The For-Profit Water Company Monopoly

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"For-Profit Water Companies" are regulated by the California Public Utilities commission (PUC) and make money much differently than most would expect in a free enterprise world. These companies are not a free enterprise business, but a monopoly that operate with established rules administered by the PUC. Unfortunately, most of the appointed PUC commissioners come from the same companies they are intended to regulate.

The PUC rules are almost impossible to change and the public can complain, but the game has been played so long no one from outside can change it. "For-Profit Water Companies" understand the rules very well and as a result make a lot of money for their shareholders. With that in mind, here is some information that will dispel some of the myths of how these "For-Profit Water Companies" make a profit:

1. Unlike most businesses, the "For-Profit Water Company" does not make a profit based on the difference between their costs and their sales.

2. Also unlike most businesses, the "For-Profit Water Company" does not make a profit by keeping their costs low. The "For-Profit Water Company" costs are paid for by the rate payers whether their high or low, so there is no motivation for the company to save money. Their profits are a guaranteed return on assets, and the PUC normally does not even check to see if their costs are realistic or accurately reported. It is said 2012 is the first year in Ojai's history that the PUC has required proof that a capital item is installed before the Golden State Water Company (Golden State) can increase its rates. Because of a whistle blower, Golden State also agreed in 2012 to pay a one million dollar fine to the state and pay back another million dollars to Ojai rate payers for charges that could not be justified.

3. "For-Profit Water Companies" make their profit only on their un-depreciated assets, called the "Rate Base". An asset is a major purchased item such as a well, new water tank, truck etc. Each year a portion of that asset is depreciated (written off against the companies income) until it no longer has any value on the company books.

4. "For-Profit Water Companies" receive a guaranteed rate of return between of 8.5% and 10% on their un-depreciated assets. In these times, this is a much higher return than most investments and/or the cost to borrow money, but the PUC does not care and will not adjust the rate of return based on the economic conditions. However, these percentages are supposed to be adjusted based on customer service, but they are not. The "For-Profit Water Companies" and the PUC does not actively solicit customer service input from rate payers, the PUC does not accept comments at PUC hearings such as the one held in Ojai, and the PUC does not tell the rate payers how and where they can comment about customer service or protest the rate of return the PUC will give the company. It clearly is a stacked deck in favor of the "For-Profit Water Company".

5. The game for the “For-Profit Water Company” is to convince the PUC that it must spend money on assets. The more the assets are increased, the more the water company can charge the rate payers and the more profit the water company will make. It’s that simple.

   An example of increasing assets is a new $2.5 million well Golden State is installing in Ojai. They told the PUC it was needed to take care of emergency demands, using outdated demographic data. They could have avoided the capital expense if they just bought water from Casitas Municipal Water District in an emergency, but that would not increase their assets or contribute to company profits. An 8.5% return on a $2.5 million well would result in $212,500 more profit in just the first year, and the rate payers have no choice but to pay for it every year for years to come.

   Here is an important principal to understand. A “For-Profit Water Company” makes more profit replacing a fully depreciated pipe that doesn’t leak THAN A pipe that leaks five times a year but has not been fully depreciated.

   Remember, the “For-Profit Water Company” only makes a profit based on a percent return of their assets. It’s an accounting game, not a business focused on supplying the best water at the lowest price.

6. The conservation myth: In Ojai, Golden State encourages rate payers to conserve to save money every time they have a price increase. This is an outright lie, and a knowledgeable water company like Golden State should know better. A rate payer may see a reduction in their water bill for a few months , but when Golden State or any “For-Profit Water Company” sees water usage suddenly decline below their estimates, they go to the PUC and ask to add a surcharge to make up for the profits they had forecasted to receive. They will also use the lower water usage as an argument to increase water rates in the future. Remember, the “For-Profit Water Company” only receives a profit based on a percent return of their assets. This return will be the same if they sell a million cubic feet of water or just one. They don’t care because it’s a monopoly and the rate payers must pay whatever the PUC says they should.

If you like this article and want to learn more about what citizens in Ojai are doing to stop the PUC and “For- Profit Water Company” monopolies, visit www.OjaiFlow.com . They have a lot of good resource information and list other cities such as Felton, Stanton, Claremont, and others that are doing the same. Ojai FLOW also has a newsletter if you want to receive up-to-date information about their takeover of the Golden State Water Company in Ojai.

The authors are steering committee members of Ojai Flow. More about them is available on the Ojai Flow web site.