

CAL AM:**Cal Am sale talk muddies waters; Takeover, desal plant all thrown into limbo****Monterey Herald – 11/8/05****By Virginia Hennessey, staff writer**

Proponents of public takeovers of California American Water systems on the Monterey Peninsula and in Felton cheered the news that RWE, the parent company of the local water purveyor, plans to sell all of its water holdings in the United States and the United Kingdom in 2007.

Proponents also questioned the reliability of Cal Am's plans for a desalination plant at Duke Energy's Moss Landing Power Plant given that both Cal Am and the power plant are now on the auction block.

The announcement from RWE, a German conglomerate, came on the eve of today's vote on the Monterey Peninsula to determine if residents want to study the feasibility of a public takeover of Cal Am. Supporters of that measure said RWE's announcement put wind in their sails and would propel them to seek a takeover whether or not Measure W passes.

"The No on W people have been saying (Cal Am) isn't for sale, but it is for sale in 2007 and we'll be right in there trying to buy it, whether Measure W passes or not," said Ron Weitzman, a signator on the Yes on Measure W ballot argument and member of Monterey Friends of Locally Owned Water.

Monterey FLOW, Weitzman said, had been working toward a public takeover of the local water system for a year before Measure W was placed on the ballot by the Monterey Peninsula Water Management District.

Nader Agha, a vocal Cal Am opponent and major contributor to the Yes on Measure W campaign, said the pending sale offers an opportunity for the Peninsula.

Agha, who owns the Moss Landing property where Pajaro-Sunny Mesa has proposed a large desalination project that is competing with Cal Am's desalination proposal, said he'd heard rumors for many months that RWE was "shopping" its water holdings because of the prospect of massive infrastructure needs and limited ability to recoup costs from ratepayers in a regulated industry.

While local Cal Am officials have long denied the company was for sale, he said, "The fact is Cal Am is definitely for sale and the company in Germany realizes it can't send barrages of requests for rate increases" to the California Public Utilities Commission.

"The public will definitely prevail because it's in their best interest, and the rates will definitely go down," he said.

RWE announced Friday that it is selling all of its water holdings in the United States and the United Kingdom. RWE's American Water, which owns Cal Am, will be the first on the block in 2007.

Weitzman said he is concerned about how the news of the pending sale could affect Cal Am's plans and service in the immediate future.

"I don't know how Cal Am could be really motivated to do anything positive," he said. "I'd feel bad if I were working for the company."

The pending sale raises serious questions about the company's ongoing commitment to the Coastal Water Project, its proposed desalination project at Duke power plant in Moss Landing. The plant is billed as a replacement for the company's illegal pumping on the Carmel River.

Cal Am spokeswoman Catherine Bowie said the pending sale will have no effect on the company's commitment to find a solution to the Peninsula's water woes. The state has ordered Cal Am to significantly reduce pumping on the Carmel River and find a new water source.

"We are really a locally run company that's heavily regulated and our No. 1 focus is solving the water supply issues," on the Peninsula, she said. "None of that is going to change and it doesn't have an impact on the climate in which Measure W was proposed."

American Water spokesman Daniel Kelleher said the plans to sell the company will have little effect on subsidiaries like Cal Am.

"It's fair to say, without knowing who the new owner might be, it's not possible to predict what we might want to do," he said. However, "I don't see the announcement changes anything. We're still committed to finding a

solution to (the Peninsula's) water supply condition. The people who are providing service every day will continue to do that.

George Riley, spokesman for the Yes on W campaign, said the cloudy future of Cal Am's ownership, coupled with the upcoming sale of the Duke power plant, leaves Cal Am's desalination proposal an undependable prospect for residents and the Carmel River.

"Cal Am is trying to present itself as the dependable water supply," he said. "But with Duke selling off and the corporate parent of Cal Am selling off their water division, it seems there is instability in Cal Am's ability to provide a dependable plan for the future."

The Public Utility Commission also has not given Cal Am permission to recoup from ratepayers the costs of such major infrastructure improvements as the state-mandated retrofit of the San Clemente Dam, which it is estimated will cost at least \$40 million.

"It seems that there is less ability of Cal Am to depend on corporate financing for the huge infrastructure improvements they have to make," Riley said.

RWE Chief Executive Harry Roels said Friday the company, one of the largest utility conglomerates in the world, wants to focus on its power businesses.

While the water utilities are seen as stable income, large investments are needed to upgrade aging systems in the coming years, and RWE's ability to raise rates to recoup those expenses is limited by regulators.

RWE Thames Water's operating profits dipped 48 percent in the first six months of 2005, according to Reuters news service

Roels said that he may issue an initial public offering of American Water and Thames Water, then sell to financial investors. He said he would divest American Water first.

It is unclear how the development will affect an ongoing takeover effort in Felton in the Santa Cruz Mountains. Voters there approved a bond measure to finance a hostile takeover of Cal Am's local system.

Steve Leonard, Cal Am's Central Coast general manager, has repeatedly said the company was not for sale and would fight an eminent domain takeover, either in Felton or Monterey.

Leonard did not return phone calls Monday.

Jim Graham, spokesman for Felton FLOW, which pushed through the vote, said the group plans to use RWE's announcement to press the California Public Utilities Commission to order Cal Am to sell the system to the San Lorenzo Valley Water District.

In 2003, the city of Montara on the San Mateo County coast was in the early stages of an eminent domain takeover of its Cal Am system when RWE announced its intent to purchase the company. As part of the settlement to allow that purchase, Cal Am was ordered to sell its system to the city. #
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