

QUESTIONS POSED BY BOB BROWER ON 14 APRIL 2011 AND ANSWERED WITHIN HOURS ON THE SAME DAY BY RON WEITZMAN

As Chairman of the Monterey Peninsula Water Management District, Brower required answers to these questions as part of the information he demanded before he would schedule a public workshop on the Water Plus proposal that the District purchase Cal Am.

(The questions are presented as Brower posed them. The answers are in capital letters. Part of the answers is in red and part in blue. The red part was provided on 14 April. The blue part was added on 8 July.)

1. A few weeks ago, WaterPlus was advocating for the demise of the Water Management District. Today, you are suggesting our agency vastly expand its powers. Why the change of heart? **OUR MISSION IS TO PERSUADE OR CREATE A PUBLIC AGENCY TO PURCHASE CAL AM. PERSUADE HAS ALWAYS COME BEFORE CREATE. YOUR INTEREST IN A WORKSHOP MADE US BELIEVE THAT YOU WERE OPEN TO PERSUASION.**
2. In just in the few months since you have resurfaced this proposal, the price you cite for purchasing Cal Am has gone from \$49 million to \$102 million. Why the change? And should we expect your estimates will continue to increase over time? In fact, isn't Cal Am's rate base at the end of 2010, per their rate case filing, already over \$111 million? **READ THE PROPOSAL CAREFULLY. THE ANSWER IS IN THERE: \$49.2 MILLION IS SHAREHOLDER EQUITY; THE REMAINDER IS DEBT, ALREADY BEING PAID BY RATEPAYERS. OUR PROPOSAL PERTAINS TO 2009 DATA.**
3. On point four of your proposal you say that Cal Am hasn't made a profit for its shareholders in years, but in every other point you assume Cal Am is paying its shareholders a high return on investment no matter what. Isn't it true that Cal Am is only guaranteed the opportunity to earn a profit – that the profits themselves are not guaranteed – and doesn't that undermine the basis of many of your calculations? **CAL AM IS AUHORIZED TO PAY ITS SHAREHOLDERS A 10.2% RETURN ON THEIR INVESTMENT. THE CPUC ALLOWS CAL AM TO CHARGE RATEPAYERS**

ENOUGH TO DO SO, BUT BECAUSE OF MISMANAGEMENT IT HAS NOT DONE SO IN YEARS.

4. Point six of your proposal contains a chart, each line of which raises questions. Most importantly, you assume the cost of purchasing Cal Am will be equivalent to rate base. The DRA went on record recently to state that the book value of Cal Am, or its rate base, is no where near what its value as a company would be. Then, at a forum at the City of Monterey, in which you declined to participate, Cal Am and experts went over many case studies showing water systems almost always sell for multiples of this rate base. Why do you continue to use this figure after it has been discredited – not only by the DRA, but by independent accountants and by the facts of what has occurred in other condemnation efforts? Indeed, it is discredited by my own experience as a business man and knowing that the fair market value of my business is far beyond its book value. **THE ANSWER IS IN THE PROPOSAL: AFTER TAKING OVER THEIR DEBT, WHY WOULD YOU WANT TO PAY SHAREHOLDERS MORE THAN THEIR EQUITY FOR A FAILING COMPANY? OUR 2005-2006 APPRAISAL CONFIRMS THE VALUE OF \$49.2 MILLION FOR SHAREHOLDER EQUITY.**

5. Again, in point six you say the MPWMD user fee would go away under public ownership. The user fee pays for environmental mitigation work that is required by the state. Do you assert the state would no longer require these environmental protections? **SURELY, AS A BUSINESSMAN, YOU KNOW THAT THE CONSOLIDATION OF TWO BUSINESSES (CAL AM AND MPWMD) INTO ONE RESULTS IN SAVINGS, WHICH CAN MORE THAN SUPPORT THE MITIGATION WORK, ESPECIALLY AFTER A NEW WATER SOURCE REPLACES THE OVERDRAFT FROM THE CARMEL RIVER.**

(In the footnote you state the cost would be cancelled out because the public would be paying for only one general manager's salary vs. two. Have you really analyzed how staffing needs would change if MPWMD condemned Cal Am? For example, Cal Am customers now pay a percentage of the cost to man a 24-7 customer service center in Illinois. If customers here have come to expect 24 hour a day service, what would the cost be to produce that locally and with government employees? Similarly, the costs of Cal Am's billing department, water quality testing and even engineering expertise is spread among customers in many areas. If we had to reproduce all of those functions locally and build those departments from scratch, what would the cost

to customers be? **TO ESTIMATE THAT COST, WE USE THE SALVATION ARMY FOR A MODEL, AS PETER DRUCKER DOES.**

6. The MPWMD has a credit line of x million. The Water Purchase agreement requires Cal Am to put up an 8 million line of credit, a 12 million letter of credit, 17.5 million of sub-debt. You say the District will just assume Cal Am's role in the agreement but what happens to the agreement and the price of water it is based on if the district can not replicate these commitments? **THE DISTRICT WOULD GET THAT MONEY FROM THE SAME PLACE CAL AM DOES: THE RATEPAYERS. WHERE ELSE? CAL AM WOULD HAVE TO BORROW THAT MONEY FIRST, OF COURSE, AS WOULD THE DISTRICT, VERY LIKELY AT A MUCH LOWER RATE OF INTEREST THAN CAL AM'S DISMAL BBB CREDIT RATING WOULD ENABLE IT TO GET.**

7. It seems to me your primary argument is that the public should take over Cal Am because desal is going to be expensive and that somehow taking over Cal Am would result in cheaper water bills. All of this is calculated according to your assumption that Cal Am can be purchased for its book value, which has already been proven false. But even if you were right about that, in order to believe your claim, we would have to believe that buying Cal Am would result in savings larger than its purchase price, which is also an incredible claim. So if you cannot reasonably demonstrate that it would cost the people less money to fix San Clemente Dam, build a desal plant and buy Cal Am than it would just to fix the dam and build the desal, then what benefit are you trying to sell us? **YOUR ASSUMPTION IS INCORRECT. CHERRY-PICKED SALES EXAMPLES PROVIDED BY CAL AM PROVE NOTHING. THEY DON'T INDICATE WHETHER THE PURCHASE WAS VIA NEGOTIATION OR CONDEMNATION. THEY DON'T INDICATE THE CREDIT RATINGS OF THE COMPANIES INVOLVED. THEY DON'T SHOW WHETHER THE COMPANIES HAD FAILED TO MAKE A RETURN TO THEIR INVESTORS IN THE YEARS PRECEDING THE PURCHASE. WE CANNOT TELL IF THEY ARE THE COMPLETE LIST OF COMPANIES. MOST IMPORTANTLY, THE DATA DO NOT PERTAIN TO THE PARTICULAR INSTANCE OF CAL AM. OUR APPRAISAL, MADE PROFESSIONALLY BY A REPUTABLE FIRM, APPLIES SPECIFICALLY TO CAL AM. DO YOU HAVE A PROFESSIONAL APPRAISAL OF CAL AM THAT CONFLICTS WITH OURS?**

8. I asked Cal Am about their average water bill. Apparently, \$38 is the average – not the median. Unless you have access to their customer records, which I assume you don't

because it would be illegal if you did, what basis are you using to contradict this figure? Are you also aware that there are many areas in California where the average water bill is 50 if not 75 dollars or more? **AS EXPLAINED IN THE PROPOSAL, THE ANNUAL AVERAGE (THE ARITHMETIC MEAN) IS THE TOTAL REVENUE (\$43,294,100) DIVIDED BY THE NUMBER OF CUSTOMERS (40,000); THE MONTHLY AVERAGE IS THIS VALUE DIVIDED BY 12: \$90.20. THE RATE DISTRIBUTION IS SKEWED FAR TO THE RIGHT, WITH THE MEDIAN MUCH LOWER THAN THE MEAN. PUBLIC RELATIONS PEOPLE PARTICULARLY USE THE TERM “AVERAGE” LOOSELY AND ADVANTAGEOUSLY TO REFER TO EITHER THE MEAN, THE MEDIAN, OR THE MODE. THE THREE ARE THE SAME ONLY FOR A DISTRIBUTION THAT IS SYMMETRICAL, WHICH THE RATE DISTRIBUTION IS NOT.**

9. Similarly, Cal Am says that \$38 water bill will go to \$80 once the desal is built and the dam is removed. You say the bill is going to \$336. Do you know how Cal Am came up with its \$80 figure? And why should we believe that Cal Am's rate department, who do these calculations for a living, are less qualified than you to determine rate impacts? I think Cal Am would be the first to admit its rates are complicated, so either you expect me to believe they're lying or that somehow you know more than their own rates team? Likewise, you say the dam removal project will raise the average monthly bill by \$18.37. Cal Am says this figure is \$3.34. Don't you think they take pains to ensure these figures are accurate before placing them in public notices and official filings to the CPUC? . **OUR PROPOSAL EXPLAINS WHERE OUR NUMBERS COME FROM. CAL AM DOES NOT EXPLAIN WHERE ITS NUMBERS COME FROM. THE \$336 IS WHAT THE AVERAGE \$90.20 BILL MAY BECOME, NOT WHAT A \$38 BILL MAY BECOME, AFTER NOT ONLY THE DESALINATION PLANT IS BUILT BUT ALSO AFTER OTHER PROJECTS CURRENTLY PROPOSED BY CAL AM COME TO FRUITION. THE DATA WE USE COME FROM THE DIVISION OF RATEPAYER ADVOCATES OF THE CPUC, NOT FROM CAL AM'S EXTERNAL AFFAIRS (PUBLIC RELATIONS) DEPARTMENT, APPARENTLY THE SOURCE OF YOUR DATA.**
10. I believe LAFCO told you it would be at least \$50,000, initially, to get your proposal on the ballot. After that, they said you would be responsible for other costs, such as an EIR. Is the prospect of having to come up with this funding a primary reason for now asking us to take the lead? And if you don't think you can raise those funds through

your supporters why do you think our constituency would approve of us spending that money on their behalf? **THAT MONEY IS TO REPLACE YOUR DISTRICT BECAUSE OF POSSIBLE ENVIRONMENTAL ISSUES THAT MIGHT ARISE FROM THE REPLACEMENT. LAFCO INFORMED US THAT THE COST WOULD BE ONLY \$10,000 TO FORM A NEW DISTRICT. IF MPWMD PURCHASED CAL AM, WE WOULD NOT NEED TO REPLACE IT OR FORM A NEW DISTRICT. WATER PLUS HAS ALWAYS KNOWN THAT IT WOULD BE MORE DIFFICULT TO FORM A NEW DISTRICT THAN FOR AN EXISTING PUBLIC AGENCY TO PURCHASE CAL AM. ONLY IF NO EXISTING PUBLIC AGENCY WILL PROCEED IN THAT DIRECTION WILL WATER PLUS TAKE OTHER ACTION TOWARD THE SAME END.**

11. The cost of appraisal and legal fees was more than \$1 million in Felton, why do you think it would be so much less here (\$400,000) in a water system 30 times the size of Felton? You claim to have an appraisal of the Cal-Am system for which you have not yet provided us. Who performed the appraisal and what was the cost. Who paid for the appraisal? **OUR ATTORNEYS, WHO HAVE DONE THIS WORK BEFORE, HAVE TOLD US THAT IT WOULD COST \$400,000. THAT INFORMATION IS IN THE PROPOSAL, AS IS THE IDENTITY OF THE FIRM THAT MADE THE APPRAISAL, BEACON VALUATION GROUP. READ THE PROPOSAL!**

12. You are essentially saying that government can run a water system more efficiently than the private sector. With all the discussion of government waste currently in the public dialogue, what makes you certain this will be the case? Presumably you'll need the same number, if not more, of employees to run the system. Do you think their salaries, pensions, healthcare and other benefits will be less under public ownership? **MARINA COAST, A PUBLICLY-OWNED UTILITY, IS MUCH MORE EFFICIENT THAN CAL AM. ITS BILLS ARE ONE-THIRTEENTH OF CAL AM'S. ITS CREDIT RATING IS AA-, NOT JUNK-BOND BBB, WHICH IS CAL AM'S CREDIT RATING. YOU DON'T HAVE TO RELY ON IDEOLOGY. THE EVIDENCE IS RIGHT IN FRONT OF YOU.**

13. Voters have 3 times rejected the idea of public ownership (Defeated 2: 1 in 1935, 3:1 in 1965 and in Measure W, by 2:1 in 2005,). The latest vote was made by many of the same people who elected us to represent them. How can we turn our backs on their demonstrated desires? **VOTERS DEFEATED MEASURE W BECAUSE OF ITS ABSURD COST. MONTEREY FLOW STUDIED THE PURCHASE ISSUE**

THOROUGHLY FOR LESS THAN A TENTH OF THAT COST. BECAUSE I KNEW THAT THE ACTUAL COST OF THE STUDY WOULD BE MUCH, MUCH LESS THAN THE \$550,000 POISON PILL IN THE MEASURE, I WROTE THE BALLOT STATEMENT IN SUPPORT OF IT. MONTEREY FLOW HAD REQUESTED A DIRECT VOTE FOR OR AGAINST THE DISTRICT'S PURCHASE OF CAL AM, NOT FOR AN ABSURDELY EXPENSIVE STUDY OF IT. DIFFERENT FROM DECADES AGO, RATEPAYERS NOW FACE STEEPLY RISING AND DEBILITATING COSTS BEYOND THEIR CONTROL. THE NEED TO CONTROL THESE COSTS IS THE REASON THAT THE DISTRICT SHOULD NOW PURCHASE CAL AM. HOW ELSE WOULD YOU PROPOSE TO CONTROL THEM?