

Submitted by Manuel  
Fierra at 9/22/08  
MPWMD Board Meeting  
Item: Oral Communications.

After intros to those present:

I would like to start by providing the latest information on the Sand City Desal Plant of which you may not be aware. Sand City has gotten all needed permits and has met all requirements for construction of the plant. In fact they have broken ground. The construction will be done by Camp Dresser & McKee. Projected cost of the plant has been set at \$10 million dollars. The plant will produce 300 acre feet of water per year. Water is projected to flow by the spring of 2009. The cost per acre foot of water will be \$3,510. A lease agreement with Cal Am was authorized on 10/09/07. The lease is for a fifteen year span with another fifteen year renewal option. Cal Am is to operate and manage the plant and to pay rent to Sand City.

So far all this information sounds positive. But there is more information that is of grave concern to the citizens that are the rate payers of the Cal Am Water Company. The annual cost to Cal Am to operate and manage the desal plant has been set at \$202,000 per year and the rent has been set at \$850,000 per year for a total of \$1,053,000 per year! If you multiply \$1,053,000 times fifteen years you find that the rental, and operating and management fees amount to \$15,795,000 This far exceeds the initial cost of the desal plant! One more fact about the lease is of vital concern to the citizens and rate payers of the Cal Am Company. Cal Am has stated that Cal Am will recover these costs from the RATE PAYERS.

Let us get back to the cost of the Sand City Desal water per acre foot. It has been set at \$3,510. The cost per acre foot under the Coastal Water Project that Cal Am has proposed was set at \$1,725. The cost per acre foot under Pajaro Sunny Mesa was set at \$1,434! The difference between the CWP and the SCDP is \$1,785 less and the difference between the PSM and the SCDP is \$2,076!

The Sand City Desal Plant is of importance because of it's possible costs to the rate payers. But there is more. Cal Am is asking for an 80.3% rate increase for the Test Year 2009. The amount requested is \$24,718,200.

Cal Am, under a Special Request, is seeking to have the rate payers pay the cost for bringing the San Clemente Dam into compliance with seismic and environmental regulation. The amount being sought, according to Cal Am estimates, is approximately \$75 million dollars.

What are the rate payers to do? How can they fight the Cal Am Corporation? Fortunately we are not alone. The Division of Rate Payers Advocates, an arm of the California Public Utilities Commission, has been assigned to protect the rate payers. Their mission is "to obtain the lowest possible rate for service consistent with reliable and safe service levels. In fulfilling this goal, DRA also advocates for customer and environmental protections."

So what recommendations has the DRA taken on the items described?

On the Sand City Desal Plant. The DRA recommends that the Commission assign to Cal Am the entire cost of approximately \$1,053,000 per year associated with this facility!!!!

On the San Clemente Dam. DRA recommends that the Commission assign to Cal Am all the past, current, and future costs related to bringing the San Clemente Dam into compliance with seismic and environmental regulation. The rate payers should not be responsible for these costs.

On the 80.3% increase for the Test Year 2009. The amount requested by Cal Am in the amount of \$24,718,200, the DRA recommends the amount of \$10,802,200.

The positions taken by the DRA are dramatic. But will they sway the CPUC? Not if past practice is followed. And that is why I am here before you tonight. I am seeking your support and ask that you, as a council and individuals support the DRA in its mission. I also suggest you agendaize the Cal Am rate request for the next council meeting.

Your constituents face a heavy financial burden in the future. I hope you consider them in their efforts to be treated fairly by Cal Am and the California Public Utilities Commission.

Thank you. If you have any questions I will gladly answer them or refer you the document that has the answers.

Manuel G. Fierro  
461 Line Street  
Monterey CA 93940  
Telephone 831-373-1167  
e-mail laon02@hotmail.com



**Division of Ratepayer Advocates**  
**California Public Utilities Commission**  
505 Van Ness Ave., San Francisco

**FOR IMMEDIATE RELEASE**

**PRESS RELEASE**

**Media Contacts:**

Joyce Steingass, DRA Project Manager, 415-355-5532, [jws@cpuc.ca.gov](mailto:jws@cpuc.ca.gov)

Tom Hall, Information Officer, 415-703-1366, [news@cpuc.ca.gov](mailto:news@cpuc.ca.gov)

**DRA OPPOSES CALIFORNIA-AMERICAN WATER'S PROPOSED  
80% RATE INCREASE FOR MONTEREY PENINSULA IN 2009**

SAN FRANCISCO, August 22, 2008 – The Division of Ratepayer Advocates (DRA), an independent consumer advocacy division of the California Public Utilities Commission (CPUC), today issued its report urging a reduction to the rate increase requested by California-American Water Company (Cal Am).

In its application, Cal Am requested a \$24,718,200 (80 percent) increase over current revenues beginning in 2009 in the Monterey Peninsula and other service districts. DRA is recommending that Cal Am's request be reduced by \$13,916,000, resulting in a rate increase of \$10,802,200. DRA's recommended rate increase is 56 percent less than Cal Am's requested rate increase, and results in a 35 percent rate increase for 2009, which represents only the necessary and cost-effective investments to provide safe and reliable water service.

In its report, DRA finds particular fault with Cal Am's management of safety and environmental concerns created by the San Clemente Dam. DRA also found that Cal Am should have focused on saving water by fixing leaks rather than sign a lease agreement to operate a small, expensive desalination facility in Sand City. DRA also found a lack of evidence to justify 63 percent of Cal Am's proposed infrastructure investments, and recommends that the CPUC levy a fine on Cal Am for violating a CPUC directive to submit progress reports on customer service performance.



DRA also opposes the consolidation of Cal Am's wastewater treatment districts. Consolidated districts would place an unfair burden on low-income ratepayers by requiring them to share costs for wastewater treatment plants in wealthier areas. Further, DRA finds it illogical to consolidate wastewater districts that treat water from distant sources in Monterey County.

"The rate increases proposed by Cal Am should be reduced significantly," said DRA Director Dana Appling. "In particular, DRA proposes reductions totaling over \$130 million for infrastructure investments that were not supported by available data, and costs related to poor safety and environmental management of the San Clemente Dam. It is unfair for consumers to be asked to pay for unnecessary infrastructure and poor management decisions when they are facing huge rate increases due to water shortages and high cost desalination facilities to reduce those shortages."

Evidentiary hearings will begin on October 14, 2008, at the CPUC's headquarters in San Francisco.

DRA reports on Cal Am's rate increase applications are at [www.dra.ca.gov/DRA/h20](http://www.dra.ca.gov/DRA/h20).

DRA is an independent consumer advocacy division of the CPUC, created by the Legislature to represent the interests of all private utility customers throughout the state and to obtain the lowest possible rate for service consistent with reliable and safe service levels. DRA has a multidisciplinary staff with expertise in economics, finance, accounting, and engineering.

For more information on DRA, please visit [www.dra.ca.gov](http://www.dra.ca.gov).

###



*The Voice of Consumers, Making a Difference!*

Docket: : A.08-01-027  
Exhibit Number : \_\_\_\_\_  
Commissioner : John Bohn  
Admin. Law Judge : Maribeth Bushey  
DRA Project Mgr. : Joyce Steingass  
:



**DIVISION OF RATEPAYER ADVOCATES  
CALIFORNIA PUBLIC UTILITIES COMMISSION**

**REPORT ON THE  
RESULTS OF OPERATIONS**

**CALIFORNIA AMERICAN  
WATER COMPANY  
MONTEREY DISTRICT**

**Test Year 2009  
Escalation Year 2010**

**Application 08-01-027**

For authority to increase water rates located in its  
Monterey District serving Monterey, Pacific Grove, Carmel-by-the-Sea, a portion of Seaside,  
Sand City, Del Rey Oaks, certain unincorporated areas of Monterey County, Ambler Park and  
Bishop Service Area, Toro, Hidden Hills and Ryan Ranch Subdivision, and Ralph Lane and  
Chaular Service Areas.

San Francisco, California  
August 21, 2008

1           **V. SUMMARY OF RECOMMENDATIONS**

2           **A. The Commission should disallow Cal Am recovery of**  
3           **all current costs booked into the San Clemente Dam**  
4           **Memorandum Account, and all costs Cal Am will**  
5           **incur once a project has been selected and approved**

6           **B. The Commission should disallow Cal Am recovery of**  
7           **all costs related bringing the Dam into compliance**  
8           **with state and federal authorities**

9           **VI. CONCLUSION**

10           Cal Am has failed to exercise prudent management of the San Clemente  
11 Dam. Cal Am's mismanagement consisted of inaction regarding sediment  
12 management and establishing an adequate depreciation reserve, and failure to  
13 follow federal regulatory agency guidance -- NOAA's interpretation of the ESA.  
14 The result is the potential for over \$100 million in remediation costs. Cal Am's  
15 ratepayers should not have to bear these costs.

16           Cal Am faces regulatory constraints on its sources of supply in its Monterey  
17 District. Meeting regulatory goals for supply augmentation and demand reduction  
18 will cost hundreds of millions of dollars over the next decade. The cumulative  
19 effect of this GRC, the Conservation application, and the Coastal Water Project  
20 could be rate increases of up to 300%.<sup>125</sup> If approved, these increases could leave  
21 Cal Am ratepayers with some of the highest water rates in the country. Adding  
22 another \$100 million for a project whose costs should never have climbed so high  
23 creates a tremendous burden to ratepayers.

24           DRA is trying to ensure that Cal Am's ratepayers receive a sustainable and  
25 environmentally compliant future water supply without paying for unnecessary  
26 projects. Cal Am's Monterey District ratepayers should be spared any expense  
27 that their actions did not cause. Cal Am bears the burden of proof for

---

<sup>125</sup> Cal Am response to DRA Data Request JWS-1, March 6, 2008.

California American Water Monterey District Town Hall Meetings, held March 18 and 19, 2008.

1 demonstrating why ratepayers should incur costs, and in this case it has failed to  
2 meet that burden.

3 DRA has demonstrated a clear case for why the utility's proposed cost  
4 recovery should be disallowed. The Commission should adopt DRA's  
5 recommendation.

6

1           **EXECUTIVE SUMMARY**

2           Cal Am requests an increase of \$24,718,200 or 80.30% in Test Year 2009  
3 over present rates, \$6,503,900 or 11.72% in Escalation Year 2010, and \$7,598,300  
4 or 12.25% in Escalation Year 2011. DRA recommends an increase of  
5 \$10,802,200 or 35.1% in Test Year 2009 over present rates. The two main reasons  
6 for the large discrepancy between Cal Am's request and DRA's recommendation  
7 are the San Clemente Dam and Plant additions.<sup>1</sup> These and other key differences  
8 are discussed below.

9           **1) Key Recommendations**

10           DRA's recommendations are based on disallowing costs for projects where  
11 Cal Am exercised imprudent management and projects that are not necessary or  
12 cost-effective.

13           **a. San Clemente Dam**

14           DRA recommends that the Commission assign to Cal Am all of the past,  
15 current, and future costs related to bringing the San Clemente Dam into  
16 compliance with seismic and environmental regulation. Ratepayers should not be  
17 responsible for these costs.

18           **b. Sand City Desalination Facility**

19           DRA recommends that the Commission assign to Cal Am the entire cost of  
20 approximately \$1,053,000 per year associated with this facility. DRA determined  
21 that Cal Am did not conduct sufficient analysis to justify the purchase of very  
22 expensive water from this facility. DRA believes that Cal Am should look to  
23 reducing unaccounted for water and conservation rather than small increments of  
24 desalinated water which are not cost-effective.

---

<sup>1</sup> DRA notes its testimony for the General Office (GO) allocation is to be submitted on September 11, 2008. Differences between DRA and Cal Am in the GO test year estimates are not reflected in this report.



1                   **c. Plant Additions**

2                   DRA recommends that the Commission approve \$11,172,423 or 42% of  
3 Cal Am's requested infrastructure investments for Test Year 2009, and \$4,364,552  
4 or 11% for Escalation Year 2010. DRA determined that Cal Am did not provide  
5 sufficient information and analysis to support its requests. DRA also found  
6 serious inaccuracies in Cal Am's documentation for requested projects.  
7 Infrastructure investments must be prudent, and Cal Am Monterey ratepayers  
8 should not be required to pay for projects that may not be necessary.

9                   **d. Payroll**

10                  DRA recommends that the Commission approve 2 of the 15 employees  
11 requested by Cal Am. DRA determined that Cal Am did not provide sufficient  
12 information to justify the addition of 13 employees.

13                  **e. Distribution Service Improvement Charge**

14                  DRA recommends that the Commission not authorize this surcharge  
15 mechanism. The DSIC would not enable the Commission to provide the  
16 appropriate level of oversight for Cal Am's infrastructure replacement program.  
17 In previous decisions for Cal Am's other districts, the Commission has deferred  
18 approving DSICs until it reviews the results of the pilot DSIC in Cal Am's Los  
19 Angeles district. In addition, DRA recommends alternate methods for Cal Am to  
20 prioritize replacements to infrastructure, including Comprehensive Asset  
21 Management.

22                  **f. Seaside Basin Adjudication**

23                  DRA recommends that the Commission amortize over 20 years the  
24 \$2,755,960 Cal Am incurred related to the Seaside Basin Adjudication. Both the  
25 Company and its ratepayers benefitted from the Adjudication, and DRA's  
26 recommended ratemaking treatment reflects that mutual benefit.

27                  **g. Unaccounted for Water**

28                  DRA recommends that the Commission authorize expenditures of \$586,518  
29 to increase Cal Am's water supply through reducing water loss and meter

1 inaccuracies. DRA's recommends funding cost-effective programs that should  
2 generate in excess of 380 acre feet of additional water.

3 **h. Customer Service**

4 DRA recommends that the Commission fine Cal Am \$80,000 for not  
5 complying with a prior Commission decision 06-11-050. DRA also recommends  
6 that the Commission order Cal Am to form an independent task force to serve as a  
7 liaison between Cal Am and its customers. DRA determined that Cal Am's  
8 customer service needs improvement.

9 **i. General Office and Rate Design Related Issues**

10 These requests will be addressed in a separate report and supplemental  
11 testimony that DRA will issue on September 11, 2008 in accordance with the  
12 Administrative Law Judge's Ruling and Scoping Memo dated June 27, 2008 and  
13 the ALJ's Ruling Modifying Schedule filed August 13, 2008. As a result of any  
14 changes in expenses that result, DRA will include a revised Summary of Earnings  
15 and Results of Operations Table with that supplemental testimony.

16 **2) Background – Cal Am's Constrained Water Supply**

17 Cal Am's two sources of supply on the Monterey Peninsula, the Carmel  
18 River and the Seaside Groundwater Basin, are constrained by regulatory decree  
19 resulting from environmental considerations.

20 On January 15, 2008, the State Water Resources Control Board issued a  
21 Draft Cease and Desist Order that specifies a timeline for Cal Am to reduce its  
22 Carmel River pumping to no more than its legal right of 3,376 Acre feet per year.  
23 If the Board issues a Cease and Desist Order, Cal Am will face additional  
24 restrictions on its pumping of Carmel River water beginning in 2009. The  
25 SWRCB held hearings on the Order in June, July, and August of 2008.

26 Cal Am's pumping from the Seaside Groundwater Basin is subject to  
27 reductions in 2009 and every three years thereafter. The pumping reductions were  
28 ordered by the Monterey County Superior Court in order to diminish the threat of  
29 seawater intrusion into the Basin.

1           **CHAPTER 12: SAND CITY DESALINATION PLANT**

2           **A. Introduction: Summary of Cal Am Rate Recovery**  
3           **Request and DRA recommendation**

4           Cal Am has entered into a 15 year operating lease with Sand City to operate  
5           and deliver water from a 300 Acre-foot per year (“AFY”) desalination plant. The  
6           Sand City Desalination Plant (“SCDP”) is projected to begin producing water in  
7           spring 2009.<sup>315</sup> Cal Am’s annual cost to run the SCDP will be approximately  
8           \$1,053,000 (\$3,510 per acre foot). This figure includes Cal Am’s “rent” payments  
9           to Sand City (\$850,000/year) and its Operations & Maintenance costs  
10          (\$203,000/year). Cal Am proposes to recover the entire amount from  
11          ratepayers.<sup>316</sup>

12          **DRA Recommendation**

13          DRA recommends that the Commission assign all costs associated with the  
14          SCDP to Cal Am. DRA’s analysis shows that Cal Am did not perform adequate  
15          analysis before entering into the operating lease with Sand City. Cal Am did not  
16          compare the SCDP to other more cost-effective options for obtaining additional  
17          water, nor did Cal Am conduct appropriate due diligence of the lease costs. Cal  
18          Am ratepayers should not bear the costs of Cal Am’s mismanagement.

19          **1) Background – Cal Am's Constrained Water Supply**

20          Cal Am's two sources of supply on the Monterey Peninsula are constrained  
21          by regulatory decree resulting from environmental considerations. Cal Am's  
22          primary source of supply, the Carmel River (“River”), originates in the mountains  
23          of Big Sur and empties into the Pacific Ocean in Carmel. The negative

---

<sup>315</sup> Personal communication between Richard Simonitch, Sand City, and Max Gomberg, DRA, July 29, 2008.

<sup>316</sup> DRA notes that Cal Am did not provide written testimony justifying its Operating Lease with Sand City.

## CHAPTER 3: SPECIAL REQUEST #9

This Chapter presents DRA's analysis and recommendations on special request #9 - Recovery of San Clemente Dam Seismic Retrofit Costs - made by Cal Am for the Monterey District.

### I. INTRODUCTION: SUMMARY OF CAL AM RATE RECOVERY REQUEST

Cal Am requests to recover through rates the cost of all regulatory requirements for dam safety and environmental compliance for the San Clemente Dam. This cost includes studies and planning for Environmental Impact Reports, interim seismic safety measures to reduce damage in the event of an earthquake, assessing and enhancing habitat for threatened species, interest expense, and a project to strengthen (buttress<sup>25</sup>) or remove the Dam. Cal Am requests recovery of approximately \$75 million. Cal Am proposes to recover the cost of a buttressing project by placing the construction costs into Construction Work In Progress ("CWIP") over three years. Under the buttressing project, Cal Am would exclusively pay for construction and would retain ownership of the Dam. For a dam removal project led by the California Coastal Conservancy, Cal Am would contribute money and donate its land holdings at and around the Dam site. If dam removal is required, Cal Am proposes to recover the cost over 25 years.

### II. BACKGROUND<sup>26</sup>

The San Clemente Dam ("Dam") was constructed by the California Water & Telephone Company in 1921. It is located on the Carmel River, 18.5 miles

---

<sup>25</sup> Buttressing" the dam entails "thickening the downstream face of the Dam with concrete, strengthening the right abutment near the dam crest, modifying the spillway and dam crest to increase effective spillway width and armoring the abutments with gunite to prevent erosion." California Department of Water Resources, Final Environmental Impact Report/Environmental Impact Statement, San Clemente Dam Seismic Safety Project, Volume 1, January 2008, p. 2-1.

<sup>26</sup> Appendix A contains a timeline of the events discussed in this report.

1 upstream from the river mouth. The Dam is a thin arch concrete dam whose  
2 spillway is located 525 feet above sea level.<sup>27</sup> When the dam was constructed its  
3 reservoir storage capacity was between 1,410 and 1,425 acre-feet (“AF”).<sup>28</sup> As of  
4 2002, the reservoir storage capacity was 137 AF.<sup>29</sup> This storage reduction is due  
5 to the accumulation of sediment behind the Dam. DRA was unable to obtain any  
6 records of California Water & Telephone Company’s Dam management activities.

7 California-American Water Company (“Cal Am”) purchased the assets of  
8 the California Water & Telephone Company in 1966.<sup>30</sup> Cal Am’s description of  
9 how it has operated the Dam was provided in its last GRC filing.<sup>31</sup> Cal Am has  
10 used the Dam as a diversion point<sup>32</sup>, though it has diverted little or no water from  
11 the Dam since 1999.<sup>33</sup> Cal Am has never had a sediment management plan for the  
12 Dam.<sup>34</sup>

---

<sup>27</sup> California Department of Water Resources, Final Environmental Impact Report/Environmental Impact Statement, San Clemente Dam Seismic Safety Project, Volume 1, January 2008, p. 1-1.

<sup>28</sup> The 1410AF figure was provided by Cal Am in response to DRA Data Request MZX 3-7, March 27, 2008. DWR’s Final EIR/EIS states that “the [Dam] initially impounded a reservoir of about 1425AF.” California Department of Water Resources, Final Environmental Impact Report/Environmental Impact Statement, San Clemente Dam Seismic Safety Project, Volume 1, January 2008, p. 1-1.

<sup>29</sup> Cal Am response to DRA Data Request MZX 3-7, March 27, 2008.

<sup>30</sup> Cal Am response to DRA Data Request MZX 5-1, April 8, 2008.

<sup>31</sup> Cal Am GRC filing in Application A.05-02-12, Fred Feizollahi Direct Testimony, Exhibit. A at 1-2. DRA notes that MPWMD objected to Mr. Feizollahi’s characterization that the Dam “still serves as a major point of diversion.” MPWMD cited evidence that Cal Am had not diverted any water from the Dam since 2002 (MPWMD Opening Brief, October 10, 2005, p. 7). DRA concurs with MPWMD that the Dam has not served as a point of any diversion since 2002. (See footnote 8 below).

<sup>32</sup> A diversion point is a place where water is diverted from a body of water (stream, lake, canal, reservoir, etc.) into a utility’s distribution system.

<sup>33</sup> Cal Am response to DRA Data Request MZX 3-8 accounts for water diverted from the San Clemente Dam from the 1985-86 water year (a water year is October 1 – September 30) through the 2006-07 water year. Between the 1999-2000 and 2002-03 water years, no more than 260AF was diverted from the Dam. From the 2003-04 water year to the present, no water has been diverted from the Dam.

<sup>34</sup> Cal Am response to DRA Data Request MZX 3-10, March 27, 2008.

# 1 Organization of Report

Chapter Number	Description	Witness
-	Executive Summary	
1	Overview and Summary of Earnings	
2	Water Consumption and Operating Revenues	Joyce Steingass
3	O&M and A&G Expenses	Jerry Oh
4	Unaccounted For Water	Isaiah Larsen
5	Taxes Other Than Income	Sung Han
6	Income Taxes	Sung Han
7	Utility Plant in Service (Includes Appendix A of Data Requests)	Nihar Shah
8	Depreciation	Sung Han
9	Ratebase	Sung Han
10	Customer Service	Joyce Steingass
11	Seaside Basin Adjudication Costs	Jose Cabrera
12	Sand City Desalination Plant	Max Gomberg
13	Water Quality	Joyce Steingass
14	Toro Water System	Nihar Shah
15	Step Rate Increases	Joyce Steingass
Appendix A	Plant in Service Data Responses	Nihar Shah
Appendix B	Qualifications	All

For good cause shown, the Division of Ratepayer Advocates' request is granted and the schedule is modified as set out below:

<b>SCHEDULE</b>	
<b>EVENT</b>	<b>DATE</b>
DRA Testimony Distributed	August 21, 2008
Intervenor Testimony Distributed	September 2, 2008
DRA General Office and Rate Design Testimony Distributed	September 11, 2008
Cal-Am Rebuttal Testimony Distributed	September 16, 2008
Settlement Negotiations	September 18, 2008 <sup>1</sup>
Intervenor General Office and Rate Design Testimony Distributed	September 25, 2008
Cal-Am General Office and Rate Design Rebuttal Distributed	September 25, 2008
Evidentiary Hearings	October 14 - 24, 2008, 10:00 a.m. Commission's Courtroom State Office Building 505 Van Ness Avenue San Francisco, CA 94102
Opening Briefs	November 10, 2008 <sup>2</sup>
Reply Briefs	November 24, 2008
ALJ's Proposed Decision	February 20, 2009
Final Commission Decision	March, 2009

<sup>1</sup> Or on such other date as the parties may agree.

<sup>2</sup> The scheduled dates for opening and reply briefs are tentative and will be determined at the close of evidentiary hearings, or by ruling.