

CAL AM VOTE:

Water board split on ballot measure; Knight switches vote; another meeting set

Monterey Herald – 7/19/05

By Virginia Hennessey, staff writer

The Peninsula water district's ballot measure regarding a potential public takeover of California American Water is in limbo after district board member Michelle Knight switched her vote supporting the measure.

Knight's newfound opposition to the measure left the board unable to approve ballot language Monday night because board member and ballot-measure supporter Alvin Edwards was unable to attend the meeting, leaving the board split 3-3. With Knight's support, the board continued the item and scheduled a special meeting for Thursday at 3 p.m. at the district's Ryan Ranch office for a vote on the ballot measure language.

Last month, after hearing overwhelming public support for a Cal Am takeover, the board voted 5-2 to place a measure on the November ballot asking if ratepayers were willing to pay for the board to investigate the process and potential cost of a public acquisition of Cal Am's Monterey Peninsula system. In a surprising move, Knight joined the majority, saying she opposed a public takeover but supported the public's right to vote.

Knight surprised the crowd again Monday, saying she was switching her vote because, as a private business owner, she could never support a public condemnation of a private business. Knight owns Adventures by the Sea kayak rental company in Pacific Grove. While the ballot measure only called for an investigation into a takeover, she said that she could never "take the second step" of a public takeover.

The board was set to vote on staff-recommended language for a ballot measure that would have read, "Shall the Monterey Peninsula Water Management District be directed to investigate the cost and process to publicly acquire the private water utility system presently owned and operated by the Monterey District of California American Water and be directed to recover the costs of the investigation as a surcharge upon the water bills of Cal Am's customers?"

With board members Dave Pendergrass and Larry Foy continuing their opposition to the measure and a potential takeover, Knight's change of heart left the board with a 3-3 vote. Board members Dave Potter, Kristi Markey and Judi Lehman support the measure.

The decision prompted a tense exchange between Knight and board member Dave Potter, who suggested Knight was using the opportunity of Edwards' unexpected absence to sway the outcome.

"I don't find anything here besides a change in attendance that wasn't put before us last time," Potter said, adding that he'd heard overwhelming public support for a ballot measure.

An angry Knight snapped back that she "patently" took exception to the suggestion. Before slapping her microphone away in Potter's direction, she said her decision was based on personal reflection and input by her constituents and had been reached before she knew Edwards would be absent.

Edwards, a captain in the Seaside Fire Department, was at work Monday night. He was flabbergasted when told of Knight's switch

"Oh no, oh man," he said. "I'm very disappointed with her. Her public ought to be disappointed with her."

Edwards said he was scheduled to work Thursday afternoon but would try to get coverage to attend Thursday afternoon's meeting. The board also approved an alternate date of Friday at 9 a.m. should Edwards be unable to attend the meeting. Edwards said he could definitely be at that meeting.

The board has until July 28 to submit wording for a ballot measure to the county Registrar's Office. Board members who supported the measure stressed Monday night that it is only asking if the public wants to pursue an investigation. The measure does not ask if voters want the district to take over Cal Am's system. The language also specifies that the district would not necessarily be the public entity to pursue a takeover if the public eventually votes for one.

"As far as I'm concerned, it's up to the public if they want to take over that company. This is the first step if they want to pay for this and do an

investigation," he said. "The water rights are public anyway. You can't even get the service you need out of that company. Maybe we can fix what they can't fix while they're doubling and tripling our rates."

Prior to Knight's vote-switch, Cal Am General Manager Steve Leonard reiterated his opposition to the measure at a time when the company is close to solving the area's water problems with a proposed desalination plant. Leonard compared it to reading a road map after you've already set out on a trip.

"Don't take your eye off the road," he said.

Potter seized the analogy, saying that the measure simply would authorize purchase of a road map and ask the public if they are "willing to pay for the trip."

If a ballot measure is approved, the board must also decide if they will take a position and present ballot arguments on the measure. Directors Markey, Lehman and Potter indicated they prefer leaving ballot arguments up to the public proponents and opponents of the measure.

In addition to approving placement of a ballot measure last month, the board voted that the measure would apply to Cal Am's entire district, including smaller systems like Ryan Ranch and Hidden Hills. Tony Anchundo, Monterey County's elections chief, has estimated the measure will cost the district about \$50,000 to place on the ballot, depending on how many other measures are approved for the election.

Monday's turn of events left Cal Am's Leonard happily pumping his fist into his palm in the audience.

"It's nice to have a chance at getting this distraction out of our way," he said.

Cal Am is awaiting the results of a vote in Felton in the Santa Cruz Mountains, where its 1,300 ratepayers are deciding whether they are willing to be taxed for a public takeover of Cal Am's system. The results of that mail-in ballot are due as early as July 26. #

<http://www.montereyherald.com/mld/montereyherald/12167868.htm>

CAL AM RATE INCREASE:

Cal Am defends request for 46 percent rate increase

Monterey Herald – 7/19/05

By Larry Parsons, staff writer

California American Water says money it spent on a failed attempt to build a new dam on the Carmel River should be repaid by Monterey Peninsula customers despite opposition from a state utility watchdog agency.

The Monterey Peninsula's water supplier filed papers with the state Public Utilities Commission defending its pursuit of the dam project despite criticism from the PUC's independent Office of Ratepayer Advocates.

Last month, ORA recommended that Cal Am's request for a three-year rate increase of 46 percent be whittled down by the PUC to a 6 percent rate cut. A proposed customer charge of about \$4 million for Cal Am's costs on the scrapped Carmel River dam is a major factor for the big gap between Cal Am's rate request and ORA's position.

A PUC administrative law judge is scheduled to begin formal hearings on Cal Am's rate request July 27, with a final commission decision expected this fall.

ORA officials said that while PUC policy allows ratepayers to be charged for abandoned utility projects, Cal Am failed to "exercise reasonable managerial skills" in pursuing the Carmel River dam.

In rebuttal papers filed last week, Cal Am officials and utility consultants took issue with ORA's wholesale dismantlement of its rate request.

"They made some fairly substantial errors," said Cal Am spokesman Kevin Tilden.

Danilo Sanchez, ORA's water branch manager, replied, "Some arguments could be related to different methodologies. We're going to check some of the issues."

Issues where ORA and Cal Am diverge include the cost of an outside review of Cal Am's rate filing to the different cost calculations for "unaccounted water" that escapes from Cal Am's distribution system.

Cal Am officials reserved their strongest criticism for ORA's recommendation to make the utility's shareholders bear the costs for the shelved dam.

Jan Driscoll, an attorney for Cal Am, said the ratepayer advocates' stance on the dam "consists of opinions that are highly critical... but are unsupported by the facts."

Contending that ORA fails to appreciate how environmental restrictions on the Carmel River affect Cal Am operations, Driscoll said ORA acted "with the prescience of a Monday morning quarterback."

Cal Am started efforts to build a new reservoir on the Carmel River after voters in the Monterey Peninsula Water Management District in 1995 rejected a publicly financed dam.

In PUC filings, Cal Am officials argue that pursuing the dam, when the utility was under a surprising 1995 state order to reduce pumping from the Carmel River basin, was the most logical, prudent course of action.

A new dam, Driscoll said in written testimony, was "the most cost-effective, viable and environmentally benign project available."

Sanchez of ORA said, "They believe the project is reasonable, and we don't believe the ratepayers will pay for it."

Cal Am now wants to build a desalination plant in Moss Landing to provide the bulk of its water to Peninsula customers, and last week released an initial environmental study of five plant alternatives.

The move toward a desalination plant stemmed from a 2000 state law directing the PUC to come up with a "Plan B" alternative to the long contentious Carmel River dam.

Since 2000, Driscoll said Cal Am's new plant costs have all been related to the Plan B process.

Dave Stephenson, Cal Am's rate expert, said ORA's analysis of the proposed rate increase fails to consider rising costs as Cal Am "struggles to comply with a variety of regulatory requirements."

The ratepayer advocates' office also recommended to hold off charging Cal Am customers for a proposed \$45 million retrofit of the San Clemente Dam.

Stephenson said that's unfair to Cal Am because it holds the utility "hostage for lost earnings" on a project driven by governmental agencies.

As to ORA's contention that Cal Am customers are frustrated by being charged for water projects that don't materialize, Stephenson said the Peninsula's polarized water politics are to blame, not Cal Am.

"Although ORA provides no support for its statement that ratepayers are frustrated, it is probably true," Stephenson said, "simply due to the fact that nothing does seem to get accomplished because of all the factions." #
<http://www.montereyherald.com/mld/montereyherald/news/12167876.htm>

CAL AM:**Citizens sound off on Cal Am; Public meeting tackles desal plant****Monterey Herald – 7/21/05****By Rachel Kane, Herald Correspondent**

Brine, saltwater and "sludge" were on the minds of about 30 concerned citizens Wednesday night at a public hearing on California American Water's proposed desalination project.

Cal Am sought comment at the Moss Landing meeting on the initial environmental study of its plan to build a desalination plant on property owned by Duke Energy about a mile and a half east of the power plant on Dolan Road.

"Could you speak a little about the sludge?" a woman in the front row said loudly. The "sludge" is 6,000 to 7,000 pounds of what a Cal Am representative called "marine debris" mixed with some of the chemicals used in desalination, which will be produced by the plant and carted off to a nearby landfill every day.

The landfill will use the "sludge" as a cover for the top of the landfill.

When asked by a community member how Cal Am would decide what method of desalination to use, representatives said it would be based on water quality and cost.

The option of recycling brine used in the desalination process was questioned, but according to Larry Gallery of RBF Consulting, the firm that completed Cal Am's environmental assessment, it was not found to be cost effective, and the recycling of brine would do more damage than good.

The prospect of dangerous particles from the Marina landfill finding their way into the water at the desalination plant was also discussed, but Gallery and Steve Leonard, Cal Am general manager, explained that the physical screening process used in pumping the sea water for desalination would scarcely allow dangerous additives -- and the Health Department would be watching.

Most people at the meeting asked about the concentrated brine being dumped into the ocean from the proposed desalination plant, and the relationship between Duke Energy's power plant and Cal Am.

Cal Am plans to use the water pumps in the power plant's cooling system for diluting brine. "This seems to be very favorable to Duke," said one woman. "It ensures that they will be able to still use that old cooling system."

Leonard responded that "collaborating with power plants is the state-of-the-art with desalination plants."

He added: "We (Cal Am) are going to be a little flea on the elephant" in their relationship with Duke's power plant.

The company's long-awaited environmental assessment, released last Thursday, activated its formal application to the California Public Utilities Commission and launched a monthlong period in which opponents can protest the project.

The environmental assessment also includes four other options for alternative water sources, one of which, according to Cal Am representatives, is a more expensive and less eco-friendly plant in Marina.

If all goes as planned with the approval of the environmental assessment by the California Public Utilities Commission, Cal Am expects construction to be under way by 2008. One woman at the meeting wanted to know about Highway 1 congestion that construction might cause, adding that even now "virtually every Friday the road is unusable."

"We don't anticipate a lot of traffic on Highway 1 during construction" because much of it will be done about a mile and a half east of Highway 1 on Dolan Road, the proposed site of the new plant, said Gallery.

Despite flak from the Monterey County and Moss Landing communities and pressure to take public partners, Cal Am is pushing forward, according to Leonard, to avoid dire consequences. "We're six months away from a catastrophic drought" if the water situation stays stagnant, he said.

Cal Am is currently constructing a pilot desalination plant to test for treatment methods and to work out any unforeseen issues with the full-size plant. #

<http://www.montereyherald.com/mld/montereyherald/news/12186606.htm>

**LOCAL CONTROL OF WATER SYSTEM:
Felton voting on whether to buy local water system
San Jose Mercury News – 7/26/05
By David L. Beck, staff writer**

Four years ago, it's safe to say, no one in Essen, Germany, had ever heard of a little town in the Santa Cruz Mountains called Felton.

Now they have. Through a series of mergers, RWE Aktiengesellschaft, a utilities conglomerate based in Germany's industrial Ruhr Valley, has come to own the water treatment and delivery facilities in Felton. And people in Felton -- at least some of them -- have been objecting ever since to what they claim are the costs of globalization: higher rates, poor service and the loss of local control.

California American Water, the local subsidiary of American Water, which is the U.S. subsidiary of Thames Water, which is a branch of RWE, disagrees. They're fighting it out at the ballot box with Felton water activists to see whether they'll have to go to court.

The mail-in ballots are due tonight at 8. Counting should be done before 9 p.m., said Gail Pellerin, the Santa Cruz County clerk.

The 2,520 registered voters in Community Facilities District No. 1 are being asked to approve by a two-thirds majority a bond issue of up to \$11 million. The money would be used to buy out Cal-Am's Felton holdings.

Since Cal-Am has no intention of selling -- "I think we're pretty clear about that," said spokesman Evan Jacobs -- the next step would be a condemnation proceeding, in which the court could order Cal-Am to sell to the San Lorenzo Valley Water District.

Property owners would be assessed about \$695 a year (more for those with larger water connections) for 30 years to repay the bonds. Backers of Measure W say that's less than owners would have to pay under Cal-Am's proposed 114 percent rate increase.

Opponents say that's not true, and that the community will be giving away its water facilities after paying tens of millions of dollars to get them from Cal-Am. San Lorenzo Valley Water adjoins Felton and would add that system to its own if the condemnation of Cal-Am succeeds

The numbers are small. Felton has fewer than 1,350 water connections. Of the 2,520 registered voters who have received ballots, only about 1,400 had returned them as of Monday afternoon.

The impact of the vote could be felt beyond Felton:

- In Monterey County, where Cal-Am delivers water to about 41,000 customers, the Peninsula Water Management District will ask voters in November if they want to spend \$550,000 to study the possibility of a public takeover of Cal-Am's holdings.
- On the San Mateo County coast, Cal-Am obtained Montara's water system in the same merger that brought it Felton's, but the Public Utilities Commission ordered Cal-Am to sell to a local utilities district. A Felton buyout, following Montara's, could lend momentum to events in Monterey.
- Opponents of the American Water subsidiary in Lexington, Ky., are moving toward forcing local authorities to initiate condemnation proceedings.

Cal-Am has also asked the PUC to allow it to consolidate Monterey with Felton for rate-setting purposes -- another sore point with Felton water users. ``Monterey doesn't want to be subsidizing us, and we don't want to be part of them," said Jim Graham, a spokesman for Felton Friends of Local Water.

If Measure W fails in Felton, ``Cal-Am continues to run the system," said Graham. ``We'll lick our wounds and then figure out where to go from there."

Jacobs said there are several things a victorious Cal-Am could do, including protecting the local watershed and improving local communications, perhaps by setting up an advisory council.

``I think we've been trying for about two years here to extend an olive branch to the activists," Jacobs said. #

<http://www.mercurynews.com/mld/mercurynews/news/local/12224277.htm>

CAL AM:**Felton OKs takeover of Cal Am; Court battle expected; vote may add steam to Peninsula's effort****Monterey Herald – 7/27/05****By Virginia Hennessey, staff writer**

Voters in Felton on Tuesday passed an \$11 million bond measure to finance a public takeover of California American Water's system there.

Only minutes after the 8 p.m. deadline for ballots to be cast in the mail-in election, the Santa Cruz County Elections Department reported that Measure W had passed on a vote of 1,200 to 405. Nearly 64 percent of the 2,526 eligible voters cast ballots.

While the measure needed a two-thirds majority to pass, 74.8 percent voted to pay \$700 per year in additional property taxes for 30 years to pay for the bond.

"Yes, yes, yes. Bravo for Felton," shouted Alvin Edwards, the Monterey Peninsula Water Management District board member who proposed a measure that will appear on the Peninsula's Nov. 8 ballot asking voters if they want to pay up to \$550,000 to study the logistics of taking over Cal Am's system here.

Cal Am officials said Tuesday night that Felton's vote was merely the first shot in what is sure to be a long and costly legal battle. The company, owned by German conglomerate RWE, will not willingly sell. And it plans to challenge the community's right to use the power of eminent domain to initiate condemnation proceedings.

Kevin Tilden, vice president of Cal Am, flew from the company's Chula Vista headquarters Tuesday night so he could assure the company's Felton employees they would not be out of a job today.

"To our employees: If this does end up in condemnation, it will be a very long process," he said. "Many FLOW people think if this passes, they win a water company. Our system is still not for sale."

Members of Felton Friends of Locally Owned Water (FLOW), who campaigned vigorously for the measure, were too busy celebrating Tuesday at a local restaurant to be worried about Cal Am's threat of legal action.

"It's fantastic," said Jim Graham, FLOW spokesman. "We've got about 100 people here. The only thing missing was someone dumping buckets of Gatorade over our heads."

The election results are sure to provide added steam to the Peninsula's November election, which proposes a study of a public takeover, not an immediate acquisition.

"That was a big step for (Felton) because they voted for the money. I'm proud to see they stuck together on that issue," Edwards said. "I hope that we on the Peninsula feel the same way, just to investigate (a takeover). Let's not make it a growth-no growth issue."

"I hope and I pray that (Cal Am doesn't) get nasty with it," Edwards added, saying that Cal Am had threatened Felton and Monterey with a legal war. "You don't want to threaten this community. I think threats got Felton to where it is."

Tilden said Felton was "an anomaly" and said he doubted Monterey Peninsula voters would be willing to pay \$700 per household each year for 30 years to buy their system.

No doubt, the results of Tuesday's election will also reverberate in Lexington, Ky., where proponents of a takeover of Kentucky American's water system are battling to carry out an election to force their City Council to initiate eminent domain proceedings. Kentucky American, also owned by RWE, has sued to delay that November election until 2006.

Residents of unincorporated Felton began their takeover fight in 2003 after learning from a letter in their water bills that their system had been acquired by RWE, the third-largest water conglomerate in the world.

Despite the fact that their water system had been privately owned for decades, Felton ratepayers objected to foreign ownership of their water supply and worried that water quality and service would decline while RWE would dramatically raise rates.

With the help of Supervisor Jeff Almquist, now a Superior Court judge, and his successor, Supervisor Mark Stone, residents convinced the entire Santa Cruz County Board of Supervisors to create a community facilities district and place the bond measure on the ballot.

The measure calls for Cal Am's mountain district to be annexed by the San Lorenzo Valley Water District, which would use its power of eminent domain to condemn the system. The county estimated the system's value at \$11 million, but any sales price would be determined by a judge or jury.

Cal Am's Tilden predicted it will never get to that point. He said the valley water district first must prove in court that a municipal takeover serves a greater public good than leaving the system with Cal Am. The company will use all of its resources to challenge that claim, he said.

Bring it on, said 85-year-old Frank Adamson, who was celebrating with other Felton FLOW members Tuesday night.

"I'm almost speechless with joy, although this is just the first stage. We have a lot of work to do. I'm sure Cal Am will make it difficult for us.

They've got a lot of money. But we've got spirit."

Tilden said the Measure W campaign was full of misinformation, such as the assertion that the company's rates were much higher than the San Lorenzo Valley Water District's. Cal Am's rates are only 8 percent higher, he said.

That depends on how you apply the numbers, said valley water district General Manager James Mueller.

A study by a Cal Am consultant found an 8 percent difference in the two purveyors' water rates, he agreed. But that report did not take into consideration Cal Am's application for a 100 percent rate increase or the 44 percent increase that has already been approved, but has not yet been billed to customers.

Those approved rates have been accumulating for two years pending the decision by the California Public Utilities Commission on Cal Am's application to consolidate the rates of its Felton and Monterey districts. If the

consolidation is approved, the accumulated rates would be spread out to ratepayers in both districts.

Measure W proponents argued that it would be cheaper for residents to pay for a takeover than to pay Cal Am's rate hikes. The measure's opponents disagreed, pinning their argument on the hope that the consolidation would be approved.

A proposed decision on that application, which has been strongly opposed by a number of groups and agencies, is due Thursday. Given the outcome of Tuesday's election, approval of the consolidation is not likely. #

<http://www.montereyherald.com/mld/montereyherald/news/12234268.htm>

**MOSS LANDING DESALINATION PLANT:
Deal reached on desal plant;
Pajaro-Sunny Mesa teams with major desalination developer
Monterey Herald – 7/28/05
By Virginia Hennessey, staff writer**

The developer of the country's largest desalination plant has entered into a management agreement with the Pajaro-Sunny Mesa Community Services District to build and manage a similar plant in Moss Landing.

Officials from Poseidon Resources Corp. reached agreement with the Pajaro-Sunny Mesa board of directors Wednesday night and said they hope California American Water, which has proposed a competing desalination plant in Moss Landing, will cooperate with the partners to develop a single plant to serve the region's needs.

Under terms of the agreement, Poseidon would operate the plant. Pajaro-Sunny Mesa, a public agency that has delivered water to North Monterey County residents for 25 years, would own it. The memorandum of understanding adds heat to the competition between Cal Am and Pajaro-Sunny Mesa.

Cal Am Vice President Kevin Tilden was stunned at the news.

"Interesting. All news to me," said Tilden. "You could blow me over with a feather."

Cal Am has proposed a plant on Duke Energy property, but has no lease for the site and no public partner, as required by Monterey County ordinance. It has, however, completed initial environmental studies and filed applications for its pilot plant and the proposed project. The company maintains that the county ordinance on public ownership is illegal.

Pajaro-Sunny Mesa has a 99-year lease for its plant at the former National Refractories site and provides public ownership, but has not begun its environmental studies.

Nation's largest plant

District counsel Marc del Piero said he was in discussions with Duke Energy to use water from its cooling system for desalination, rather than using the intake and outfall system at National Refractories, to avoid additional impact on the Monterey Bay.

In a letter addressed to Pajaro-Sunny Mesa General Manager Joe Rosa last month, Duke Vice President David Gillespie indicated Duke was "prepared to facilitate the development of a desalination project that has broad community support by engaging in discussions with developers like (Pajaro-Sunny Mesa) and others," but did not want to be in a position of favoring one project over another.

Cal Am officials have often criticized Pajaro-Sunny Mesa for lacking the "technical, managerial and financial" abilities necessary to develop and operate a plant that would deliver more than 20,000 acre-feet of water to the county each year.

Poseidon, a Delaware corporation headquartered in Stamford, Conn., owns and operates five desalination plants in Mexico, where it is the largest provider of water infrastructure.

It is also developing major desalination plants in Huntington Beach and Carlsbad. Its pilot plant in Carlsbad has been operating for more than two years while the company completes the environmental review process for a plant that will produce 56,000 acre-feet of desalted seawater per year, the largest such plant in the United States.

Poseidon's operation in San Diego County pulls water from the cooling system at the Carlsbad Power Plant.

Lower cost of water

The plant proposed by Pajaro-Sunny Mesa and Poseidon would produce up to 28,000 acre-feet annually, at a cost of from \$1,200 to \$1,300 per acre-foot, according to the agreement reached Wednesday.

Cal Am has projected the costs of its desalted water at from \$1,600 to \$1,800 per acre-foot.

The agreement reached Wednesday, which is to be followed by a more detailed management agreement in 150 days, says the project can provide water to Pajaro-Sunny Mesa's and Cal Am's service areas, Monterey Peninsula cities, unincorporated areas of the county and agricultural areas served by the Pajaro-Valley Water Management Agency in North Monterey County, which is severely impacted by seawater intrusion.

Del Piero stressed that the district's proposed project with Poseidon will produce water to replace historic and "nonpermitted" water use on the coast and in North County, not to facilitate growth.

North Monterey County has an overdraft of 11,000 acre-feet per year, he said. The Seaside Basin's overdraft was recently set at from 2,000 to 3,000 acre-feet annually. And 10 years ago, the State Water Resources Control Board ruled that Cal Am had no legal right to 10,730 acre-feet it was pumping from the Carmel River each year. The company has been ordered to find a new source for that water.

Those amounts total close to 25,000 acre-feet annually. If the county and local municipalities want additional water for future growth, del Piero said, "that's a decision that needs to be made by the cities and Cal Am."

Poseidon President Walter Winrow said his company has discussed potential partnerships with Cal Am in the past, and he hopes to work with it here.

Working on finances

Under the terms of Wednesday's agreement, Pajaro-Sunny Mesa and Poseidon "acknowledge that it is the intention of the parties to reach an agreement with the California American Water Co.... in order to facilitate the development of a single desalination facility in the Moss Landing area."

Del Piero told the Pajaro-Sunny Mesa board Wednesday the project would likely be financed by bonds or certificates of participation. The district can also opt to have Poseidon provide financing.

Poseidon owns the project in Carlsbad and is contracting with cities there to provide water. That area faces a similar difficulty to that of the Monterey Peninsula in that it has been ordered to sharply reduce pumping from the Colorado River.

Peter MacLaggan, vice president of Poseidon, is in charge of the company's operations there. While operating its pilot plant, he said Wednesday, the company worked closely with the Scripps Institution of Oceanography to study impacts to the area's marine environment. Scripps' scientists, he said, found no significant impact.

While completing its environmental impact report, Poseidon has maintained operation of the plant for public education purposes, hosting school groups, local residents and politicians, who are allowed to sample the water. MacLaggan said 98 percent of respondents in a taste survey said the water tasted as good as or better than their current water source.

In a test of the effect of the brine that is discharged into the ocean after the desalting process, the company's pilot plant includes fish tanks filled with local species swimming in water representing a "worst-case scenario" of ocean water after the plant's brine discharge. None of the fish has died, he said.

Winrow said Poseidon will similarly seek input from local marine scientists. He and MacLaggan met Wednesday with Kenneth Coale, director of Moss Landing Marine Laboratories, who said he looked forward to participating in the process and would provide to Poseidon a list of marine scientists throughout the Monterey Bay area.#

<http://www.montereyherald.com/mld/montereyherald/news/12244391.htm>

**PROPOSED RATE INCREASE:
Water Rules Dictate Rates, Cal Am Says;
Funds needed for dam projects, company tells PUC judge
Monterey Herald – 7/28/05
By Joe Livernois, staff writer**

SAN FRANCISCO -- With regulatory agencies breathing down its neck, California American Water has no option but to seek higher rates from its Monterey Peninsula customers, the utility's officials told an administrative law judge here Wednesday.

During a day of questioning, a representative for the private utility delivered the first testimony in a rate hearing before the judge for the state Public Utilities Commission. Nearly all the testimony this week will come from Cal Am officials who will defend the company's rate increase to Christina Walwyn, who will eventually recommend rates to the full commission.

Cal Am is seeking a 46 percent rate increase during the next three years, but representatives from the Monterey Peninsula Water Management District and the Office of Ratepayer Advocates are challenging the more pricey requests the utility has presented to justify a significant percentage of the proposed rate increase.

Most notably, Cal Am has asked the PUC permission to charge ratepayers to reimburse the utility \$38 million for retrofitting the San Clemente Dam -- a 75-year-old structure that has held back a reservoir now filled with silt -- and \$4 million the company spent to plan for and design a new dam on the Carmel River.

The utility eventually abandoned the new dam plan and is now promoting a desalination project in Moss Landing. The cost of that proposed project was originally included in the Cal Am rate request, but the PUC removed it, advising Cal Am officials to return later with that request.

Dave Stephenson, manager of rate regulation for the utility, said Cal Am pursued both the San Clemente retrofit and the new dam because federal and state agencies are demanding alternative water supplies and requiring that the old San Clemente meet earthquake safety standards.

"We're under orders to retrofit or demolish San Clemente Dam," Stephenson said.

He said the company has had to borrow money to pursue the retrofit and the utility is "losing earning on those expenditures."

Federal agencies have also told the utility to find alternative sources of water that won't tap from the underground supply beneath Carmel River. The utility's abandoned proposal to build a new Carmel River dam and its existing desalination project are attempts to meet that dictate, Cal Am officials said.

Cal Am has asked the PUC for permission to establish what is known as "memo accounts" that would allow the company to charge ratepayers for the cost of a future San Clemente retrofit, as well as to pay for any future fines the company might be subjected to by state and federal agencies for violations of various rules.

Again, Cal Am asserts that with regulatory agencies, there is a catch. On one hand, Stephenson said, the utility is subject to fines if it is unable to provide sufficient water to meet the Peninsula's demand. But the company faces even heavier fines from federal environmental agencies if it is unable to improve the flow of the Carmel River to meet steelhead salmon requirements.

Stephenson said the utility is not always able to meet the consumer's demands without violating the fish requirements. But critics argue that Cal Am has not responded quickly enough -- and well enough -- to react to the various demands.

"The question is, whose fault is it?" said Fran Farina, representing the Monterey Peninsula Water Management District. She and others say Cal Am has long ignored warnings from the regulatory agencies and seriously misjudged the political will of Monterey Peninsula residents, and the company is now attempting to convince the PUC that those residents should pay for its mistakes.

Earlier Wednesday, Cal Am officials announced that it has reached a settlement with the Office of Ratepayer Advocates on a number of relatively minor issues in its complex rate application to the PUC.

The Office of Ratepayer Advocates is affiliated with the PUC, but works independently on behalf of consumers to analyze utility requests for rate increases.

Cal Am attorney Lori Dolquist said the issues settled Wednesday would result in increased rates to Monterey Peninsula consumers. While the numbers have not been calculated, she estimated that the increase could be as high as 18 percent, not including the issues now being considered by Walwyn.

Diana Brooks of the Office of Ratepayer Advocates said her agency has not had an opportunity to review the settlement to determine the extent of the increase.

Last month, the watchdog agency completed its review of the Cal Am application and reported that the utility should actually reduce its rates to Monterey Peninsula consumers by 6 percent. Cal Am officials said the agency's report included substantial errors.

Testimony is scheduled to continue in San Francisco today. #

<http://www.montereyherald.com/mld/montereyherald/news/12244383.htm>