

Liquid Assets

A Water-Policy Critic Tries Going Corporate To Tap New Market

Mr. Reisner's Book Brought
Fame Without Fortune;
Now, He Seeks a Gusher

From 'Cadillac Desert' to Volvo

By RICK WARTZMAN

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SAUSALITO, Calif.—Over the years, author Marc Reisner has been called everything from “brilliant” to “the devil.” But one label has always eluded him: rich.

“I’m too old not to be making money anymore,” says Mr. Reisner, 50 years old, as he perches behind a beat-up metal desk in a modest office here.

His timing could hardly be better. When it was published in 1986, Mr. Reisner’s “Cadillac Desert” was hailed as the definitive account of how the West has been transformed, in many cases for the worse, by the relentless quest for water. A former environmental-group staffer with a conservationist agenda, he told an alarming tale of rivers diverted, of lakes sucked dry, of desert transmogrified into water-hogging farmland and urban sprawl—almost all through massive taxpayer subsidies and powerful government bureaucracies.

Now, a new chapter is unfolding: A private market is emerging to acquire, store

Spillover Effect

Vivendi’s \$6.2 billion purchase of U.S. Filter allows the French company to leap ahead of its rivals in the U.S. water business. Separately, Enron executive Rebecca Marks could win rich benefits from the public offering of water company Azurix. Articles on pages A14 and A8.

and ship huge quantities of water across the arid region. Only this time, Mr. Reisner isn’t just acting as an observer; he has become a player, out to make the big bucks that his writing has never provided.

The market he is trying to shape remains in its infancy, but already shows glimmers of what it could become. Yesterday, U.S. Filter Corp. announced an agreement to be bought by France’s Vivendi SA for \$6.2 billion. U.S. Filter’s main operations now are in municipal and industrial water treatment, but in the long run, one of its most valuable assets may be Southern California farmland that is associated with rights to vast amounts of Colorado River water. U.S. Filter hopes to recycle and conserve water used on fields, freeing up any surplus for possible sale through the local irrigation district to thirsty cities.

Still, the federal and state governments that dominate the West’s water management have taken only fledgling steps in recent years to deregulate the market for water. It remains tied up in more red tape than gas or electricity. And unlike the utility sector—where a host of corporate competitors around the globe, including Vivendi and U.S. Filter, have won lucrative contracts to run local water-treatment facilities—the basic suppliers at the upstream end of the business haven’t seen any sustained profit.

Indeed, attempts to negotiate large-scale water transfers must navigate the very passions and politics captured by Mr. Reisner in “Cadillac Desert.” “Water is not widgets,” says Bill Craven, the Sierra Club’s California director. “There are public responsibilities associated” with shunting water around.

As industry insiders see it, much of their task boils down to inducing usually antagonistic interests—environmentalists, farmers and urban representatives—to take water out of one place (usually an agricultural area) and send it to another (typically a big city). Agriculture consumes most of the West’s water. Complicating things further is that almost every deal needs the blessing of water bureaucrats—some of whom are skeptical of private enterprise’s role.

“It’s the political aspects of the business that make it difficult,” says Michael Patrick

George, chief executive of Western Water Co. The San Diego-based company, which last year executed a landmark deal to deliver a small quantity of water from an agricultural district to urban Orange County, is a pioneer in the market. Others, in addition to U.S. Filter, include Cadiz Inc. and Vidler Water Co., where Mr. Reisner has hung his hat.



Marc Reisner

The market’s allure flows from powerful logic. As the population of the West swells—California alone is expected to be home to 40 million people by 2010, up from about 33.5 million now—the gap between water supply and demand will only widen. If drought grips the West, companies with water to sell “have the potential to be the next Internet stocks,” says Debra Coy, who tracks the water business for HSBC Washington Analysis.

As much as anyone, Mr. Reisner represents the face of the nascent industry—both its promise and perils. One deal that he’s trying to arrange would turn Madera Ranch, a 13,600-acre piece of property in California’s San Joaquin Valley, into a massive underground storage reservoir. Water would be pumped into the aquifer in abnormally wet years (think El Nino) and taken out again in dry years.

So far, the deal has been stymied by anxious neighbors and other snags—and marred by a feud between Mr. Reisner and a former associate on the project. But if it

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Water-Policy Foe Is Trying to Tap a Fledgling Market

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comes to pass, Mr. Reisner stands to collect a fee that could turn him into a millionaire overnight. The best he says he has done in annual royalties from "Cadillac Desert" is about \$25,000, a sum augmented by the lecture circuit and consulting for various conservation organizations and water districts.

After flirting with U.S. Filter, Mr. Reisner last fall joined Vidler Water, a unit of Pico Holdings Inc. that is engaged in a range of water storage and transfer projects. It has water projects in four states. Mr. Reisner, who works part time and makes about \$30,000 a year, mainly hunts deals and serves as a political troubleshooter for the La Jolla, Calif., concern.

Vidler executives note that they hired Mr. Reisner not only for his knowledge and contacts, but also for his cachet in the wa-

ter world—a status that was enhanced after "Cadillac Desert" was made into an acclaimed public-television series in 1997. "So many people we talk to have cited Marc's book," says Vidler Chairman John Hart, "it gives us that much more visibility in the market to have him on board."

It would be easy, of course, to simply brand Mr. Reisner a sellout. But as is often the case with water in the West, the real story is more complicated than it might first appear.

In fact, many of Mr. Reisner's old environmental colleagues welcome a private water market. They stress that each deal must contain environmental safeguards, and that private parties can't be allowed to reap windfalls from water that has been publicly subsidized. But overall, there is a hope that companies can bring new effi-

ciencies to the arena, making more water available for fish and wildlife.

"I don't have any great love" for business executives, says Tom Graff, an attorney with the Environmental Defense Fund in Oakland, Calif. "But our basic view is that private action—with all its wants—is positive."

For Mr. Reisner, evolving from chronicler to capitalist is part of a broader transformation that began years ago—before any money was in the picture. Since writing "Cadillac Desert," he has gone from haranguing farmers to working closely with them; from blasting water subsidies to advocating them in exchange for long-term farmland protection; and from reflexively criticizing most water-development initiatives to embracing the idea of a new canal to transport water to Central and Southern California.

Not surprisingly, as Mr. Reisner has switched positions, some have questioned his commitment to the environment. "I don't know what his conservationist beliefs are" anymore, says Patrick Porgans, a regulatory consultant and veteran of California's water wars. "They're suspect."

Despite such sentiments, Mr. Reisner's environmental credentials are still largely intact. "Although I don't always agree with" Mr. Reisner, "his heart is in the right place," says Hal Candee, senior attorney at the Natural Resources Defense Council in San Francisco.

Mr. Reisner's toughest critic right now is a fellow businessman, Joe Costello. A prominent San Francisco real-estate broker, Mr. Costello brought Mr. Reisner in on the Madera Ranch deal after he read "Cadillac Desert," hoping his involvement

would ensure a stamp of approval from the environmental community. Since then, however, the two have parted ways, and each is now independently representing the seller of the property.

"Marc has not been in the business world—and his naivete shows," says Mr. Costello, who says Mr. Reisner better not "muck up" any sale Mr. Costello is trying to put together. Beyond that, he finds Mr. Reisner's eager pursuit of a fee a bit unseemly. "The word 'obsessed' comes to mind," Mr. Costello says.

For his part, Mr. Reisner makes no apologies. Last year, he was diagnosed with cancer of the appendix. After seven months of chemotherapy, he says his prognosis is good. But the sickness, he says, accelerated his desire to provide more for his family.

Mr. Reisner's romance with water goes back to the mid-1970s when the Minnesota native visited California for the first time. A freak August blizzard in the Yosemite

high country, coupled with a journey into the heavily irrigated San Joaquin Valley Farm Belt, left him marveling at the region's climatic extremes and manipulated landscape. "It was the greatest epiphany of my life," Mr. Reisner says. The water bug having bitten, he set out to learn as much as he could about what he had seen.

In 1979, Mr. Reisner left the Natural Resources Defense Council, the environmental group, to write "Cadillac Desert." He attacked farmers as "the very embodiment of the costly, irrational welfare state" they claimed to loathe. He condemned the U.S. Bureau of Reclamation as "an indulgent godfather" engaged in fiscal flimflamery. As a whole, he wrote, "the water-development lobby" cannot fathom "someone who puts unspoiled nature above the material aspirations of mankind."

He hit the lecture circuit, inveighing against the "absurdity and inefficiency" of certain water-intensive crops. "Marc was seen as kind of the devil," says Jason Peltier, manager of the Central Valley Project Water Association, which represents a slew of rural water districts.

But in the years since, Mr. Reisner has shown a willingness to learn from his enemies. In 1990, a rice-industry spokesman invited Mr. Reisner to the Sacramento Valley, where a group of growers lectured him about how irrigated rice fields are good for the environment because ducks, geese and other birds thrive in them. After a day's tour of the valley, Mr. Reisner says, "they pretty much had me convinced" that agribusiness had actually created something of a wildlife refuge. He became a vocal supporter of the expanded use of rice fields as waterfowl habitats.

Despite his turnaround on rice—and on a number of other issues—Mr. Reisner was met with some initial wariness as he dipped into the water business.

When he was introduced to Heber Perrett, the owner of Madera Ranch, Mr. Reisner asked him if he had read his book. "Sure," Mr. Perrett replied. "I threw it in the garbage. Twice." A Mormon, he didn't care much for the writer's references to the "dull, pious" and "usurious" members of the religion who had farmed and irrigated the West.

It didn't take long, though, before Messrs. Reisner and Perrett became close. In Mr. Reisner's eyes, Madera Ranch was the perfect venture to demonstrate how he could be an effective "eco-capitalist." The property sits atop a big aquifer, a portion of which has been emptied out over the years by area farmers' intensive groundwater pumping. Filling it back up, proponents say, would be far more cost-effective and environmentally sound than building a gargantuan surface reservoir.

At one point last summer, it looked like Mr. Reisner's connection with Madera Ranch would pay off. He helped negotiate with the Bureau of Reclamation—another old foe that he has since patched up relations with—for the agency to buy the property and develop it into a water-bank and nature preserve. The price on the table: about \$50 million.

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Mr. Reisner, who is poised to collect as much as 5% of any sale, thought he had finally found his fortune. He was so optimistic about a deal being signed, he splurged on a new top-of-the-line Volvo.

But then everything fell apart. Neighbors questioned whether tainted water would be pumped into the aquifer. Then they questioned whether their own groundwater would be sucked out and stolen—the specter of “Chinatown” that seems to loom over most every California water deal. Although environmentalists favor the notion of underground water storage, they too have urged a go-slow approach on Madera Ranch.

All the obstacles have left Mr. Reisner fuming. “You just can’t please any of the people any of the time,” he says. He suspects some environmentalists “don’t want to see anybody get rich.”

Then there’s the spat with his former associate, Mr. Costello. The veteran real-estate broker says he hired Mr. Reisner for six months of consulting on the Madera project. But Mr. Reisner, he says, turned around and cut his own deal with Mr. Perrett, trying to muscle in on the action. “I don’t need anybody’s help,” fumes the 72-year-old Mr. Costello.

Mr. Reisner says that Mr. Perrett simply realized Mr. Reisner’s water-world contacts could help further the project, and that he didn’t need Mr. Costello. But Mr. Perrett confirms that Mr. Costello is still working on the deal, too. “The two are independent,” Mr. Perrett says. “Marc’s doing things, and Joe’s doing things.”

Today, Mr. Reisner is also at work on another book and trying to restore salmon runs and save open space. But most of all, he is now a businessman, looking for ways to cut water deals. Knowing it would boost the bottom line, he says that he even finds himself “perversely praying for a drought.”

AS THE WALL STREET JOURNAL

Enron Official May Gain Windfall From Azurix Stock

By KATHRYN KRANHOLD

Staff Reporter of THE WALL STREET JOURNAL

Enron Corp. Vice Chairman Rebecca Mark could win significant benefits from the public offering of its jointly owned Azurix Corp., according to a filing with the Securities and Exchange Commission.

Ms. Mark, 44 years old, who is Azurix’s chairman and chief executive, has been given the right to buy two million shares at \$16.72 each of Azurix, the eight-month-old water company that the Houston energy concern and its partner plan to sell to the public, the preliminary prospectus states.

The number of shares and the price of Azurix stock hasn’t been established yet for the public offering, but if the stock takes off much higher than \$16.72, it could provide a hefty windfall for Ms. Mark. Ms. Mark’s shares will vest at 25% of the total amount a year, according to the filing, which doesn’t say how the value of the options was calculated.

She was paid \$660,883 at Enron last year, including her five months at Azurix. Ms. Mark’s bonus skyrocketed to \$1.7 million from \$185,000 in 1997. Ms. Mark also received \$1.7 million in additional compensation that included forgiveness of a \$955,000 loan and interest.

In addition to the Azurix stock options, Ms. Mark received the option to buy 450,000 shares of Enron Corp. stock. If the stock price increases by 10% a year through 2008 when the shares are vested, Ms. Mark stands to make close to \$36 million.

Three other high-ranking Azurix executives also received stock options in the company, which will be vested over the next four years. Rodney Gray, Azurix’s vice chairman and chief financial officer, Amanda Martin, executive director of the Americas, and Alex Kulpecz, executive director of Europe, Middle East, Asia and Africa, each were authorized to purchase one million shares, also exercisable at \$16.72 a share.

Enron established Azurix in July 1998 with the \$2.4 billion acquisition of Britain’s Wessex Water PLC. The water company, which is based in Houston and London, also has stakes in an Argentine water company and a water concession that serves Cancun, Mexico.

The 155-page prospectus states that Azurix is considering privatizations of water and waste-water projects in South America, Europe, Asia and the U.S., in what it describes as a \$300 billion market. The filing lists about 60 water-privatization projects around the world that Azurix is reviewing. For 1998, Azurix reported \$464 million in revenue and \$87.2 million in net income.

The filing also revealed new details of the makeup of Azurix.

According to the filing, Enron has a 50% ownership in the water company through a partnership called Atlantic Water Trust. Enron’s partner in the joint venture is Marlin Water Trust, which consists of five institutional investors and their affiliates. The filing doesn’t disclose the names of the investors.

To date, Enron has appointed all eight directors to Azurix’s board; the filing states that Marlin Water Trust may replace half of the directors at any time.

Apart from Ms. Mark and Mr. Gray, others named to the board of Azurix include Enron’s chairman, Kenneth L. Lay, its president, Jeffrey Skilling, and two other Enron executives; John Wakeham, Britain’s former state secretary for energy; and W. Nicholas Hood, chairman of Wessex Water.