BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

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Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates.	A.12-04-019 (Filed April 23, 2012)

RESPONSE BY WATER PLUS TO SETTLING PARTIES' MOTION TO BIFURCATE PROCEEDING

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I. INTRODUCTION

In accordance with Rule 11.1(e) of the Commission's Rules of Practice and Procedure, Water Plus supports the Settling Parties' Motion to Bifurcate Proceeding ("Motion to Bifurcate") in part and objects to it in part. The motion is to divide the proceeding for A.12-04-019 into two, one proceeding to deal with desalination as a sole source of new water and the other with groundwater replenishment ("GWR") as a source complementary to desalination in a so-called "portfolio" option. This bifurcation would require the Commission to make a decision, called The GWR Decision, determining whether GWR is to be included in the project. Water Plus supports the motion to the extent just described, but the motion goes further to specify the amounts of desalinated and GWR water that the project would supply in each of the two instances: 10,500 acre-feet per year of desalinated water alone versus 7,000 acre-feet of desalinated plus 3,500 acre-feet of GWR water, the second option also allowing for a mix of 7,500 acre-feet of desalinated and 3,000 acre-feet of GWR water. It is this specification to which Water Plus objects. Instead, for reasons indicated below, Water Plus requests the Commission to approve either of two options: 10,500 acre-feet per year of desalinated water versus 10,500 acre-feet per year of GWR water. Water Plus does not dispute the criteria the motion proposes for the Commission to use in making its decision. In other words, Water Plus requests that in making The GWR Decision, based on whatever criteria the Commission chooses, the Commission approve the use of either desalination alone or GWR alone to supply the 10,500 acre-feet per year of new water needed for the Monterey Peninsula.

Water Plus is a Monterey Peninsula ratepayer advocacy group registered with the California Secretary of State. It is also a 501(c)4 non-profit public-benefit organization and a

party to this proceeding. It is among the three parties that did not sign the Settlement Agreement.

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II. NEITHER OPTION MEETS ALL OF THE ALJ'S CRITERIA

On April 1, 2013, ALJ Gary Weatherford modified the Scope of A.12-04-019 to be as follows: "Is the proposed Monterey Peninsula Water Supply Project required for public convenience and necessity and a reasonable and prudent means of securing an adequate, reliable and cost-effective water supply that meets Cal-Am's legal requirements for the Monterey District; and would the granting of the application be in the public interest?" In addition to being legal, the new water supply must be adequate, reliable, and cost-effective. Neither option, because of production-capacity caps or private ownership, meets the first and third of these criteria, and the portfolio option also fails to meet the second, as the following sections will show.

III. THE PROPOSED WATER SUPPLY MEETS LESS THAN NORMAL DEMAND

By means of production-capacity caps on both desalination and GWR, the Settlement Agreement underlying the Motion to Bifurcate restricts the total new water supply to 10,500 acre-feet per year, including about 500 acre-feet to accommodate lots of record and future heightened commercial activity. Combined with water legally drawn from the Carmel River and other sources, that would provide Monterey Peninsula ratepayers a total of about 15,000 acre-feet per year. The average residential usage in the United States is about .336 acre-feet per year per household. That means that the normal usage of the 34,000 households on the Monterey Peninsula would be 11,500 acre-feet. Since about 48 percent of our total water usage is non-household and we are currently using a total of about 12,000 acre-feet per year, our total water need could be as high as 11,500 + .48 X 12,000 + 500, or over 17,500 acre-feet per year,

consistent with past usage. That is 2,500 acre-feet per year greater than the 15,000 planned for in the Settlement Agreement. The implication is that sufficient demand could justify the supply of 17,500 acre-feet per year to the Monterey Peninsula. That is important because, when supply matches demand, the greater the supply via desalination or GWR, the lower the unit cost of water to ratepayers.

IV. THE PROPOSED PORTFOLIO OPTION IS UNRELIABLE

A major argument used to support the portfolio option is that it would be more reliable than the desalination-only option because if either desalination or GWR were to fail the ratepayers would have the other to rely upon. That would be true only if either alone could supply the total amount of the needed new water if the other failed, but the portfolio option proposed in the Settlement Agreement and the Motion to Bifurcate restricts each water source to only a fraction of that amount. Lifting this restriction so that each water source by itself could produce the full amount needed to meet local demand would be an undesirable remedy to this problem because it might compel both water suppliers to sell their water at a loss while putting upward pressure on growth. A portfolio option cannot be reliable without these unfortunate consequences.

V. THE PROPOSED PORTFOLIO OPTION IS NOT COST-EFFECTIVE

A study conducted by SPI for the Monterey Peninsula Regional Water Authority showed that desalination plus GWR could cost ratepayers over $1,000 more per acre-foot than desalination alone when used to produce the new water needed for the Monterey Peninsula. With that study in mind, the signatories to the Settlement Agreement proposed the Commissioners add a premium to the cost of desalination alone in comparing its cost to the cost of desalination plus GWR. The reasons they suggested such a premium are that GWR might have s smaller carbon

footprint and come online sooner than desalination, among others, which together they called "extraneous" considerations (extraneous to actual costs). They failed to specify such considerations favoring desalination alone over the portfolio, such as the existence of some 14,000 desalination plants versus only a handful of GWR plants worldwide. .An even more serious omission is their failure to provide a formula for converting these subjective reasons into dollars to enable an objective side-by-side comparison. Such a formula would likely lead to a premium favoring a choice opposite to the one they were championing. Here is an example. A difference in cost of $1,000 per acre-foot favoring desalination alone would (for10500 acre-feet per year) amount to $10.5 million per year and $315 million over a 30-year loan-amortization period. That amount could cover the cost of such environmentally-beneficial projects as the provision of solar energy to power the desalination plant and the construction of a storage facility for winter sewer water so that farmers could use it in the summer, with hundreds of millions of dollars left over.. Consisting of two small and costly boutique operations, the portfolio option proposed in the Settlement Agreement and the Motion to Bifurcate is not nearly so cost-effective as desalination alone or likely, for corresponding economies of scale, GWR alone.

VI THE PROPOSED DESALINATION-ONLY OPTION IS NOT COST-EFFECTIVE

Though more cost-effective than the portfolio option, desalination alone as proposed in the Settlement Agreement and the Motion to Bifurcate is not in itself cost-effective. That is because of the ownership of the desalination plant and appurtenant facilities. As a private owner, Cal Am could charge ratepayers hundreds of millions of dollars more over a 30-year loan-amortization period than a public-agency owner would. In a worst-case scenario, with 8.5 percent being Cal Am's weighted cost of capital and 3.5 percent the interest rate on municipal bonds, the

difference for a $400 million project could be $1,107 billion (at 8.5 percent) minus $647 million (at 3.5 percent), or $460 million. Such a large difference favoring public ownership makes desalination alone as proposed by the settling parties anything but cost-effective for ratepayers. Being publicly owned, GWR alone would not have this problem.

VII. BIFURCATION PROMOTES COMPETITION

According to its mission statement, the Commission is supposed to encourage competition wherever possible. While usually not possible in water conveyance, it is certainly possible in water supply, as exemplified by the competition between the desalination-alone and the portfolio options. Bifurcating the proceeding for the Commission to compare each option side by side in making its choice would be a model of encouraging competition in a realm not commonly within the Commission's purview. It would be a model that Water Plus could encourage the Commission to use both now and in the future. In fact, at the very first preconference hearing in this proceeding, Water Plus proposed that the Commission consider a number of different water-supply options in a horse race. Now, we say, let the horse race begin!

VIII. PUBLIC WATER-SUPPLY OWNERSHIP IS IN THE PUBLIC INTEREST

As just shown, public ownership of a capital-improvement like a desalination plant is highly likely to cost ratepayers considerably less than private ownership. If only for that reason, public ownership is in the public interest, but that is not the only reason. Just as the public owns the rivers and lakes that provide us water, the public should also, in the public interest, own all other sources of water, including desalination.

Water Plus was formed when the Regional Desalination Project looked as though it was going to go forward. We strongly supported that project because a public agency, the Marina Coast Water District, would own the desalination plant it produced. The only problem the formers of Water Plus had with the project is that its public owner was geographically remote and, because of that, the ratepayers on the Monterey Peninsula would be paying for a project that would be owned and controlled by people elsewhere. To have a local seat at the table of the owners and operators, we made it the focus of our new organization to create or persuade a local public agency to purchase Cal Am, which had a seat at the table. We had nothing intrinsically against private ownership of a water-conveyance company. So, when the regional project failed and Cal Am proposed to own and operate the desalination plant that Marina Coast would have owned, we changed our focus from securing public ownership of the company to securing public ownership of the desalination plant. That is the focus we have now.

For Water Plus, if Cal Am were to sell whatever desalination plant it might develop to a public agency, that would be in the public interest, especially if the sale occurred immediately upon the project's completion.

IX. CONCLUSION

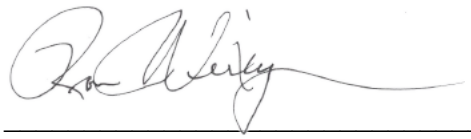
For the reasons just given, Water Plus urges the Commission to bifurcate the proceeding into a desalination-only option and a GWR-only option, each option alone capable of providing all the new water needed to meet the state's cease-and-desist order on time. If desalination-only wins this competition, we further urge the Commission to require Cal Am to offer the desalination plant for sale to a local public agency under conditions determined by the Commission.

DATED: August 22, 2013

Respectfully submitted,

WATER PLUS

By



RON WEITZMAN

PRESIDENT