want rates tailored to their ability to pay. "Water is very special because three-quarters of our bodies are water," said Trujillo, surrounded by relatives in her bungalow. "It is more important to bring the water than food."

State and company officials concede they were at fault.

"The whole idea of setting rates based on…. an adjacent area is pretty shaky," said Fred Curry, water branch manager at the PUC. "It was a shortcut that the commission allowed Cal-Am to get away with, but it blew up in their face."

"We were running on autopilot," said Kevin Tilden, Cal-Am vice president of external relations. "Obviously the adjacent community was not the right template."

The backlash against water companies echoes events of the early 20th century, when many communities, rebelling against perceived profiteering by private companies, formed public agencies so they could control their own water.

"If the private firms do not deliver water of the quality people are looking for and they start charging a lot, it creates anger, resentment and a desire to do something about it," said retired UCLA history professor Norris Hundley, an expert on California's water history.

Many of the recent protests followed a burst of consolidation in the water industry, with larger companies acquiring smaller ones to expand their service areas and revenues.

The companies maintain that although mergers save customers money over time, rate hikes can be necessary to pay for fixing old, neglected pipes and plants and to meet stringent new water quality rules.

Private water companies say they do a more efficient job than publicly owned utilities by employing fewer people, sometimes spreading costs across multiple service areas and often moving faster to upgrade aging facilities.

The state PUC lets them charge rates sufficient to cover operating costs and reap a potential profit of about 10% on new facilities and other capital improvements. The PUC also has permitted some companies to pass on merger costs to customers.

Residents of several communities around the state have launched takeover campaigns after privately owned water companies proposed raising rates.

That is what happened in Felton — a town in the Santa Cruz County redwoods with an eclectic population of professionals, blue collar workers and retirees — after its new water purveyor, Cal-Am, sought a rate increase of about 74% over three years.

The town's old water company had been absorbed by Cal-Am's parent, American Water Works, which in turn was acquired by German conglomerate RWE AG.

Felton residents said their rates were higher than those in neighboring areas and that water should be controlled by public agencies.

"We have to draw the line on privatization," said Jim Mosher, a Felton lawyer. "Water is not an appropriate commodity to be in private hands….

"We are on the front line of a global issue," he added.

Residents launched a ballot initiative to finance a takeover with $11 million in bonds. In July, voters approved a bond measure that could obligate each household to pay $600 to $700 a year in extra taxes for three decades, up to $21,000.

Although Felton, with about 1,300 customers, represents fewer than 1% of Cal-Am's 180,000 customers, the company fears a takeover could have a domino effect and has refused to sell.

Water companies have defeated takeover efforts on the Monterey Peninsula and in the Fresno County town of Selma.

But residents of the San Mateo County beach town of Montara, tired of chronic water shortages, bought their privately owned water system for about $11 million in 2003.

Now, Claremont in the San Gabriel Valley and Fontana in San Bernardino County are exploring ways to put water systems under public control.

For decades, communities have debated whether privately or publicly owned water companies can provide better and cheaper service.

"I think you can have well run and poorly run public or private water companies," said Peter Gleick, president of the Pacific Institute, an Oakland-based think tank that has studied the issue.

State regulators say some private companies may do a better job of upgrading infrastructure than cash-strapped public agencies do, but such expenditures spur higher rates, partly because utilities are allowed to collect a return on their capital improvements.

"The only way they make a profit is on investment," said Curry of the PUC. "What I am seeing is costs for private companies increasing faster than the cost of public ones."

Consolidations of water utilities became more attractive after 1997, when the industry won a change in state law allowing them to shift more of their purchase costs to ratepayers.

The stated goal was to encourage the absorption of struggling, small water companies.

"In my opinion, this was a misdirection," Curry said, noting that numerous small companies had been swallowed up without such incentives.

PUC records show that, although water companies have made dozens of mergers and acquisitions since 1997, there were many more in the previous decade.

Sometimes costly problems go along with mergers.

In a single year, Long Beach-based Dominguez Water Corp. bought several other utilities before it was purchased in 2000 for $62 million by San Jose-based California Water Service Group, also called Cal Water, the state's largest water company.

The company told the PUC the merger would not result in a rate increase, because the $32-million premium it paid would be offset by efficiencies.

A few years later, however, the company proposed rate hikes to cover infrastructure improvements.

The PUC's consumer advocacy division chided Cal Water for failing to properly inspect the Dominguez systems before purchase and then charging customers for repairs on an overpriced acquisition.

People in Lucerne, a Lake County community of about 3,000 previously served by Dominguez, were shocked when Cal Water proposed a 246% rate increase for this year to help pay for a new treatment plant and storage tank and replacement of pipelines dating to the 1920s.

Hundreds packed the local senior center and decided to look into a takeover. In a survey, many residents said the rate increase would cause them to dig wells, move or cut back on food and medicine.

Cal Water Vice President Stan Ferraro said the system would have needed major improvements whether the company had bought it or not.

"Here comes a larger company and does the responsible thing, and the question is: How do they get paid in rates?" Ferraro said. "It is a tough issue, and one the state should look at throughout the state. Affordability is important."

The company is seeking a state loan to build the treatment plant and help avert a major rate increase.

Former PUC commissioner Henry Duque, who consults for Cal-Am and Cal Water, said companies may be partly to blame for the spate of consumer takeover campaigns.

Utilities sometimes alarm ratepayers by proposing excessively high rates as a strategy for gaining PUC approval, Duque said.

"If you're a utility, you have to know regulators are going to cut you back, so you come in high," he said.

He also said utilities fail to educate the public adequately about reasons for increases. "I keep telling water companies, 'You need to get across to customers that you are not jacking up rates 18% to make 18% more' " profit, Duque said.

As fights over rates continue, privatization is expanding. Some companies are contracting to run municipal systems, including two in Stockton that have a controversial 20-year, $600-million deal.

In other cases, they contract to provide such services as billing, testing or maintenance to government-owned systems.

The debate over privatization has focused attention on the affordability of an essential commodity.

"We are beginning to see water bills approach the same levels as energy bills, and the needs of low-income households for water are at least as much as they are for energy," said Curry of the PUC.

"So we are trying to develop [a statewide] low-income program to see their needs are satisfied."

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(INFOBOX BELOW)

Water company campaign spending

California's 10 largest investor-owned water utilities spent more than $1 million from 2000 through 2005 on state and local political races and ballot initiatives.

Company	**Contributions**
California-American Water Co.	$491,064
Golden State Water*	157,353
San Jose Water	102,050
San Gabriel Valley Water	99,530
Suburban Water	73,816
California Water Service	72,486
Valencia Water	26,978
Great Oaks Water	23,116
Park Water	12,224
Apple Valley Ranchos	0
Total	**$1,058,617**

Compiled by Times researcher Maloy Moore.

Numbers include donations to political action committees and to campaign funds for candidates for governor, Assembly, state Senate and local offices.

*Formerly Southern California Water

Source: California Secretary of State

Los Angeles Times

SLV Water District Agrees to Purchase Malosky Creek Lands

Deal Will Aid Sempervirens Funding Search for Lompico Watershed

by Michael Thomas

The San Lorenzo Valley Water District has penned a deal with the Sempervirens Fund to purchase the 188-acre Malosky Creek lands for $1.75 million. The tract has long been threatened by logging proposals from Robert Burch's Redwood Empire. It also connects hundreds of acres of property — the parcels on either side of the Malosky Creek lands are already owned by the Water District.

As a result of the sale, the property will be permanently protected from logging.

"It's the last major property outside the District's holdings that supplies water to the District," said SLVWD Manager Jim Mueller.

Malosky Creek itself doesn't supply water to SLVWD's 17,000 customers. However, another stream on the property, Cool Creek, flows into Foreman Creek, from which the District derives a substantial portion of its supply.

The tract consists of eight separate parcels, most of which is pristine second-growth redwood and Douglas fir.

"It's a piece that we've been looking at for a long time," said District Board Member Jim Rapoza. "Part of our transmission line goes across that. It hits four of the parcels."

The land deal also continues the shuffle of funds and land back and forth between the two agencies. In 2000, Sempervirens raised $10.3 million to purchase the Waterman Gap property from the Water District. Now the District will take out a loan to purchase the Malosky Creek lands and use interest earned from the Waterman Gap savings to pay it off.

Deadline Looms for Lompico Headwaters

For Sempervirens, the agreement is a big leap toward their goal of raising $5.8 million by June 15 to purchase the Malosky Creek lands and another 425 acres that form the headwaters of Lompico Creek.

According to Sempervirens Executive Director Brian Steen, the grassroots fundraising campaign has raised about $275,000 so far with contributions from 1,100 individuals. That leaves the Fund still looking for about $3.8 million by June 15.

However, Steen holds little doubt that he'll meet the deadline for the option to purchase the two Redwood Empire properties.

"We are going to take out a short-term loan," Steen said. "It's going to work just fine. We'll bring in the large donors toward the end of the year. That's the way it has worked in the past."

To purchase the Waterman Gap property from SLVWD, they used a $10 million loan and then paid it off in three years.

To hedge its bet, Sempervirens is also seeking funds from California. The Fund has applied for $2.8 million in State grants from Proposition 40, which is aimed at preserving the state's watershed and thus protecting California's water supplies.

Malosky Creek Once Threatened by Helicopter Logging

The State Supreme Court is currently deliberating a case that will decide whether Santa Cruz County can regulate logging through zoning and whether the County can place restrictions on methods such as helicopter logging.

Logging plans for Malosky Creek played a key role in spurring the County Board of Supervisors to pass ordinances restricting helicopter logging.

In 1997, the California Department of Forestry approved Robert Burch's plan to log most of the property, using helicopters to extract timber from the steepest regions and land the logs at another location. Residents were outraged at the prospect of helicopters dangling multi-ton logs over their homes en route to the landing zone.

The County halted the Malosky Creek harvest plan. Two years later, in 1999, the Board of Supervisors passed an ordinance prohibiting the use of helicopters to move timber between non-adjoining properties.

Now those ordinances are threatened by a Supreme Court ruling due back in the coming weeks. While Malosky Creek will be protected into the future, the ruling could affect half the timber lands in the County.

Malosky Creek Sale Comes with Guarantee

The Malosky Creek sale agreement includes a guarantee that no commercial logging will ever be conducted on the property. According to Mueller, the District has a watershed policy that prohibits logging on District-owned property. However, that policy could be reversed by a simple vote of the Board, so the stipulation in the Sempervirens purchase agreement gives the land additional protection above that afforded to other properties owned by SLVWD.

According to Mueller, the District earns enough interest from the Waterman Gap savings to cover payments on the $1.75 million purchase cost for Malosky Creek. After netting $10.3 million from the Waterman Gap sale, the funds grew to as much as $11.5 million. About

$725,000 of that has been spent on relocating and remodeling the District offices, a process that is still underway.

Mueller said that about $11 million remains in savings from the Waterman Gap deal.

Though officials say the wooded gorges of the Malosky Creek lands are beautiful, there are no established trails and public access is not likely.

"It will probably just be off limits," Rapoza said. "It's not really a parcel that people would want to hike on."

Should the Waterman Gap sale conclude successfully, the Lompico property will likely be transferred to the Lompico County Water District. That District serves 1,500 customers mostly using water that emerges from the property.

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Dry Hole: Great Expectations For Private Water Fail to Pan Out --- Under Fire, Germany's RWE Plans to Exit U.S. Market; Global Ambitions Thwarted --- An Uprising in California Town

Wall Street Journal, June 26, 2006, Page A1
By Mike Esterl
http://online.wsj.com/article/SB115128641717890452.html

FELTON, Calif. -- To RWE AG, Germany's biggest electric company, the water business a few years ago seemed to promise a gusher of profits. Governments in the U.S. and around the globe were eager to privatize their water systems. RWE was already experienced in delivering electricity and gas to millions of homes.

But dreams of heady profits evaporated amid heated opposition in places like this town of 6,500 people, in California's coastal redwood forests. Today, RWE is in the midst of dismantling an international water empire that cost more than $10 billion to assemble and spanned more than 40 countries at its height.

Water turns out to be less like electricity than RWE hoped. It's heavy and hard to transport, making it difficult for a big company to build economies of scale. Regulation is never predictable. In the U.S., RWE found itself fighting in town referendums and state legislatures across the country, winning many battles but losing the war.

"It's a very local business," says Harry Roels, RWE's chief executive, adding that a global water company "just doesn't have outstanding advantages"

RWE is planning to divest its American Water subsidiary, the largest water company in the U.S., in an initial public offering. It is also preparing an IPO or sale of Thames Water, the largest water company in Britain, which it bought in 2000.

Other Europe-based global water companies are treading more carefully. France's Suez SA has scaled back its exposure to developing countries, and its 20-year contract to run Atlanta's water supply ended after just four years amid mutual unhappiness. Veolia Environnement SA of France, formerly part of Vivendi SA, continues to expand abroad but sold many of its U.S. businesses in recent years and still generates the lion's share of its revenue in Europe. Only about 5% of water services world-wide are estimated to be in the hands of the private sector today, unchanged from when RWE made its big moves.

The retrenchment illustrates how foreign investment can often founder on inadequate understanding of local conditions. In the U.S., for example, although some communities have long had private suppliers of water, public entities dominate. Many people see clean water as a basic right and balk when their bills go up, especially because municipally run systems often keep prices low through tax benefits and subsidies.

"People are just kind of weird with water," says Catherine Bowie, a community-relations manager for RWE's subsidiary in California.

RWE began a little more than 100 years ago as an electricity provider in Germany's Rhineland region. It grew quickly in the early 20th century by snapping up power plants and connecting them to its grid. More recently it has built up its gas business to become Germany's second-largest distributor. Based in Essen, the company has annual revenue of around $50 billion and 86,000 employees.

By the late 1990s, water was becoming a hot business around the world. Enron Corp. was among the companies that jumped in. Many cash-strapped U.S. municipalities and other governments were looking to sell assets or farm out services, and some hoped that private enterprise could do a better job upgrading old facilities and managing operations.

RWE became the world's third-largest water player -- behind the two French companies -- when it bought Thames and American Water. In its 2001 annual report, RWE hailed water as "blue gold" and called the U.S "the world's most attractive water market." RWE paid $4.6 billion for Voorhees, N.J.-based American Water -- a 36.5% premium over the company's average stock price in the 30 trading days prior to the deal -- and assumed about $3 billion in debt.

Trouble quickly emerged. The acquisition of American Water required approvals from more than a dozen states. It took 16 months -- until January 2003 -- for RWE to gain contr ol. Regulators then moved slowly to approve water price increases. And rebellious territories furnished endless headaches for management.

In Felton, south of San Francisco, RWE became embroiled in a battle with a group called FLOW, or Friends of Locally Owned Water. American Water secured ownership of Felton's water system in January 2002 when it bought the water holdings of a Connecticut company that had long controlled the asset. Eight months later, American Water, in the process of being acquired by RWE, asked the California Public Utilities Commission for approval to raise rates in Felton by 74% over three years. It noted that rates hadn't been raised since 1998 and cited the cost of infrastructure repairs.

Soon after, FLOW was formed. Members handed out literature at shops, knocked on neighbors' doors and lobbied county politicians to stir opposition to RWE. "I've had no vacation in three years. It's all I've done," says 85-year-old Frank Adamson, a retiree and F LOW member.

People in Felton complained that response times to broken water mains and the like slowed as RWE centralized operations. Accident reports from Felton were routed to a call center in Alton, Ill. Daniel Kelleher, senior vice president at American Water, says the national call center is aimed at boosting service. "It became a much more difficult project than we anticipated, and it's still a work in progress," he says. While state regulators didn't grant the entire rate increase, they decided after more than a year that American Water could raise rates 44% in Felton. Momentum grew in the community to try to take over the Felton water system and return it to public control.

Seeing its operations under attack, RWE became embroiled in Santa Cruz County politics. Mark Stone, a county supervisor, says officials from American Water's local subsidiary told him they would torpedo his election bid in 2004 if he supported a public takeover. A spokesman for the local uni t says no threat was issued but acknowledges the company sent mailings to people urging them to avoid candidates who would raise taxes to fund a takeover by the government.

Mr. Stone won the election. By then, the Board of Supervisors had set in motion a referendum calling for Felton's water system to be purchased by the community after FLOW delivered a petition with 1,300 signatures.

RWE enlisted a public-relations firm to send letters and make telephone calls against the ballot initiative. Its Californian subsidiary acknowledges giving tens of thousands of dollars to a local property owners' association that filed a legal challenge against the referendum. The association distributed a flier that depicted a burning $100 bill, arguing that a public-sector takeover would cost some Felton taxpayers more than $1,000 a year for the next 30 years. FLOW disputed that, saying water bills were cheaper in neighboring towns with public control.

At Felton's 2005 Memorial Day parade, Mr. Adamson was wheeled through town in a bathtub, throwing candy to people and accompanied by a sign: "Local Water, Local Control"

Some opponents made hay out of the fact that RWE is German. A year before the referendum, a local newspaper published a cartoon imagining what Felton would be like if RWE also owned rights to the air. "Yoo Hoo! Gootentag! Felton! Ve cut off'n your air because you didn't pay der bill!" a local worker in lederhosen announces to a room full of slumped-over and gasping inhabitants.

Mr. Adamson, a World War II veteran, says it's not about Germany. "I don't hold any grudges, but I don't want some foreign corporation controlling our water. I don't even want a large U.S. corporation controlling our water," he says.

Last July, 75% of voters in Felton favored Measure W, which proposed that the town raise $11 million in bonds to buy its water system. RWE's chief executive, Mr. Roels, says the system isn't for sale. RWE is preparing to list its entire U.S. unit, which generates more than $2 billion in annual revenue, on a U.S. stock exchange. "If people are interested in buying into their water supply, they can buy shares in American Water after the IPO," says Mr. Roels.

RWE has conducted surveys indicating that more than 90% of its U.S. customers are satisfied with the quality of service, according to Mr. Roels, who calls Felton "an exception."

Still, the company has faced similar skirmishes across the U.S. In Monterey, about an hour's drive south of Felton, RWE spent more than $300,000 to defeat a measure proposing a study of whether to buy back the water system. In Chattanooga, Tenn., where water has been in private hands since the Civil War, Mayor Ron Littlefield has approached RWE's local unit about a municipal buyout. He thinks the city can save money by combining water with municipally owned power and sewer utilities. Chattanooga's water, he says, is a "private island in the middle of a sea of public utilities."

Laurel Prussing, the mayor of Urbana, Ill., became interested in a municipal buyout after a growing number of "boil orders," when people are told they must boil their water to make it safe to drink. When she tried to investigate a boil order in February, she says she was put on hold for 25 minutes before being connected to a call center in another city. An American Water spokesman disputed that boil orders have risen in Urbana and said the company distributes special telephone numbers that mu nicipal officials can call in an emergency.

Voters in Lexington, Ky., will weigh this fall whether to try to seize RWE's unit there by eminent domain -- an idea that some in Felton are discussing too.
Private-sector ownership of water in the U.S. remains stuck at 15% to 20%. Some industry participants believe momentum will pick up as municipalities face pressure to upgrade long-neglected infrastructure. Still, "the market has grown more slowly than any of us thought possible," says Peter Cook, executive director of the National Association of Water Companies in Washington.
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Group OKs Cal Am's costs for desal plant; Water company pulled 'advocacy' money off tab

Monterey Herald – 6/22/06

By Kevin Howe, staff writer

The state Public Utility Commission's watchdog group is apparently satisfied with California American Water's claims for costs of its Coastal Water Project, especially after the water company pulled $521,245 off the tab.

The amount represents costs that the PUC's Division of Ratepayer Advocates challenged as "advocacy" rather than expenses related to engineering and planning for the company's proposed desalination plant, according to a review released this week by Ratepayer Advocates.

The group questioned the advocacy costs -- money the company spent for public relations and other efforts to gain community support for its proposal -- after Cal Am submitted a list of preconstruction costs amounting to almost $8.7 million in seeking rate increases.

Ratepayer Advocates was concerned some of the public outreach expenditures could be considered political lobbying.

Cal Am recently agreed to remove requests for reimbursement for advocacy costs, a move that appeared to satisfy officials from Ratepayer Advocates. The division reviews rate increase proposals on behalf of consumers.

"After Cal Am eliminated $521,245 in costs it stated could be interpreted as advocacy cost from its original request," the report states, the review "found no additional audit adjustment to Cal Am's requested preconstruction costs and public outreach expenses" incurred in 2005 and filed in April this year.

The review covered the period when the company started planning for its proposed desalination plant, called the Coastal Water Project, in 2004-05. The review focused on the company's recovery of $7.5 million in preconstruction costs and $1.1 million in "public outreach" programs.

The Ratepayer Advocates review stated that the division "is concerned about both the magnitude and pace of preconstruction costs incurred by Cal Am, especially given the uncertainty still surrounding the ownership structure and governance of the project."

The company estimates that its Coastal Water Project, which includes a desalination plant in Moss Landing, will cost $191 million, with preconstruction costs pegged at more than $21.3 million, according to the audit review.

To pay for it, the company would require an additional $27 million to $32 million in revenue each year, Ratepayer Advocates said, potentially doubling current rates in Monterey.

The division recommends that Cal Am not recover any of its preconstruction costs until the PUC grants the water company a Certificate of Public Convenience and Necessity.

"Overall, the audit is favorable," said Cal Am spokeswoman Catherine Bowie. "Obviously we're very happy that the DRA feels the costs we seek to recover are reasonable."

However, she said, Ratepayer Advocates' insistence that Cal Am wait for its money until the PUC certifies the project "is ultimately going to cost the ratepayers more." The company, she said, is entitled to recover interest on money invested in the project until it is reimbursed through ratepayer revenues, and delaying the project will add to that.

"It's less expensive, ultimately, to recover the costs now," Bowie said, "and it would also prevent the ratepayers from having to face sudden large increases -- rate shock"

She said the company submitted its Coastal Water Project last July and expects to see it certified by the Public Utilities Commission in July 2007, and go before the state Coastal Commission in September 2007 for a permit.

The project will be the subject of a report presented to the Monterey Peninsula Water Management District board at 7 p.m. June 29 when it meets in the Monterey Regional Water Pollution Control Agency boardroom, 5 Harris Court, Building D, in Monterey's Ryan Ranch business park

Cal Am's project is one of three proposals for a desalination plant on the Central Coast. The others include a desalination plant at Moss Landing being sought by Pajaro-Sunny Mesa Community Services District, and the Water Management District's own proposed desalination plant in Sand City.

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http://www.montereyherald.com/mld/montereyherald/news/14875409.htm

DESALINATION PROJECT:
Cal Am pre-plant expenses draw fire; Board recommends disallowing fee hike
Monterey Herald – 6/24/06
By Virginia Hennessey, staff writer

Ratepayer advocates at the Public Utilities Commission early this week commended California American Water for agreeing to swallow $521,000 in expenses it wanted customers to pay as part of the preconstruction costs for its desalination project.

The good news was short-lived for Cal Am. Further review of the report by the Division of Ratepayer Advocates shows the division is recommending the state commission disallow nearly all of the additional $1.36 million the company spent on public relations and education, costs that have been questioned as possible lobbying expenses.

It recommends the commission severely restrict Cal Am's ability to collect reimbursement for preconstruction costs in the near term.

In a blistering report issued with the audit this week, division analyst Diana Brooks admonishes Cal Am for seeking reimbursement for "unprecedented" preconstruction costs on a project that has not yet been approved, has no secured site and whose ownership and governance is in doubt.

"Authorizing reimbursement of approved preconstruction costs before a plant is placed in service is unprecedented in itself," Brook wrote in her report. "Authorizing full reimbursement of preconstruction costs before a plant is even permitted or approved is totally unwarranted. To do so would improperly shift the risk of the project to the ratepayers and remove company incentives to complete the work in a timely fashion."

The report is the ratepayer advocates' response to Cal Am's request that customers begin paying now for the project it plans to build in the near future.

The Coastal Water Project, which includes both desalination and aquifer storage and recovery in the Seaside Basin, would replace the Peninsula's use of most of the water it now pumps from the Carmel River. Cal Am has been ordered by the state to eliminate that use.

Cal Am reasons that pre-funding the project will keep its overall costs down, that raising rates gradually now will reduce rate shock once the project comes online and that current ratepayers should begin to pay for the replacement of water supplies they are using.

Mounting costs

In an e-mail Friday, Cal Am spokeswoman Catherine Bowie said Brooks' report represents one opinion and the commission will determine what charges are "fair and equitable" She said Cal Am would respond to the report on July 10.

Kevin Tilden, Cal Am vice president, defended the company's expenditures, money the company is spending on public education ranging from the company's Coastal Water Project Web site to more than 70 town hall meetings.

"I don't believe a project of this size has ever been undertaken in Monterey County," he said. Public education on the plant has "been a thorough and exhaustive process that didn't happen to be free of charge."

Brooks, however, said Cal Am failed to explain in its application why it was necessary to spend $1.1 million dollars on the cause. She also questioned more than $226,000 in "administrative costs" paid to the Sacramento firm that employs Cal Am lobbyist Meg Katzen-Brown, saying the costs could also be considered public relations expenses. Together the expenditures total $1.36 million.

Brooks said the need for the expenses was questionable, since local newspapers had thoroughly covered all aspects of the water supply situation. Most importantly, she said, Cal Am had failed to provide customers the one piece of information they care about: how the project will affect their water bills.

"The requested $1.36 million is what is left after Cal Am removed the $521,245 in advocacy costs!" Brooks wrote. "This level of expenditure exceeds $35 per customer for public education and outreach that provided no customer specific information.

"If Cal Am's intention is to garner community support for desalination," she said, "failing to assess customers' willingness to pay for desalination water is a flawed approach."

Tilden responded Friday: "I think we've been pretty clear about that. In general the rough impact on people's bills will be double."

Brooks broke it down further. Under the proposal, a Cal Am customer with a monthly bill of $31.98 today could expect his or her bill to more than double by January 2009, to $69.45 per month for the same water usage.

Brooks recommended the commission allow only $160,000 in administrative and public education costs, or $4.25 per customer.

Questionable fees

A Herald report in May 2005 detailed questionable Cal Am "public education" expenses that included payments to Katzen-Brown, meetings with local politicians and research into the backgrounds of Marc Del Piero and Nader Agha, both of whom are involved in a competing desalination project for Pajaro-Sunny Mesa Community Services District.

Invoices examined included billings by the Armanasco Public Relations Firm -- which then employed Bowie -- for a series of meetings with politicians and others regarding Cal Am-backed legislation that would have dissolved the Monterey Peninsula Water Management District, Cal Am's only local regulator.

In her e-mail Friday, Bowie defended many of the expenditures.

"The town hall meetings and educational pieces we produced -- as well as our efforts to inform leaders in the public, business and environmental sectors -- are an example of responsible corporate conduct," she said.

In her report this week, Brooks noted that Cal Am had spent $300,000 this year to fight a ballot measure that would have provided the water district funding to study a public takeover of Cal Am.

Brooks also questioned the increase in Cal Am's predicted preconstruction costs, particularly for a project that isn't permitted yet and whose ownership is in question.

Cal Am has not yet complied with the county's requirement to identify a public partner, she said. And in addition to Pajaro-Sunny Mesa's competing project, Monterey County is trying to gain support for regional governance of a larger, publicly owned plant.

Awaiting a decision

Since 2004, when Cal Am first applied for the Coastal Water Project in its general rate case, Brooks said, projected preconstruction costs have grown from $15.2 million to more than $21.3 million.

"Cal Am should not expect ratepayers to pick up the tab for its carte blanche spending on these costs," Brooks wrote in the report.

Tilden and Bowie said the reimbursement Cal Am is seeking is justified by the size and scope of the project.

"I would say we've ridden the line very carefully on what's prudent and what isn't," Tilden said, adding that Cal Am has opted not to sign a lease on a site now to save ratepayers money.

"Some of our costs are high because, in the end, this is a large project that solves a serious problem for the community that's going to be around for years and years," he said.

In the end, Tilden said, the Public Utilities Commission will determine which expenses were justified.

"The role of the (Division of Ratepayer Advocates) is to review our stuff and give an opinion," he said. "And the role of the PUC is to really determine what the facts are."

Peninsula residents will also get a chance to weigh in on the issue. The commission plans to hold a public participation hearing on the issue of Cal Am's request for preconstruction rate relief in mid-July.#
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Report: Desal plants too costly; Environment, pricing make freshwater production prohibitive
Monterey Herald – 6/28/06
By Andre Briscoe, staff writer

California's water needs may have to be met using desalination plants in the future, but building and operating them now would be costly and would adversely impact the environment, said a report released by an independent research organization.

Oakland-based Pacific Institute concluded that construction of more than 20 proposed seawater desalination plants proposed throughout California, including several in Monterey County, would be "premature."

The group's yearlong study concluded that although desalination costs have fallen in recent years, it remains an expensive way to provide water.

Seawater desalination plants are used in some of the world's arid areas. Many plants are not only expensive to operate, but poorly designed, said the report.

Costs may vary, but the process requires an enormous amount of energy, the report said. Fluctuations in energy prices may increase costs in the future. The process can harm the environment when chemicals used in extracting heavy salts get dumped into the ocean. Institute officials said more forethought is needed before the projects get under way.

"Our communities cannot be rushed into desalination projects. The economic, environmental and social costs of desalination are too high," said Heather Cooley, lead author of the report and research assistant in the institute's Water Sustainability program.

"Local, state, and national laws do not sufficiently protect our communities from costly mistakes."

Current seawater desalination guidelines are not acceptable ,said the report's authors.

"Desalination will be part of California's water future, but the future's not here yet," said Peter Gleick, president of the Pacific Institute.

"Most California communities can find additional water, quicker and for less money, by improving efficiency and management."

The report looked at nine proposed desalination plants in Central California, including five in Monterey County. The report's findings have major implications for a least two county desalination projects.

One project, a 92,000-square-foot condominium-retail project along Cannery Row, was denied by the California Coastal Commission because Cannery Row Marketplace LLC , the project's developer, was proposing private ownership of the desalination plant.

Pajaro-Sunny Mesa Community Services District and California American Water are looking to build reverse-osmosis desalination plants in the Moss Landing area.

The project's opponents say they are concerned about contamination of nearby water if the desalination plants are built.

"There are environmental implications," Ian Hart, the institute's director of communications, said. "Marine life could be sucked into the screens along with fish and their eggs."

A representative for one of the local projects acknowledged the institute's concerns, but said high costs are a natural consequence to providing clean water to a rapidly-growing area that is quickly running out of supply.

"Energy costs and water conservation are major considerations, but that is a price that has to be paid," said Marc Del Piero, general counsel for Pajaro-Sunny Mesa. "Once all options have been exhausted, the only option left is to build a desalination plant for Monterey Peninsula residents and residents in northern Monterey County." #
http://www.montereyherald.com/mld/montereyherald/news/14919061.htm