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## 2006 report casts doubt on proposed Lake Elsinore hydroelectric power plant

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A confidential 2006 report that casts doubt on the financial viability of a proposed Lake Elsinore hydroelectric plant was not disclosed to investment firm Morgan Stanley, the project's chief financier.

One Elsinore Valley Municipal Water District board member expressed concern the report could be used as justification if the investment firm walked away from the project.

"This is a serious problem," Elsinore Valley board member Phil Williams said.

W. Ben Wicke, another board member, echoed that concern Sunday. But he declined to comment beyond that.

Williams said the report, which was prepared by consultants Samuel Van Vactor, Stefan Brown and David Ramberg for the district, was withheld because of the possibility of lawsuits. He said the main thing that has changed since 2006 is Morgan Stanley's commitment to finance the project.

"If Morgan Stanley had questions about the project, they would not have agreed to finance it," Williams said. "They're not going to get into something without doing their homework."

"The board member who released it knows he should not have done that, and we're going to have to talk about it."

Morgan Stanley representatives declined to comment. Nevada Hydro spokesman Chris Wysocki was unavailable for comment.

Board member John Lloyd said he inadvertently released the 2006 document because he thought he received approval from the board's attorney.

"I really didn't know I wasn't supposed to release it," Lloyd said.

The board is expected to discuss the release of the document, and possible action against Lloyd, at a meeting today.

At least one legal expert said the board -- not Lloyd -- exposed itself to lawsuits by not disclosing the document sooner.

"The greater question raised is whether or not the board has been seeking a full and complete discussion on the subject," said C. Kerry Fields, a USC business law professor and corporate ethics expert. "The investors could sue the board and argue that the board fraudulently tried to get them to finance the project."

"I think the directors are at a greater risk if full disclosure is not made," he said.

Fields said the board's best move would be to fully disclose both the 2006 and revised reports now, not later.

The \$1 billion project would combine a pumped storage facility and dam in the Santa Rosa Mountains where water pumped from Lake Elsinore at night would be stored and released through turbines during the day to create electricity during peak demand hours.

The power would be transmitted on 30 miles of power lines that would connect the Southern California Edison and San Diego Gas and Electric power grids.

It is a joint effort of the water district and Vista-based Nevada Hydro Co.

### The Report

The 43-page report says that without some type of guaranteed rate on return, known as rate basing, the project could not generate enough revenue to cover its costs. The high cost of pumping would undermine the power plant's economics.

The 2006 report was revised last year, Williams said. Board spokesman Greg Morrison said the board would not release the revised version because it is still a confidential document.

The power lines, however, could be highly profitable, the 2006 report said.

The Federal Energy Regulatory Commission recently denied Nevada Hydro's request to rate base the power-plant portion of the project, but granted the request for the power lines.

Van Vactor, however, said he didn't believe the report should be viewed as an indictment on the project. Recent changes, including the state's recent push for more wind and solar-based power, may make a project like the pumped storage facility palatable.

While public regulators chose not to rate base the project, a private utility could, Van Vactor said.

"There are a lot of benefits the project brings that can't be defined in dollars and cents," Van Vactor said.

### **Document Released**

Lloyd said he requested a copy of what he now knows is the revised report. He said he didn't know the 2006 report existed.

"So when I got the (2006) report, I just assumed it was the right one," he said.

At a board meeting two weeks ago, Lloyd requested and Brown recommended the board release all documents about the project to the public.

Brown, Lloyd said, later told him the board had to vote on that recommendation.

While Lloyd said he was not trying to leak the document, he did express concern that the board continued to promote the project even after receiving the report.

"It startled me," Lloyd said. "We had this huge promotional campaign, and all of the (news) releases we sent out said the exact opposite of what the report states."

Critics pounced on the report, distributing it to several regulatory agencies, including the federal energy commission.

The Los Angeles-based Center for Biological Diversity reacted to the

report by issuing a statement based on the reports findings, calling the project "a pipe dream" and "a financial boondoggle."

Chris Hyland, a former Elsinore Valley board member and one of the project's most ardent opponents, and others pointed to the document as another example of how in recent years the board has suppressed information pertaining to the project by holding closed session meetings, or discussing it in a two-member ad hoc committee of whose meetings the public had no notice.

"For years they have been keeping the ratepayers in the dark, and now we know why," Hyland said.

Hyland was on the board when the report was prepared and said she knew nothing about it.

"If you question the project, they keep you out of the loop," Hyland said. "They did it to me, and they are doing it to John."