

Like Water for Profits

Felton residents to contest water rate increase at upcoming public hearing

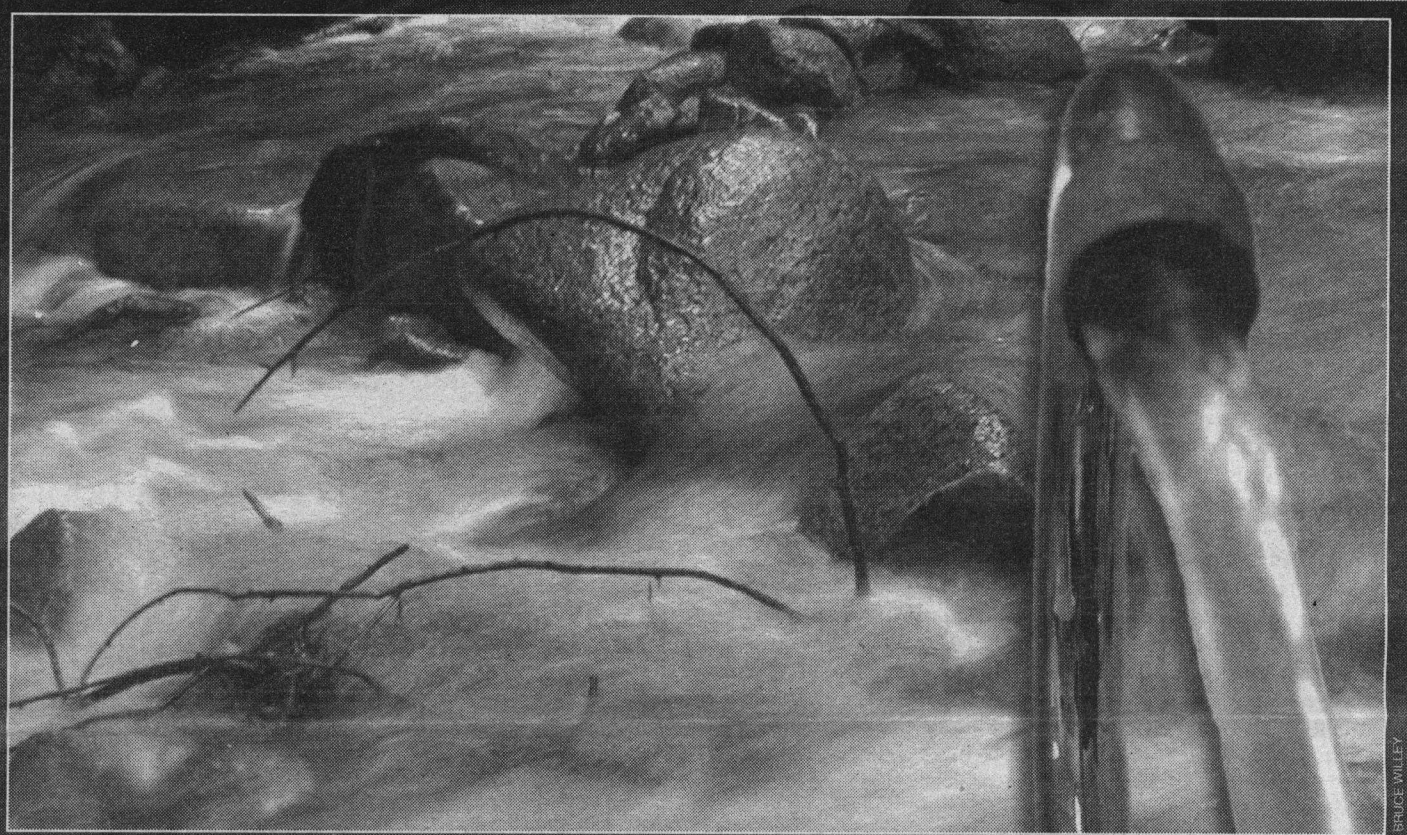
by Laurel Chesky

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—Gene Martin, FLOW



TROUBLED WATERS Cal-Am draws water from Fall Creek to service its Felton customers.

In a time when big corporations are going belly up, small businesses are struggling to survive, and the rest of us just hope we can make the rent each month, one company seeks to jack up its revenue by 50 percent. And, one way or another, the residents of Felton will foot the bill.

In September, California-American Water Company (Cal-Am) asked the California Public Utilities Commission (CPUC) to approve a rate hike in its Felton service area, amounting to a revenue increase of 57 percent this year, and another 9 and 2 percent increase in 2004 and 2005, respectively. The company delivers water to 1,350 customers in the Felton area.

Those residents will get an opportunity to give the CPUC a piece of their collective mind at two Jan. 29 hearings, taking place at the Felton Community Hall at 2 p.m. and 7 p.m. The hearings precede a formal evidentiary hearing scheduled for March, after which an administrative law judge will make a recommendation to the CPUC. The company cannot raise rates without the agency’s approval.

The Santa Cruz County Board of Supervisors and a group of Felton ratepayers, organized under the name FLOW (Friends of Locally Owned Water), are formally contesting the rate hike, and more than 1,200 citizens have signed a petition protesting the increase. FLOW

also hopes to force Cal-Am to sell the water system to the people of Felton.

Cal-Am, a subsidiary of America Water Works Company, Inc., the largest publicly traded utility in the country, delivers water to 10 communities in California. However, it seeks to raise rates in just four areas: Montara in San Mateo County, Larkfield in Marin County, a portion of Sacramento, and Felton. In Felton, the proposed increase would raise residential rates by 4 percent, institutional users would pay 51 percent more, and fire suppression users’ rates, including the volunteer fire district, would jump by 82 percent. Institutional users affected by the proposed hike include three schools and the teen center.

“The revenues are basically all paid by Felton folks, one way or another,” says county Supervisor Jeff Almquist, who represents the San Lorenzo Valley and is leading the charge to protest the rate hike. Almquist is particularly concerned about how the rate increase would affect Felton schools. The San Lorenzo Valley Unified Schools, he says, already faces a \$2 million deficit, and is considering laying off teachers and closing schools.

Money for Nothing

In Cal-Am’s rate increase application, the company argues that rates have “with the passage of time, become unjustly and unreasonably low,” and only reflect increased costs of water service. The com-

pany wants to bring Felton rates in line with its Monterey service area.

However, the company is not hurting. American Water Works reported a 10.9 percent profit margin in 2000. And Felton residential rate payers already pay about 60 percent more than the rest of the San Lorenzo Valley.

Critics contend that it’s unfair to inflate rates to match Monterey, where rates should be higher because the area is shackled by a water crisis, and Cal-Am has poured money into pursuing an unpopular new dam on the Carmel River. Now that the dam appears to be politically dead in the water, Cal-Am will likely have to finance new water sources, such as a desalination plant.

On the other hand, the San Lorenzo watershed—Felton’s water is drawn from Fall Creek—enjoys a rare abundance of water. Felton ratepayers, critics say, should not have to finance Monterey’s problems. “Why should the people of Felton have to pay for their (Cal-Am’s) mistakes in Monterey?” says Scott Millar, an aide to Almquist.

World Wide Water

As if a rate increase in the middle of an economic downturn weren’t painful enough, Cal-Am’s pursuit of higher revenues comes on the heels of American Water Works’ announcement to merge with RWE Aktiengesellschaft, a German multinational conglomerate. And the

timing of the proposed increase has many speculating that the rate has little to do with "rate equalization," as Cal-Am claims, and more to do with making the company look better on paper.

"They're just really gouging the customers and raising the costs of water astronomically since it's been taken over by Cal-Am," says Gene Martin, a Felton ratepayer and member of FLOW. "Now they want to raise the rates to get a bump in value before they sell it to the next company."

RWE is Germany's largest electricity supplier and owns a stake in 500 companies, including ventures in oil, mining and construction. American Water Works struck a deal to sell to RWE for \$7.6 billion. The CPUC approved the sale in California last month. However, state PUC's in 21 other states must also approve the sale.

RWE is poised to buy the water company for millions of dollars more than the water company is worth on the stock market. Under CPUC regulations, a utility company cannot recover premiums (the difference between market price and purchase price paid for an asset) from the ratepayers. However, by hiking up rates now, Cal-Am's assets look all the more attractive to its prospective buyer.

In other words, if the sale happens, RWE and American Water Works stockholders win, while Felton water users lose. Meanwhile, residents are concerned that they face poorer service from an owner based farther and farther away from little Felton.

Back Splash

Thus a movement is underfoot by the citizens of Felton to reclaim their water. In the rest of the San Lorenzo Valley, water is delivered by the San Lorenzo Valley Water District, a public entity managed by an elected board of directors. When the district formed in 1941, Felton chose not to join and to continue having its water delivered by a private company. Now Felton residents have changed their minds. Residents have asked the water district to take over Felton's water system, by force if necessary.

"We want to see the San Lorenzo Valley Water District condemn—or whatever they have to do—to take over the Felton water district," Martin says. "The prices are just going up with private ownerships of water companies."

Such a hostile take over would be two-fold: First, the water district would have to get approval from the Local Agency Formation Commission (LAFCO) to expand into Felton. Next, the district would have to convince a judge that it's justified in wielding its power of eminent domain. If the judge agrees and allows the district to take over Cal-Am's assets, the district would have to pay the company a fair market price. Initial estimates range from \$4-9 million for Felton's water system.

The water district is taking steps towards a condemnation. It has hired a consultant to estimate the costs or possible cost savings to the district of making such a move.

"The district's position is that we're not in the acquisition business," says Jim Mueller, general manager of the San Lorenzo Valley Water District. "However, if we can assist the citizens of Felton, if they desire to have ownership of their water system held by a locally elected body, we are happy to help them."

Mueller says the district is expecting a report on the fiscal feasibility of swallowing Felton's system by mid-February. He also says the district is poised to formally apply to LAFCO to expand its service area within the next month.

But with Cal-Am's rate increase already moving through the gamut of red tape, Felton residents are in a race against the clock. Once the rate increase is approved, ratepayers will have to shell out more money to reclaim their water system from an international mega-corporation.

"Practically speaking, it's not an important asset to them (RWE and Cal-Am)," Almquist says. "It's obviously important to the people of Felton."

The California Public Utilities Commission holds hearings concerning the Felton water rate increase at 2 p.m. and 7 p.m. on Jan. 29, at the Felton Community Hall, 6191 Hwy. 9, Felton.