

April 1, 2008

Public Policy Statement; Cease and Desist Order WR 2008-00XX-DWR

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California Public Utilities Commission

The California Public Utilities Commission (CPUC) is dedicated to ensuring that consumers have safe, reliable utility service at reasonable rates, which is in compliance with all laws and regulations, as well as promoting the health of California's economy.

The CPUC has rate and service regulation over California American Water Company (Cal Am) in Monterey. In short this means we set the rates that Cal Am charges for water service and we authorize Cal Am's capital improvements—including the Coastal Water Project.

Cal Am has before the CPUC an application requesting a Certificate of Public Convenience and Necessity to construct and operate its Coastal Water Project. This application was filed in 2004 in response to a study commissioned by the CPUC--known as the Plan B Project Report—which my department issued in July of 2002.

As part of its application, Cal Am is required to prepare an Environmental Impact Report (EIR) for which the CPUC is the lead agency. The Draft EIR is scheduled to be released by the end of 2008. The draft EIR will evaluate the Coastal Water project, as well

as project alternatives. That means the final EIR could be issued in mid-2009, and construction could begin soon thereafter.

In addition, the CPUC has already implemented customer surcharges for recovery of pre-construction costs already borne by Cal Am for the Coastal Water project, thereby reducing the potential increase in water rates by project completion.

There is more good news: Outside of, and independent of the pending application before the CPUC, considerable progress has been made in developing a regional alternate project. This effort was led and organized by the CPUC's Division of Ratepayer Advocates—an independent arm of the CPUC that advocates for ratepayers and includes many of the affected public agencies in the Monterey area. A regional plan is expected later this summer and it may be included in the EIR as a project alternate.

The message that I would like to leave with you today is that since the Water Board issued order WR 95-10, great progress has been made in finding a permanent solution to the existing situation of over-diversions. We are very close to culminating a multi-year effort so that Cal Am can comply with Order WR 95-10. We hope that the CPUC and Cal Am can continue making progress to comply with your order and that no action be taken such that this progress is impeded at this late stage. Water supply issues are particularly challenging in Monterey, but in this instance, I think a solution is close at hand.