Why I Recommend a 'NO' Vote on S.B. 200
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Why I recommend a "NO" vote on S.B. 200.

An appendix to minutes of Riverside Board of Public Utilities, meeting of Jan. 8, 1982, at which the Board voted 4-1 to recommend a "YES" vote. This is an explanation of the vote against SB200 by Commissioner Mason Gaffney.

Council asked the opinion of the Board on SB200, and it was given. My own opinion is that the majority vote is extremely ill-advised, and I urge the Council to review it independently. I offer fifteen reasons below, and am more than glad to expand on them or explain them at any time.

1. SB200 for a Peripheral Canal and some ancillary facilities is not a rescue or an insurance project, but an expansion project. All the pro literature presumes a larger population. Talk about the present population running short can be sifted out as alarmist hype, because expansion is clearly envisioned at several points.

New lands to be served and developed are competitive with our own. We have no right to obstruct such development, but neither have we any duty to subsidize it, and I will show that that is the effect of SB200 and the Peripheral Canal (henceforth "PC"). Subsidized MWD water facilitating avocado expansion has already ruined that market, and I offer this merely as an illustrative example of competition, not a major point in itself. New lands compete both for buyers and also for our limited air resources, beach and open space resources, etc.

Instead of insurance, PC would be used for added population to be supported by a remote water supply. This increases our risks, because remote supplies are inherently undependable. They are vulnerable to design faults and material failures (or whatever disabled San Luis Reservoir this year); to earthquakes and other natural hazards; to sabotage and enemy action; to power failures, shortages and rising costs; to subsidence and earth movements. They are subject to normal depreciation, like other works of man, and must in effect be rebuilt every generation or so.

It has been alleged that we need insurance against having to share our own cheap local rights to water with others, in case of drought. At the same time the contradictory allegation is made, that the enormous rights of Imperial, Coachella and Palo Verde are inviolate. Clearly, if there is to be any invasion of vested rights, their low-valued uses would give way before our vital domestic needs.

But our insurance lies now in the 25 million acre-feet stored underground in southern California basins, and subject to correlative rights that keep it from being dissipated on expansion.

2. Expansion is to be subsidized by present water users, in areas presently developed and served, by "rolling in" or averaging the low costs of old water with the high costs of new. This conceals the true incremental cost of new water, and supplies it well below cost to develop new lands. It does this by exploiting the users of old water, such as ourselves, in effect transferring our wealth to others.

The only firm estimate given to the Board of the cost of PC water to MWD was at $1200 per acre foot. This figure was not challenged, although an MWD representative was present who was heard from. This compares with less than $50/a.f. for the city's present supplies, and virtually nothing for extra water purchased by shareholders in the Gage Canal Co.

3. Riverside is one of the areas with low-cost local supplies fully adequate to our present population, even without serious conservation efforts, without a conservation-oriented rate structure, and without yet developing all our local supplies, some of which are on hold while we go questing after alien waters. We are essentially one of the patsies in the financing schemes, much as Los Angeles has always been, because we pay taxes at the same rate as those who depend entirely on MWD water, of which we have hardly ever taken any, and never really need to. When we do take MWD water we are now proposing to roll its high (for us) cost with our own low costs, thus delivering it to our customers well below its true incremental cost, a net loss to the city. The main prospective beneficiary consumers are to be owners and developers of speculative land at our peripheries, many of them at high elevations who are especially costly to serve, but who pay the same rates as others.

4. Basic data about our cost liabilities were not fully explored by the Board. Staff, in this case, committed itself to a frankly advocatory position, rather than an advis-ory one, "selling" the proposal rather than presenting strictly neutral engineering and financial data on which the Board might exercise its proper function of making value judgments. In the process, I am not satisfied that we took or got an objective look at our costs and liabilities relative to our benefits. Staff reporting on this was entirely oral -- I would like to have numbers on paper before we go to judgment on this.

I hasten to add that we have an excellent staff whom I support. If in this case they invaded the Board's prerogatives it was with the implied consent of the majority. I am concerned, however, that by doing so they reduce their effectiveness as staff, on whom we must all rely for neutral data.

We did hear presentations on SB200, but they dealt mainly with the grand statewide system, not with our own City's position in it.

Staff supplied the Board with the following documents for guidance.

a. "Answers to Commonly Used Arguments against the Peripheral Canal." MWD, 4-10-81.

b. "DWR Position on The Peripheral Canal and Other SB200 Facilities." DWR, 7-81.

c. "Layperson's Guide to the Peripheral Canal." Western Water Educational Foundation, n.d.

d. Letter to Mayor Brown from Martin Goldsmith, Director, MWD.

None of these is an engineering report or a financial or economic analysis. (a) is an argumentative tract, a political sales job entirely one-sided. An alarming aspect is the following on p.5: "Canal support by water district officials in such cities as . . . Riverside . . . is not motivated by giant agribusiness. Those areas . . . recognize they face critical water shortages without it." This statement is unauthorized and presumptuous. It is too much to be told we should support PC because we already do, and we should jump on the bandwagon with ourselves.

(b) is a self-serving position paper from the chief sponsoring and promotional agency, DWR. It features project benefits prominently, with only a cursory summary of costs. It is filled with childish accounting tricks calculated to understate true costs for the gullible and unwary, and consolidated accounts that conceal the answers to most interesting and important questions one might have. It has many of the qualities of an argumentative tract, refuting "misleading information distributed by others" (p.24). For a taxpayer financed organization to use public money to debate at this level with private organizations does seem to be stacking the cards for the big spenders.

(c) is from an organization committed to promoting subsidized water projects, whose financing is, so I recall, from utility firms primarily.

(d) is highly partisan and argumentative, at a low level, from a committed sponsoring organization, the MWD.

Thus the majority took its guidance from one-sided political tracts of a propaganda nature. I submit that the conclusions resulting from this should be discounted accordingly. Whether this occurred through predisposition or through carelessness, it certainly indicates a lack of full consideration.

5. The true cost of power used by SWP and PC is much higher than the nominal amounts currently paid, or the somewhat higher amounts predicted to be paid in DWR reports. The true cost is the incremental cost of expanding the state's power supply, because this is the cost that would be avoided by expanding the project power for other uses. The accounting cost is held below this by favorable contracts, currently. But this project saving is made at the expense of other utility customers, including ourselves, so it comes right back to us in higher power rates paid to Edison. One has to wonder at the objectivity of anyone who tries to obscure or fails to highlight this fairly obvious relationship.

6. MWD has a history of releasing a large part of its (hence our) entitlements to a handful of water districts in Kern County, primarily west of I-5, primarily containing land owned by a few major oil firms in which, the MWD itself concedes (Doc. (a), above) its Directors have significant interests.

7. The Directors of MWD are not elected but appointed. The result is something of an old boys' club. The average age of directors is 67; some have served 30 years. Business is conducted by committees, and seniority is a ruling factor. Voting in the 50-person Board is pro forma, with decisions well wired in advance.

But it is worse than the U.S. Congress by a good deal, because many of the member agencies are in turn constituted of member agencies which are strictly landowner-controlled, under the California Water District Act. Boards of such districts are selected with votes in proportion to land acreage or land value, rather than one-person, one-vote. One such district is the Irvine Ranch Water District, for example, with 50,000 customers and four (sic) voters (because Irvine only leases land, and doesn't sell the title.) Thus the Irvine Co., now owned by Henry Ford II and a couple of other billionaires, votes for all 50,000 in effect, and has great power in placing its man on the MWD Board, which then acts for all of us in MWD.

Studies by Merrill Goodall, published in 1958, found that the boards of landowner-controlled districts have much longer tenure than the boards that are democratically elected. This continuity leads to seniority; on the 50-person MWD board, seniority leads to control.

It happens that the Irvine case was overthrown last year, in Mitchell v. Irvine Ranch Water District, but it is the only one so far. Many other landowner-controlled districts appoint members to MWD, directly or indirectly.

The idea of the Water Districts is that land representation is ok, because they can only tax land. But MWD taxes buildings. So the MWD Board has a disproportionate representation from pure landowners like Irvine, with the power to tax other property. The result is a high propensity to tax the settled areas, with buildings, to subsidize the land speculators on the fringes, like Irvine. And this is exactly what MWD has done throughout its history. And this is exactly what it is doing now by promoting the PC, taxing us to get water to serve new lands.

8. The costs of PC start right now; the benefits are greatly deferred, first for completion of construction before going on stream, second for buildup of demand to absorb the enormous excess capacity being sized in.

Part of the final cost, therefore, is interest accumulated during the construction period. But DWR accounting does not allow for this. Now if it were "their" money we might not care, but it is ours. It is tidelands oil money earmarked for water construction; and it is advance payments by contractors (that's us) before they get any water. This money is invested without interest, and without inflationary adjustment to arrive at the cost and hence the price of project water. For this we should be grateful? We forego interest on our money for 20 years, so that in 2002 we can let water run down the gutters and use it to hose our sidewalks, and grow fruit we cannot sell in a glutted market so that movie stars can have tax shelters? This is not economy, this is compound madness.

The way DWR puts it, they have lined up power sources of which 56% are hydro. Once the plants are built, they say, the costs are unaffected by inflation. That is to say, they use constant dollar costs dating from construction dates to factor into water rates based on historical cost. This is sort of like saying that Manhattan Island is really worth only $24, and should be rented out to users for that, or its annual equivalent.

DWR claims their power costs are lower than those of PG&E because "PG&E must return a profit to its investors." Translation: DWR invests our money at zero interest. Again, "SWP does not operate at a profit." (Source (b), p.26). Wonderful! Our money, no profit, no increase for inflation, and this is supposed to prove that DWR is serving us well as they expand their engineering empire. It would be laughable if it weren't so expensive and inequitable.

Apart from the above, MWD and DWR literature is suffused and permeated with transparent rationalizations for subsidy at every turn. The cumulative effectis to tax some to enrich others, particularly the peddlers of raw land.

9. Pumping water south, and especially over the Tehachapis, consumes inordinate quantities of electric power. Electric power is the most expensive kind there is, since 2/3 of the potential energy in fuel is always lost in generation.

Currently, SWP uses about 5 billion kWh. To pump the PC increment of water, another 5 billion is required, according to DWR. This is to secure a million or less acre/feet of new water from PC.

Currently, Riverside pays 5¢/kWh for wholesale power from Edison, and this is below Edison's incremental cost because of historical roll-in pricing inadvisably mandated by PUC. But at 5¢/kWh, 5 billion kWh cost $250 millions, or $250 per acre foot. This is on top of the capital costs and all others.

But most of the $250 millions is for pumping over the Tehachapis, while half the water stops short of there, in Kern County etc. And we are billed separately for this pumping cost. DWR, so enamored of roll-in pricing in general, makes an exception here. So our cost is to be something like $400/acre foot -- I have not worked out a more exact figure, and I am not sure one can, with the fragmentary data released by DWR.

In order to understate this high energy cost, DWR uses all the tricks described in Item #8, above. Thus, it claims energy costs of 2.64¢/kWh in 1985. This is done with mirrors and subsidies, and has no credibility whatsoever. If there really were power floating around at that rate, and they are taking it away from us when we will be paying 7¢ or 10¢ by 1985, they are not doing us any favor.

Some pumping is done with what used to be called "dump power" at offpeak hours. This looks like a genuine economy which may hold costs down. In order to achieve this, however, it is necessary to build extra capacity into pumping plants and lines, build extra reservoir space, etc. Thus the system wastes capital in its facilities in order to save capital in generation, and it is not clear that there is a net gain.

And there really is no such thing as "dump" power any more, because fuel costs have risen to become such a high percentage of power costs, as we all note every month when we pay the fuel surcharge (which only covers part of fuel costs.) The relative advantage of night pumping is not what it used to be, and I will bet $100 that DWR has figured its power costs based on an older relationship that overstates the advantage of offpeak use. I have not checked this, I just base this on their consistent record of using every trick to understate real costs.

10. There is some feeling that PC is necessary to continued "growth", and that this is good. But what is the effect on growth of preempting energy that might be used to attract new industries? What is the effect of tying up all that capital? There is no free ride in the capital markets any longer. Capital sunk in the PC and its many ancillary facilities comes from other industries, or else it is imported at extremely high rates of interest.

11. It is very difficult to find a simple, unambiguous statement of what facilities are to be built for the various price tags cited for PC. One is led to suspect that the benefits claimed are related to the $5 billion package, or the $23 billion package, rather than the "modest" $1 billion package. MWD speakers are now trained (at public expense) to cite $1 billion, but document (a) by MWD admits to a $5 billion cost estimate for SB200 by year 2000 (4-10-81, p.10).

Faced with such lack of clarity and candor, a reasonable man might get suspicious. The PC is something like an 8-lane section on a 2-lane highway. Can it be that when it is half done we will hear "Oh, yes, one thing I forgot to tell you, we do need another billion or so to make it work." This is a routine promotional device used by ambitious government agencies, and there is nothing to suggest that DWR is above using it. In fact the PC itself is one of those things they forgot to tell us back in 1960, when a bond issue of $1.75 billions was going to solve our state water problem.

What we must demand from DWR is a specific statement, without hedging, of precisely what benefits will result from what package of facilities at what cost. Even then we will have difficulty holding anyone accountable for mistakes, but until then we are signing a blank check and just begging to be skinned.

12. The federal CVP takes much more water from the delta than our SWP, but there is no coordination or cooperation with the feds on the PC.

SWP is held aloof from federal projects because SWP was originally conceived and promoted for the primary benefit of a tiny handful of giant landowners who want the benefits of publicly subsidized water without the problems of acreage limitation. The cost of solving the problems that result is to be dumped on us.

13. MWD has preferential rates for "agriculture." We pay over $100/af; they pay about half that. That is not as bad as it sounds, because our price is for treated water. But it is worse than it sounds, because there is no conveyance cost in the rates. That is, the rates are uniform throughout the MWD service area. Now, pumping water around southern California is not cheap. The high-cost areas get a free ride on the low cost areas.

Recharge water is also cheap. Nothing says that this cannot be used for cities some day. This is a modern development of the old Chandler Chinatown gambit, where they got L.A. to pay for surplus water used to develop their San Fernando speculations. Like a good scam it can be worked again and again, because there's another one born every minute. But where is it written that we must fall for it?

MWD has been doing this kind of thing for decades. Always there is the thought that this is "temporary", and will end when we use up our surplus. Before that, the L.A.D.W.P. did it, from 1907 at least. That is 75 years of "temporary" exploitation of the centers to subsidize speculative gains at the fringes. PC gives MWD more power to extend the "temporary" another 50 years or so.

But at the state level it gets even worse, for the whole MWD area is to be milked to subsidize "temporary" water for the west side of Kern County. Does anyone seriously believe that they will give up this "temporary" supply when we need it? There is no history of such a thing ever occurring, and no reason to believe it will occur in this case. It did not occur in this century's worst drought, 1976-77 -- it was MWD that nobly played the "good neighbor", as they like to call it, for the people that they like to call "the farmers": Standard Oil, Getty, Union Oil, Shell Oil, et al. "Temporary" water is not supposed to be used for permanent crops, but temporary water is mixed with entitlement water, I surmise, and there is lots of room for fudging. Landowner controlled taxing districts organized under the California Water District Act (one acre, one vote) have

sold bonds actively to develop distribution systems in this area.

14. How is it, one may ask, that MWD pays $150/a.f. for SWP water now, and sells it for $100? Very simple: like DWR, MWD practises roll-in pricing. They roll in Colorado River water at $50, and sell for the average price. When the price of PC water is finally known and paid, they would plan to roll that in with the lower cost of present supplies, and underprice again.

Say they pay $1,000 and sell for $200. Are they making us a gift of $800/a.f.? That question answers itself, but what, then, are they doing? They are raising all the rates, and using our property taxes, to make up the difference.

Thus the economic fallacy of roll-in pricing, used at the state level, is compounded within MWD at the regional level. Then it is compounded a third time, I am sorry to report, at the city level, for we do the same thing within our own system. When you begin with a fallacy, and raise it to the third power, you get bizarre results to stagger the mind indeed, for all these errors are cumulative and working in the same direction. Under arrangements like these, one could find cases at the fringes where water was being delivered at rates that cover just 2% or so of its real social cost. The customers will waste it in accordance with the rates, not the social cost. The rates they pay are the only signal they get when they let the water run.

15. SB200 authorizes DWR to issue revenue bonds at its discretion, without much if any voter restraint. General obligation bonds require votes, because they are a mortgage on the whole economy to underwrite particular projects. But revenue bonds today are not really that much different, thanks to roll-in pricing. Roll-in pricing makes each revenue bond a mortgage on the whole water system, to finance an increment to the system. Since we cannot operate the state without water, the effect is the same as a g.o. bond. Thus, any extravagance, any error by the DWR can be made a mortgage on the whole of the contracting agencies revenues and property. Howard Jarvis and Paul Gann where are you, now that we really need you?

16. I promised you 15 points, but meantime I thought of another. MWD has contracted to pay 48% of the capital costs of PC, regardless of what water we take. We also pay the separate power cost of pumping south of Kern County. What happens as power rates rise and are passed through to MWD customers?

There is a very high probability that we will not take our full entitlement, to avoid paying this high power rate, which varies with use. We will remain stuck with 48% of the capital costs. Kern will get the water. Maybe my Getty stock will go back up some day, after all, and Thank You, MWD.

In summary, I see a large net disadvantage for Riverside in SB200, and respectfully advise the Council to withhold its endorsement.

Mason Gaffney
Commissioner, PUB