



FOR IMMEDIATE RELEASE
December 19, 2012

CONTACT: Mitch Zak
(916) 448-5802

**CLAREMONT WATER EXPERT RELEASES ECONOMIC ANALYSIS OF
PROPOSED CITY ACQUISITION OF THE CLAREMONT WATER SYSTEM**

Study concludes proposal “will cause higher water rates for decades, is enormous financial risk”

San Dimas, CA, Dec. 19, 2012 – Dr. Rodney T. Smith today released a study analyzing Claremont’s proposed takeover of the Claremont Water System. Dr. Smith is a former economics professor at Claremont McKenna College who specializes in water resources. The report examines the financial commitments the city and its taxpayers would assume in a takeover of the system, as well as the technical and operational implications of a takeover.

The report was commissioned by Golden State Water Company (Golden State), which owns and operates the Claremont Water System. City officials are considering whether to use the power of eminent domain to take the system from Golden State.

“If Claremont does manage to acquire the Claremont Water System by eminent domain, higher water rates for Claremont residents are a virtual certainty for many years to come,” Dr. Smith said. “If the goal is to charge lower water rates, then the effort should be abandoned because that goal is not a feasible outcome through the condemnation process. The cost of acquiring the system is high, and the problem is that no one can say at this point *how high* that cost will be.”

“Even accepting the city’s estimate of a \$54 million price tag for the system, the city will need to borrow over \$72 million from the municipal capital market,” Dr. Smith said. “However, it would be extremely unwise to assume that the city’s estimate of the price will end up being the actual price. A price of roughly double the city’s estimate will result in borrowing of about \$130 million, and even that amount could be insufficient. In short, the takeover of the water system is an enormous financial risk for Claremont.”

“My analysis is based on my training as an economist with more than 30 years of experience, and I have provided similar analyses to many water companies, both private and public,” Dr. Smith added.

Dr. Smith’s report draws from publicly reported data, studies and documents produced by the California Public Utilities Commission and the Metropolitan Water District of Southern California, as well as filings with the Securities Exchange Commission. All data sources are cited throughout the analysis and are publicly available. The report analyzes the city’s proposed action from a financial, operational and consumer perspective, and raises significant concerns with far-reaching consequences for Claremont residents and taxpayers, including:

Q: What is the potential impact to other government services that could result from the significant long-term indebtedness the city would incur to purchase and operate the Claremont Water System?

(MORE)

A: Claremont's municipal finances will be strained by the indebtedness necessary to pay for the system, limiting Claremont's ability to enter the capital markets for other purposes such as public works investments. Other public agencies that rely on public financing may also be affected. For example, the Claremont Unified School District recently sought voter approval in 2010 for a \$95 million bond to fund educational needs, but voters rejected the measure. Future educational bond elections could become even more difficult in the face of substantial new debt associated with taking the water system.

Q: How would the city provide water service from an operational and managerial standpoint?

A: Operationally, the size of city government will have to expand rapidly in order to meet the significant technical and managerial demands of operating the system, none of which the city possesses. Ownership and operation of the Claremont Water System will dwarf all other services the city currently provides.

Q: What probable rates and other charges should customers expect?

A: The city's need to finance the acquisition and then fund operations and capital improvements on a "pay as you go" basis will necessarily result in a Revenue Requirement for the system that is higher than Golden State Water's requirements, thus resulting in higher water rates for decades.

Assuming a purchase price of the system is \$54 million as recently offered by the City Council, the annual Revenue Requirement of a city-owned water system increases from \$16.8 million under Golden State Water ownership to \$21.9 million under city ownership—an increase of 30.5%. This annual increase translates into \$470 per customer. Higher awards will generate even larger increases—over \$2,300 annually per customer if the purchase price is \$204 million.

Increased Annual Revenue Requirement Resulting from City Ownership

Acquisition Cost	\$54 mil	\$104 mil	\$204 mil
Annual Increase Above Golden State	\$5,123,755	\$12,039,667	\$25,758,253
Percent Increase	30.5%	71.6%	153.3%
Increase/Connection	\$469.72	\$1,103.75	\$2,361.41

“Golden State commissioned this report to provide much needed context to the Claremont City Council’s potential eminent domain action,” said Denise Kruger, Senior Vice President, Regulated Utilities, Golden State Water Company. “We hope Claremont officials will consider the real-world consequences of the action they are pursuing and acknowledge the true cost Claremont residents will have to bear for this action. Collaboration would be far more productive than spending time and taxpayer dollars pursuing a risky and costly takeover plan. We look forward to meeting with city officials and will be scheduling a discussion regarding ways that we can work together to better serve the residents of Claremont.”

To read the full study, please visit www.gswater.com.

(MORE)

About Rodney T. Smith:

Dr. Rodney T. Smith specializes in the economics, finance, and public policy of water resources. He was a Professor of Economics at Claremont McKenna College for 15 years, Director of the Lowe Institute of Political Economy, and a member of the editorial board of Economic Inquiry, the professional economics research journal of the Western Economics Association.

Dr. Smith has authored two books, Troubled Waters: Financing Water in the West, and Trading Water: A Legal Framework for Water Marketing, sponsored by the Ford Foundation through grants to the Council of Governors' Policy Advisors. He was also the John M. Olin Visiting Professor of Law and Economics at Columbia Law School, and a visiting assistant Professor of Economics at the Graduate School of Business, University of Chicago, where he served as the Associate Director of the Center for the Study of the Economy and the State. He started his career as an analyst at the RAND Corporation.

Dr. Smith received his Ph.D. in Economics from the University of Chicago and a B.A. in Economics from the University of California, Los Angeles. He is currently President of Claremont-based Stratecon Inc., an economics and consulting firm specializing in water resources.

About Golden State Water Company:

Golden State Water Company, a subsidiary of American States Water Company (AWR), provides water service to approximately one out of every 36 Californians located within 75 communities throughout 10 counties in Northern, Coastal and Southern California (approximately 256,000 customers). The Company also distributes electricity to over 23,000 customers in the Big Bear recreational area of California through Bear Valley Electric Service.

#