

From: James Emery [<mailto:emeryjc@aol.com>]
Sent: Monday, July 04, 2016 5:38 PM
To: Quint, Matthew@Waterboards
Subject: Justice for Cal-Am ratepayers

Mr. Matthew Quint
State Water Resources Control Board
Division of Water Rights
P.O. Box 2000
Sacramento, CA 95812-2000

Dear Mr. Quint:

I would like to comment on the Cal Am Cease and Desist Order (CDO) WR 2009-0060, Preliminary Recommendations Document from the State Water Resources Control Board (SWRCB). I apologize for resorting to email to send you my comments, but I am away from my home in Carmel By-the-Sea and have no access to a printer in time to meet the July 7 deadline for comments.

I am a Professor Emeritus from the Wharton School, University of Pennsylvania. One of my principle teaching and research interests has been the economic consequences of incentives in a management system. It is clear that the incentives impinging on the top managers of Cal-Am have induced them to behave in a way harmful to the economic interests — and fair treatment — of their ratepayers. Time and time again Cal-Am has made serious mistakes, such as failed development projects and the pursuit of inefficient and risky alternatives. In every case that I can recall, the CPUC has acceded to the assignment of the cost of the errors to Cal-Am ratepayers rather than its stockholders. Indeed, mistakes get capitalized and added to Cal-Am's rate base, rewarding management for its malfeasance. Under such circumstances, why would Cal-Am management ever concern itself with achieving efficiency and sound risk management? The answer is that they have not and will not until incentives are imposed that encourage efficiency and penalizes inefficiencies and unjustified risk-taking. It is not unreasonable for Cal-Am ratepayers to expect such justice from public officials.

James C. Emery
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