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Subject: Political Efforts for ISP and CPKelco to Avoid Unfair Wastewater Charges

Dear Larry

The purpose of this letter is to explain a looming City policy development which would put a tremendous and unfair burden on both ISP's and CPKelco's food ingredients manufacturing facilities in San Diego, and to ask for your assistance in addressing this problem by political activity. I'm writing on behalf of both businesses.

The issue is the imposition of a new charge for "COD" in wastewater discharged by San Diego sewer customers. COD ("chemical oxygen demand") is a measure of organic matter present in wastewater. Most cities employ costly secondary treatment processes to remove fine or dissolved organic matter before discharge to rivers, bays or shallow ocean outfalls. Most cities also include expensive COD charges in their wastewater rates.

San Diego is unique in that the deep ocean outfall at the Point Loma Wastewater Treatment Plant makes discharge of non-toxic organic matter environmentally safe. Hence, San Diego is one of the few cities in the country that uses an advanced primary treatment process to remove settleable solids, but requires no secondary treatment prior to discharge. So San Diego has never needed to include a charge for COD in their wastewater rate structure.

Because wastewater from any food plant, like ours, naturally contains a high concentration of organic matter, the imposition of a COD charge would be a dramatic cost impact that would threaten our plants' viability. That's why we were so alarmed when City staff began proposing COD charges a couple years ago. We estimate COD charges would cost ISP's plant alone about a million dollars per year, based on the rate structure they were proposing. The impact on CPKelco, would be even greater. Other businesses impacted include restaurants, and other food processing plants. But impact on residents would be negligible, and impact on essentially all other businesses or industries would be very small.

A COD charge would be understandable if the City was incurring costs to treat this organic material, but with Point Loma Treatment Plant not requiring secondary treatment, it's hard to understand why. It appears that one or two key City staff members are pushing to implement a wastewater rate structure more like other cities, because they believe it will make it easier to deal

with Sacramento when seeking State funds. But having a COD charge in San Diego is unfair to us, and to other food industry companies, and really doesn't help anyone else.

Therefore, our goal is to dissuade the City from implementing a COD charge.

During recent City Council budget debates, Councilmember Donna Frye requested a detailed cost-of-service study for water costs. We believe her goal is to question the low fee charged developers for new water service. ISP has no problem with her request. However, the City Manager's office took this opportunity to also promise a sewer cost-of-service study, which we know will include a recommendation for implementing COD charges. The City Manager's plan is to present this study to the City Council in September.

Our goal is to maintain the status quo by preventing the COD charge issue from moving forward. Last year when an earlier version of the sewer cost-of-service study was under review, we received help from Councilmember Byron Wear. He championed the issue, and persuaded all Council Members except Donna Frye to vote in closed session to table the study indefinitely, along with COD charges. So we have a history of council support.

This year, possible ways to prevent the adoption of COD charges are to request the City Manager directly to delete COD charges from the cost-of-service study, to ask the Mayor to so direct the City Manager, to ask Councilmember Frye to so direct the City Manager, or to ask assistance from Jim Madaffer in tabling the study, (chair of the Natural Resources and Culture Committee). We could also ask help from any of the other Council Members who voted with Wear last year, including Scott Peters, Brian Matenschein, Ralph Inzunza and Toni Atkins.

At the same time, we plan to seek support from the State Water Resources Control Board for not requiring a COD charge, thus undercutting any City staff rationale for the charge. The State has not been pushing San Diego to implement a COD charge, but there has been some correspondence during the past decade indicating that they consider it proper. We now have some very strong contacts at the State Water Resources Control Board who have the authority, and may be willing, to state that COD charges are not necessary in San Diego's case, at least not now.

If we are unsuccessful in keeping the sewer cost-of-service study off the City Council docket, then we would seek to have it handled in closed session. If it ends up on the open session docket, then we plan to lobby as many Council Members as needed to vote it down. If we are unsuccessful in preventing a COD charge, then we would seek to minimize it, and to delay or phase-in its implementation.

No interest group or constituency is pushing for implementation of COD charges. COD charges would not result in higher City revenues, because by law new COD charges must reduce existing sewer charges for flow and suspended solids by an equivalent amount. No agency is currently pushing for COD charges. No one would be significantly helped by COD charges in San Diego. Since the Point Loma Treatment Plant we discharge to does not have secondary treatment, no significant costs to the City are caused by COD in our waste water. Furthermore, the discharge permit for the Point Loma plant will be in flux for at least the next five years, which means that

any implementation of COD charges would be subject to major revision, or possible rescission, for the foreseeable future. There just is not any immediate reason to implement COD charges.

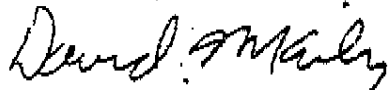
Even so, it could be a tough political battle to keep City staff from implementing COD charges. As one who has a real stake in the success of the ISP and CPKelco businesses in San Diego, we would really appreciate the help you could give us. As you know, both plants are under tremendous cost pressure from foreign competition, and are struggling to keep our heads above water. New costs in the range of \$1MM per year each really do threaten the future of our plants here in San Diego.

Policy makers many times assume that business interests and labor interests are at odds with each other. When the two join together on an issue, it can make a strong statement that gets politicians' attention. Our working successfully together on this issue could mean the viability of ISP and CPKelco in San Diego, and our ability to continue to provide employment for members of the IUOE.

Would you be willing to work with us to influence City policy makers to avoid COD charges? If so, could we meet together this week to discuss in detail how to proceed? Please call Paul Altamirano at (760) 557-3106 to respond.

We appreciate your attention to this important issue.

Sincerely



David McKinley
Mgr., Environmental, Safety & Health