BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

In the Matter of the Application of California-American Water Company (U210W) for a Certificate of Public Convenience and Necessity to Construct and Operate its Monterey Water Supply Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present And Future Costs in connection Therewith in Rates	Application No. 12-04-019 (Filed April 23, 2013)

JOINT SUPPLEMENTAL TESTIMONY OF CALIFORNIA AMERICAN WATER, MONTEREY PENINSULA WATER MANAGEMENT DISTRICT, AND MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

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I. INTRODUCTION

Q1. Who are the witnesses to this joint testimony?

A1. This joint testimony presents the testimony of four witnesses: (1) Richard Svindland, Vice President of Operations of the Applicant, California American Water Company (Applicant, the Company, or Cal-Am); (2) Jeffrey T. Linam, Vice President of Rates of the Applicant, (3) David J. Stoldt, the General Manager of the Monterey Peninsula Water Management District (District); and (4) Paul Sciuto, the General Manager of the Monterey Regional Water Pollution Control Agency (Agency).

Q2. Have you provided testimony in this California Public Utilities Commission (Commission or CPUC) proceeding where you have previously stated your qualifications?

A2. Yes. We have previously submitted direct, supplemental, and rebuttal testimony in this proceeding where our qualifications were discussed.

Q3. What specific issues will you address in your testimony?

A3. We will provide testimony on Sections 2.2 through 2.10, inclusive, of the April 25, 2016 Assigned Commissioner Ruling conditionally granting the parties' joint motion for a separate Phase 2 decision and setting hearing (the "ACR").

Q4. In addressing Section 2.2 of the April 25, 2016 ACR, will you be providing full responses to the April 8, 2016 ruling requesting data and expressing concerns regarding the proposed Pure Water Monterey Project water purchase agreement (WPA)?

A4. No. During the hearing on April 13, 2016, we participated in a panel presentation at which we addressed the April 8, 2016 Ruling in detail. We submit the transcript (Attachment 1 hereto) of the April 13, 2016 panel in which we participated, and make the updates and clarifications set forth in this joint testimony.

II. PROPOSED CHANGES TO THE WPA

Q5. How have you addressed the Commission's concerns to the fullest extent possible in a revised WPA, as discussed in Section 2.3 of the April 25, 2016 ACR?

A5. The Commission's April 8, 2016 ruling raises important concerns about the WPA. While we addressed each of the Commission's questions and concerns in the April 13, 2016 panel, several of the concerns needed to be addressed with revisions to the WPA and are further addressed below. We believe that the testimony provided by the panel witnesses, the revisions to the WPA, and the additional information contained in this joint testimony should dispel any remaining concerns and that the Commission should authorize Cal-Am to enter into the WPA.

A revised WPA is included as Attachment 2 hereto, including revisions to Section 16, Section 31, and Exhibit D (Insurance). Attachment 3 shows five specific changes that were made to Section 16 of the WPA as described below:

Item 3a. of the April 8, 2016 data request has been addressed with language in Section 16 of the WPA to clarify the following principles: *"The Parties agree that the fundamental rate-setting principles of this Agreement shall be (a) the Company does not pay for water it does not receive, (b) the cost of water shall only reflect the true cost of service consistent with California public agency laws and regulations, and (c) the Company shall pay only its proportionate share of the costs of the Agency and the District producing AWT Water."*

Items 3b. and 5a. of the April 8, 2016 data request have been addressed with clarifying language in Section 16 of the WPA as follows: *"Such "true-up" shall mean: if actual Project Operation and Maintenance Expenses are more or less than budgeted Project Operation and Maintenance Expenses used to calculate the Company Water Rate paid during the Fiscal Year, a corresponding adjustment (up or down) will be provided against the subsequent Fiscal Year budget and computed Company Water Rate for that*

Fiscal Year." Additionally, we have provided an example of setting the cost of water (budgets) and the mechanics of an annual "true-up" in Attachment 4 hereto.

The need for a cap on the Year-1 cost of water has been addressed with clarifying language in Section 16 of the WPA as follows: "*In the first year following the Performance Start Date, the Company Water Rate shall not exceed $1,720 per acre foot (the "Soft Cap"). Prior to the Performance Start Date, if the first-year Company Water Rate as calculated is expected to exceed the Soft Cap, the Company shall apply to the CPUC through a Tier 2 advice letter for approval of such rate before the Company shall be required under this Agreement to pay an amount greater than the Soft Cap as the Company Water Rate. Unless and until the CPUC approves a Company Water Rate in an amount greater than the Soft Cap, the Company shall only be required to pay an amount equal to the Soft Cap as the Company Water Rate. In no circumstance shall the District's or the Agency's obligations under this Agreement to deliver Company Water to the Company be affected by the pendency of the Company's application to the CPUC for approval of a rate greater than the Soft Cap or a decision by the CPUC to deny any such application."* We have provided more information in response to Question 6 of this testimony below regarding the establishment of the cap.

We have <u>deleted</u> the following language from the WPA about which the Commission expressed concern: *all Fixed Project Costs and Project Operation and Maintenance Expenses incurred by the Agency and the District in compliance with the terms of this Agreement shall be deemed reasonable and prudent and the CPUC, by its approval of this Agreement, shall be deemed to have agreed that such costs are reasonable and prudent.* This language has been <u>replaced</u> with: "*all Fixed Project Costs and Project Operation and Maintenance Expenses incurred by the Agency and/or the District in compliance with the terms of this Agreement shall reflect only the actual cost of service consistent with California public agency laws and regulations and shall be*

subject to CPUC review consistent with that used for existing water purchase agreements by CPUC-regulated Class A investor-owned water utilities."

Q6. In addressing Section 2.4 of the April 25, 2016 ACR, what is the feasibility or potential for a soft cost cap at the point of indifference of $1,325 per acre foot (AF) in a revised Water Purchase Agreement (WPA)?

A6. We agree that a soft cost cap at a correctly-identified point of indifference at which ratepayers remain whole in being served by the combination of projects versus a single large desalination plant makes sense. However, the value of $1,325 per AF estimate is out of date and no longer valid as a point of indifference. A better reference is the joint cost exhibit submitted by the Applicant, District, Agency, and the Office of Ratepayer Advocates,[1] Attachment 5 hereto. That joint cost exhibit supports the soft cap of $1,720 proposed by the District in its March 22, 2016 testimony.[2]

The joint cost exhibit reflects a number of refinements that have developed since the December 15, 2015 testimony served by Cal-Am, including: (a) Cal-Am has revised its Monterey Peninsula Water Supply Project (MPWSP) Financial Model and the revenue requirement several times;[3] (b) the option of including brine discharge cost as a lease was not contemplated in the December 2015 estimate but was added in the joint cost exhibit;[4] (c) the Division of Water and Audits and Office of Ratepayer Advocates instructed the parties to consider lifecycle costs and net present value analysis,[5] which can result in a different point of indifference than focusing only on the first-year revenue requirement,

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[1] Exhibit JE-1 (April 13, 2016 Joint Exhibit Updated Cost Model).

[2] Exhibit WD-11 (March 22, 2016 Rebuttal Testimony of D. Stoldt), p. 6.

[3] Exhibit CA-36 (January 22, 2016 Supplemental Testimony of J. Linam), pp. 3-6; Exhibit CA-37 (March 22, 2016 Rebuttal Testimony of J. Linam), pp. 3-4; Exhibit JE-1 (April 13, 2016 Joint Exhibit Updated Cost Model).

[4] Exhibit CA-41 (February 12, 2016 Updated Supplemental Testimony of R. Svindland), p. 14; Exhibit CA-37 (March 22, 2016 Rebuttal Testimony of J. Linam), p, 3; Exhibit WD-9 (January 22, 2016 Direct Testimony of D. Stoldt), p. 13; Exhibit PCA-5 (March 22, 2016 Rebuttal Testimony of P. Sciuto), p. 5.

[5] Exhibit DRA-16 (January 22, 2016 Supplemental Testimony of ORA), p. 5; Exhibit WD-9 (January 22, 2016 Direct Testimony of D. Stoldt), p. 14.

especially as future differences in replacement costs, energy costs, and energy consumption are considered[6], as reflected in the various scenarios contained in the joint cost exhibit.

In general, future revenue requirements for both the Applicant's larger and smaller desalination project and the District/Agency's Pure Water Monterey Project remain uncertain and depend on assumptions about eventual financing costs, escalation rates, power delivery method, return water requirements, delays, lawsuits, and so on. The joint cost exhibit did the best to focus in on potentially likely outcomes of these factors.

The joint cost exhibit shows six scenarios reflecting life-cycle net present value (NPV) results, Year 1 revenue requirements, and Year 1 residential bill impacts. The joint cost exhibit demonstrates that there are plausible scenarios in which the larger desalination plant is potentially better for ratepayers and those scenarios where the combination of the Pure Water Monterey Project and a smaller desalination plant is better for ratepayers. While it is shown that, in all scenarios, the Year 1 revenue requirement will be better for the larger desalination plant, in future years this is not always the case. There are scenarios where the NPV is very positive for the combined projects, meaning rates will be lower for ratepayers in later years if the combined projects are implemented. Thus, the Commission should also consider lifecycle costs. It is important to note that the differences in bill impacts are generally all on the order of 1%, which is most likely similar to the error in estimating future costs.

We have evaluated the Year 1 indifference cost of water for the Pure Water Monterey Project for the high and low scenarios shown in the joint cost exhibit based on their Year 1 revenue requirement. As noted above "indifference" means the cost or measure is the same, whether a 9.6 millions of gallons per day (MGD) plant or the Pure

[6] Exhibit WD-9 (January 22, 2016 Direct Testimony of D. Stoldt), pp. 14-15; Exhibit WD-11 (March 22, 2016 Rebuttal Testimony of D. Stoldt). p. 5).

Water Monterey Project plus a 6.4 MGD plant. "Indifference cost of water" means the Year 1 cost of Pure Water Monterey product water that would result in the indifference. For each, we have determined the indifference cost of water for three measures: (1) Total revenue requirement across the 30-year lifecycle, (2) NPV of the 30-year lifecycle, and (3) Year 1 revenue requirement. Results are as follows:

Year 1 Indifference Cost of Water ("Soft Cap") for the Pure Water Monterey Project ($ per Acre-Foot)

Measure	High Scenario	Low Scenario
Total Revenue Required In Lifecycle	$2,062	$1,526
NPV of Lifecycle Revenues Required	$1,890	$1,424
Year-1 Revenue Requirement	$1,438	$1,178

The parties to the joint cost exhibit agree that $1,720 is a representative indifference cost of water for the Pure Water Monterey Project for purposes of the WPA. Methodology and assumptions for the calculation of the Year 1 indifference cost of water is contained in Attachment 6 hereto.

Q7. In addressing Section 2.5 of the April 25, 2016 ACR, how do you propose to address a premium in the price of water in early years with offsetting benefits in later years (*e.g.*, years 15-30)?

A7. In our response to Question 6 of this testimony, we indicate that the proposed soft cost cap in Year 1 is considered to have no or a negligible premium. Therefore, no offset should be implemented. Further, it is unlikely a discounted future water price is possible or necessary to protect the ratepayers. The price of water under the WPA is based on the actual cost of producing and delivering that water, so a price set below the cost is not possible under this structure. The 30-year costs related to capital recovery are fixed prior to the first year of operations based on the financing costs. The annual operation and maintenance expenses will occasionally go up related to actual future costs of chemicals,

energy, services, and supplies. In the future (*e.g.*, Year 20) there could be incremental increases for equipment replacement. Such changes in the cost of water will be reviewed through the Tier 1 advice letter process and the Company's triennial General Rate Case process in the same manner as water purchase agreements from municipal water providers that sell water to investor-owned utilities regulated by the Commission, as further described in our response to Question 8 of this testimony.

Q8. **In addressing Section 2.5 of the April 25, 2016 ACR, how do you propose to address a premium in the price of water in early years if additional source water becomes available in later years (*e.g.*, years 15-30)?**

A8. Section 19 of the WPA addresses "Additional Project Participants" which are defined as "any public district, agency, or entity, or any private water company, other than the Company, that executes a water purchase agreement in accordance with Section 18" of the WPA. Section 19 provides that any "Additional Project Participant will pay for all additional capital costs necessitated by existence of the new water purchase agreement, its proportionate share of both the unamortized capital costs of the Project, and its proportionate share of future operation and maintenance expenses of the Project." Thus, if an Additional Project Participant is added during the term of the WPA due to new source water becoming available, Company ratepayers would benefit from a reduced price because the Additional Project Participants would be required to pay its proportionate share of the unamortized capital costs of the Project and future operation and maintenance expenses of the Project.

Q9. In addressing Section 2.6 of the April 25, 2016 ACR, how will you provide a more streamlined approach for the Commission to access District and Agency books and records, without the requirement to submit Public Records Act requests?

A9. The District and the Agency will provide any requested document at the simple request by phone, email, or letter. However, the District and the Agency would expect to be

treated the same as any municipal wholesaler that sells water to any of the nine Class A investor-owned water utilities regulated by the Commission. Water purchase agreements are not unusual among the Class A water providers. For example, purchased water costs equated to 29% of California Water Service's operating revenue in 2015. There are many examples of similar water purchase agreements with public agencies, often long term (20-30 years), subject to the triennial General Rate Case process. We have cited twelve examples in Attachment 7 hereto.

III. ADDENDUM TO ADDRESS THE MONTEREY PUMP STATION

Q10. In addressing Section 2.7 of the April 25, 2016 ACR, is an addendum necessary to analyze the Monterey Pump Station?

A10. The proposed Monterey Pump Station on Hilby Avenue in Seaside, California would be connected to the new Monterey Pipeline. The new pump station would serve the Aquifer Storage and Recovery Project (ASR Project), and would not be required for implementation of the Pure Water Monterey Project. The new Monterey Pipeline would be able to convey water in two directions: (1) from the Carmel River to the existing ASR Project wells; and (2) from the Seaside Basin extraction wells to the Company's distribution system. The latter purpose is tied to the Pure Water Monterey Project; the Monterey Pipeline is needed to provide sufficient capacity to convey the water produced by the Pure Water Monterey Project to the company's customers. The first purpose is tied to the ASR Project. The Monterey Pipeline and Monterey Pump Station would enable the ASR Project to achieve the full yield authorized by the water rights for the ASR Project.

The District's and Company's water rights allow diversion of excess flows from the Carmel River for injection into the Seaside Groundwater Basin for later extraction and use by the Company. The Monterey Pump Station would constitute an added physical component to the ASR Project, but it would not change the amount of water allowed to be

diverted from the Carmel River, injected into the Seaside Groundwater Basin and extracted by the Company.

Prior to constructing the Monterey Pipeline and Pump Station, the Company would need to obtain the District's approval of an amendment to the Company's existing Water System Distribution Permit. As such, the District would serve as the lead agency for purposes of CEQA review for the proposed change to the ASR Project. The ASR Project Environmental Impact Report/Environmental Assessment (ASR EIR/EA) was certified by the District on August 21, 2006. Subsequently, the District approved changes to the ASR Project on April 16, 2012, supported by an addendum to the ASR EIR/EA dated April 11, 2012 (2012 Addendum). The ASR EIR/EA and the 2012 Addendum did not contemplate the addition of the Monterey Pump Station. The ASR EIR/EA and 2012 Addendum analyzed the impacts of diverting the full amount of Carmel River allowed to be diverted under the District's and Company's water rights, injection of that water into the Seaside Groundwater Basin and extraction of such water for Company use. The addition of the Monterey Pump Station would not change any of the operational parameters evaluated in the ASR EIR/EA and 2012 Addendum. The District will prepare a second addendum to evaluate the impacts of constructing and operating the Monterey Pipeline to determine whether such construction and operation would result in a new significant impact or a substantial increase in the severity of impacts previously disclosed in the ASR EIR/EA and 2012 Addendum.

The District, Agency, and the Company acknowledge that the Monterey Pump Station would be physically located near and connected to the Monterey Pipeline. The environmental impacts of constructing and operating the Monterey Pipeline were addressed in the Pure Water Monterey Project's EIR (Pure Water Monterey EIR), certified by the Agency on October 8, 2015. Construction and operation of the Monterey Pump Station would not change the location or operation of the Monterey Pipeline. Relevant

information in the Pure Water Monterey EIR will be used as needed in the preparation of the District's addendum for the Monterey Pump Station, and the District's addendum also would serve as an addendum to the Pure Water Monterey EIR.

Based on a review of the preliminary plans for the Monterey Pump Station, the District's preliminary determination is that an addendum to the ASR Project EIR/EA and the Pure Water Monterey EIR would be appropriate because the potential environmental impacts of the Monterey Pump Station are not expected to create new significant environmental impacts or substantially increase the severity of previously identified significant impacts. *See* CEQA Guidelines sections 15162, 15164. The District's preliminary conclusion is based on: (1) a review of the ASR EIR/EA, its 2012 Addendum, and the Pure Water Monterey EIR; (2) communications with Company representatives about the proposed design and location of the Monterey Pump Station; (3) a review of preliminary plans for the proposed Monterey Pump Station; and (4) a preliminary review of the potential environmental impacts of the Monterey Pump Station's construction and operation.

Q11: What are the steps and the projected schedule for completing the addendum for the Monterey Pump Station?

A11: The steps and proposed timeline to complete the addendum to the ASR EIR/EA and the Pure Water Monterey EIR and the District's approval of the Monterey Pump Station are as follows:

Steps	Proposed Date of Completion
District Staff to Set Hearing Agenda and Commence Preparation of Staff Reports	May 30, 2016
Draft Addendum Completed by CEQA Consultant	May 31, 2016
District to Review Draft Addendum	June 6, 2016

CEQA Consultant to Prepare Amended Draft Mitigation Monitoring and Reporting Programs (MMRPs) (As Applicable)	June 10, 2016
Addendum Published with Staff Report, Findings, and MMRPs	June 14, 2016
MPWMD Board Hearing on the Adoption/Approval of the Addendum to the EIRs and Approval of the (1) proposed Monterey Pump Station, and (2) Amended Water Distribution System Permit for the Company's System	June 20, 2016

IV. RECORD REFERENCES AND SUPPORT FOR THE JOINT MOTION

Q12. Section 2.8 of the April 25, 2016 ACR requests that the supplemental testimony "provide all reasonable and necessary information for the Commission to reach its decision on the three issues presented in the Joint Motion," which include the Monterey Pipeline and Pump Station and financing and ratemaking. Please respond.

A12. As discussed below, we will first address the need, costs, and operational issues for the Monterey Pipeline and the Monterey Pump Station. We will then address the proposed ratemaking and financing for the Monterey Pipeline and Pump Station.

Q13. Please briefly describe the Monterey Pipeline and Monterey Pump Station.

A13. The Monterey Pipeline[7] is approximately 35,000 feet of 36-inch diameter (nominal) water pipeline located proposed to be constructed mainly in Monterey with portions in Seaside and Pacific Grove. The Monterey Pump Station[8] (also referred to as the ASR Pump

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[7] *See* Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and all Present and Future Costs in Rates, filed April 23, 2012 in A.12-04-019, at pp. 2-5 of Appendix H, thereto, For a description of the pipeline in the original application. *See also* Exhibit CA-6 (April 23, 2012 Direct Testimony of Richard C. Svindland), at pp. 11-13; Exhibit CA-4 (April 23, 2012 Direct Testimony of F. Mark Schubert, P.E.), at pp. 4-11 (describing the infrastructure to comprise the Cal-Am Only Facilities). *See also* Amended Application of California-American Water Company (U210W), filed March 14, 2016, at pp. 6-8 of Attachment 5 (Appendix H) thereto.

[8] This pump station was referenced in original application as the ASR Pump Station located at the Terminal Reservoirs, and modified in 2015/2016 supplemental application to the Monterey Pump Station. *See* Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recovery All Present and Future Costs in Rates, filed April 23, 2012, Appendix H, pp. 2-3; Amended Application of California-American Water Company (U210W), filed March 14, 2016, Updated Appendix H, p. 8.

Station) is needed along the Monterey pipeline route and is currently proposed to be located at Cal-Am's existing Hilby Tank site located in Seaside. The design of the Monterey Pump Station includes multiple pumps with a combined capacity of approximately 6,300 gpm.

Q14. Why is the Monterey Pipeline and Pump Station needed to make use of the 3,500 AFY of water produced by the Pure Water Monterey Project?

A14. While the Monterey Pipeline is a component of the MPWSP and is needed to deliver desalinated water to Forest Lake Reservoir, the Monterey Pipeline also serves separate functions unrelated to the proposed desalination plant. The Monterey Pipeline allows Cal-Am to maximize its Carmel River diversions for injection via the ASR Project and maximize the delivery of extracted water from both the ASR Project and the Pure Water Monterey Project to portions of the distribution system that were historically served water only from the Carmel Valley.

During ASR injection mode with the existing Cal-Am system, excess Carmel River water is delivered to the ASR Project wells for injection via the Segunda Tank and Pump Station and Crest Tank and Pipeline. Due to the 16-inch size of the Crest Pipeline, Cal-Am is unable to divert the maximum rate allowable under the permits for ASR injections, 6,500 gpm (9.4 MGD). Depending on system conditions and demands, the Crest Pipeline can transfer up to 3,000 to 4,000 gpm (4.3 MGD to 5.8 MGD) to the ASR Project wells for injection which leaves approximately 2,500 to 3,000 gpm (3.6 MGD to 4.3 MGD) not available for ASR injection. Under the original application for the MPWSP, filed on April 23, 2012, and the MPWSP Project Description Update,[9] submitted in January 2013, the Monterey Pump Station proposed at the Terminal Reservoir site would have increased the capacity of the Crest Line to 5,500 gpm, which was still below the

[9] Per Exhibit CA-12 (January 11, 2013 Supplemental Testimony of Richard C. Svindland), p. 18 and Attachment 11.

allowable ASR extraction permit. To maximize the ASR permit and avoid multiple pump stations, Cal-Am proposes to construct the Monterey Pump Station from the Terminal Reservoir site to a site along the Monterey Pipeline route on Hilby Avenue. Cal-Am proposes to use the Monterey Pipeline to eliminate the existing system constraint by providing a large dedicated transmission main to move water supply efficiently across the system from the Carmel Valley to the Monterey Pump Station where it is boosted to the appropriate pressure for delivery to the ASR Project wells for injection.

During ASR extraction mode, the existing system constraint prevents Cal-Am from moving ASR water past the Seaside and Old Monterey area of Cal-Am's system. This constraint on Cal-Am's has been referred to as a hydraulic trough.

On the Old Monterey and Seaside side of the hydraulic trough, existing supplies from Seaside wells (1,700 AFY), Sand City (250 AFY) and ASR (700 AFY) are approximately 2,750 AFY and demands in the same area are approximately 3,500 AFY, that leaves about 750 AFY demand behind the hydraulic trough that could be provided by the Pure Water Monterey Project supply if the Monterey Pipeline was not built. The remaining 2,750 AFY that would be produced by the Pure Water Monterey Project is stuck behind the hydraulic trough and cannot reach the other demand areas which are served by Carmel Valley water. Trying to move this large amount of water across Cal-Am's existing system would cause a large increase in system pressure (more than 100 psi increase) which would likely result in damage and leaks to the existing system, would increase usage per customer connection, and would exceed the Commission's service pressure requirements unless individual pressure reducing valves are installed at each customer connection. In addition to being unable to fully utilize supply created by the Pure Water Monterey Project, Cal-Am cannot fully use additional ASR Project storage from Carmel River diversions because of the same constraint.

Q15. Please explain the "hydraulic trough" that exists in the current system and the

purpose of the new Monterey Pipeline and Pump Station.

A15. The existing system's main zone hydraulic grade line (HGL) is about 305' which is set by the Forest Lake Reservoirs located on the south side end of the main zone. On the north end of the main zone, the HGL of the ASR system is about 435' because of increase in elevation. The ASR system is connected into the main zone 305' HGL using pressure reducing valves (PRVs) to regulate pressure to meet the pressure being delivered by existing Forest Lake Reservoir. These two competing gradients meet in the middle of the 305' zone with neither side able to push water past the hydraulic trough.

Q16. What are the proposed costs of the Monterey Pipeline and Pump Station that Cal-Am proposes to build as part of the Phase 2 decision?

A16. The estimated cost of the Monterey Pipeline and Pump Station based on construction bids, allocation of incurred and future implementation cost, and contingency is $46.5M and $3.8M, respectively, for a total cost of $50.3M.[10]

Q17. Are they any operational issues associated with utilizing the 36" pipeline for water from the Pure Water Monterey Project and ASR Project before desalination plant comes online?

A17. No. The 36" pipeline is designed and sized to accommodate water from the Pure Water Monterey Project, the ASR Project, and the desalination project and can operate in any operational variant. The pipeline is designed to accommodate maximum month and maximum day flows.

Q18. Are there minimum pressures necessary in the Monterey Pipeline for fire flows or other system requirements and can those requirements be met by Cal-Am at all times before the desalination plant water comes online?

[10] *See also* Exhibit CA-40, (Dec. 15, 2015 Supplemental Testimony of Richard C. Svindland) at p. 7 of Attachment 1 thereto (providing pipeline and pump station costs).

A18. The Monterey Pipeline would serve as a transmission main for transferring water across the system. It will support Cal-Am's existing distribution system that provides the adequate storage, pump capacity and pressure to meet fire flow and minimum pressure requirements. The Monterey Pipeline system is designed to maintain pressures at the connection points to the 305 HGL zone similar to the current system.

Q19. Are there any minimum velocity requirements or best practices that would apply to the flow in the Monterey Pipeline?

A19. Occasionally, flushing is desired for which a velocity minimum of 2 feet per second (fps) is desired. In the 36" pipeline, 2 fps is 9 MGD which can be delivered with 2 ASR wells in extraction mode. To keep the water in the 36" main fresh, a minimum flow volume of approximately 1.0 MGD is recommended to prevent stagnation of the water. The capacity of 35,000 feet of the 36" pipe is approximately 2 millions of gallons (MG), so the pipe volume will be turned over every two days with a 1 MGD maintenance flow. The 1.0 MGD maintenance flow can be easily achieved during extraction of water from the Pure Water Monterey Project or the ASR Project, during ASR Project injection, or flow from Crest Tank and Pipeline or the Forest Lake Reservoirs.

Q20. Now we will turn to Section 2.8 of the April 25, 2016 ACR which requested information about proposed ratemaking and financing of the Monterey Pipeline and Pump Station. Have there been any joint filings in this proceeding that is relevant to the ratemaking and financing for the Monterey Pipeline and Pump Station?

A20. The Settlement Agreement filed on July 31, 2013[11] succinctly laid out the tracking and recovery of pipeline costs in rates. The most relevant portions of the Agreement state that

[11] *See* Settling Parties' Motion to Approve Settlement [Settlement Agreement Attached], Attachment A, Settlement Agreement of California-American Water Company, Citizens for Public Water, City of Pacific Grove, Coalition of Peninsula Businesses, County of Monterey, Division of Ratepayer Advocates, Landwatch Monterey County, Monterey County Farm Bureau, Monterey County Water Resources Agency, Monterey Peninsula Regional Water Authority, Monterey Peninsula Water Management District, Monterey Regional Water Pollution Control Agency, Planning and Conservation league Foundation, Salinas Valley Water Coalition, Sierra Club, and Surfrider Foundation, filed July 31, 2013 (referred to as "Settlement Agreement").

(1) all costs of the pipeline and other Cal-Am Only facilities will be tracked in a memo account; (2) the first $35.1 million of Surcharge 2 will be used to offset the costs of the facilities; (3) the memo account will draw interest at the actual cost to finance the project; and (4) "once the Cal-Am Only Facilities are used and useful, Cal-Am will file a Tier 2 advice letter to put the balance of the memorandum account into rates by increasing the plant in service by the balance of the Cal-Am Only Facilities portion of the memorandum account and increase Contributions-In-Aid of Construction by the balance of the Surcharge 2 portion of the memorandum account."[12]

The record support of the Settlement Agreement, filed on July 31, 2013, can be found in the testimony of Cal-Am witness David P. Stephenson, in which he addresses these elements of the proposed ratemaking and financing in his direct testimony of April 23, 2012 and rebuttal testimony of March 8, 2013. Specifically, he references provisions for adopting: (1) Surcharge 2 from D.06-12-040 and treatment of the Cal-Am Only facilities as used and useful once constructed and placed in service from D.10-12-016;[13] (2) a memorandum account for all preconstruction costs and continued authorization of ratemaking treatment approved in D.10-12-016 for the Cal-Am Only Facilities;[14] (3) cost cap issues addressed in D.10-12-016 and that certain of the facilities be treated as used and useful as soon as they are constructed, even if the full project is delayed,[15] and (4) Tier 2 advice letter process that involves a semi-annual filing to include all prudently expended costs related to the Cal-Am Only Facilities and to earn Allowance for Funds Used During Construction (AFUDC) until the projects are allowed in rate base.[16]

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[12] *See* Section 7.3 of the Settlement Agreement.

[13] Exhibit CA-5 (April 23, 2012 Direct Testimony of David P. Stephenson), pp. 8-11.

[14] *Ibid*., p. 11.

[15] *Ibid*., p. 23

[16] *Ibid*., p. 23.

Q21. How are the current needs for the MPWSP and its implementation met by the Settlement Agreement?

A21. At the present time, and as explained above, with the Pure Water Monterey Project now ahead of the implementation schedule for the desalination facility by more than two years, and the need for the Monterey Pipeline and Pump Station to be in place to reap the full benefits of the Pure Water Monterey Project and the ASR Project, it is now extremely important to separate the former Cal-Am Only facilities into three pieces.[17] With the absolute need to install the Monterey Pipeline and Pump Station ahead of the remainder of the Cal-Am Only facilities, the original Settlement Agreement likely will need to be clarified to address the installation of these facilities. However, the Settlement Agreement provides all the basics for the financing and ratemaking for the separation of the Cal-Am Only facilities into the three parts noted, such that the ratemaking and financing for the Monterey Pipeline and Pump Station can be separately addressed to ensure that the full benefits of the Pure Water Monterey Project and the ASR Project can be realized by Cal-Am.

Q22. Please explain how the ratemaking previously agreed to in the Settlement Agreement is applicable with the Monterey Pipeline and Pump Station.

A22. The Settlement Agreement states that the Cal-Am Only facilities should be placed in service as they become used and useful. The Monterey Pipeline and Pump Station will be used and useful not only as a result of the Pure Water Monterey Project coming on line, but will also be useful in conjunction with the already in place ASR Project facilities, and in reality as support for the system that is already in service. These facilities will be tied into the current distribution system and made used and useful as they are installed and connected. ASR Project facilities are already in place and with a more normal rainy season

[17] For ratemaking purpose, the request in this Phase of the proceeding separates the Cal-Am in-service territory facilities into two pieces – the Monterey Pipeline and Pump Station and the remainder of the Cal-Am in-service area facilities.

and the ability to store excess winter flows, these facilities will help in the distribution of the stored ASR water back into the system and distribution from north to south. With the used and useful criteria met, the Settlement Agreement then expects that the facilities should be placed into rates via a Tier 2 advice letter. This process should continue for the Monterey Pipeline and Pump Station.

Q23. Doesn't the Settlement Agreement contemplate that Surcharge 2 would be in place to assist in payment for the Cal-Am Only facilities?

A23. Yes it does, and that should not change. Surcharge 2 is still requested to be in place at the time of a Commission-approved Certificate of Public Convenience and Necessity (CPCN) and authorization to proceed with the desalination project. Once in place it could continue to offset the other costs associated with the Cal-Am Only facilities. There is more than enough in additional further costs of the Cal-Am Only facilities that can be offset with Surcharge 2's $35.1 million in expected contributions, subject to any modifications described in Q&A 33.

Q24. How should the accounting for the Monterey Pipeline and Pump Station be addressed?

A24. Cal-Am proposes that the accounting for the Monterey Pipeline and Pump Station should be addressed as agreed to in the Settlement Agreement wherein all costs assigned to the Monterey Pipeline and Pump Station would be tracked in a segregated portion of the Settlement agreed Cal-Am Only Facilities Memorandum Account. A pro-rated portion of all engineering and environmental costs of the entire Cal-Am Only facilities will also be assigned into this segregated portion of the memo account. This segregated portion of the memo account should not only track the costs to construct and allocated costs, but it should also track all AFUDC on the project until the time the plant is in service and used to provide service to customers. A further segregation of this portion of the memo account would also need to be made to track all revenue requirements of any portion placed in

service prior to the Commission approving the costs to be included in plant in service and recovered in base rates. For ease of filings and simplification, there should be two distinct filings to recover the costs associated with placing the Monterey Pipeline and Pump Station in service. One filing would be submitted on April 30, 2017, with costs known through March 31, 2017. Another filing would be submitted after the Monterey Pipeline and Pump Station are completed and fully in service. This would limit AFUDC and post-in-service capture of unrecovered revenue requirements. The recovery of the post-in-service revenue requirements capture portion of the account would be recovered in the first general rate case after completion of this portion of the Monterey Pipeline and Pump Station project.

Q25. How would AFUDC be calculated on the Monterey Pipeline and Pump Station project balance?

A25. As noted in the Settlement Agreement, AFUDC should be accrued at a rate of the actual cost of funds used to fund the entire project. In other words, the Monterey Pipeline and Pump Station should accrue AFUDC based on the financing instruments necessary to actually pay the costs incurred. As part of the July 31, 2013 Large Settlement, Cal-Am's parent company, American Water, agreed to fund the initial costs of the project with $20 million of short term debt, once the MPWSP and CPCN were approved by the Commission. The Large Settlement contemplated that the first dollars would be funded with short-term debt to help reduce AFUDC. Even though the CPCN has not been approved, Cal-Am has agreed to fund the initial costs with this $20 million in short term debt provided by its parent company. The portion of short-term debt used to fund the Monterey Pipeline's and Pump Station's initial costs is $7.4 million. The current interest rate on this portion of the Monterey Pipeline and Pump Station costs is 0.76%. The remaining $12.6 million in costs funded by short-term debt relate to the desalination plant and other portions of the Cal-Am Only facilities. With the commitment of the $20 million

in short term debt, the remaining costs of the Monterey Pipeline and Pump Station project should be funded with Cal-Am's actual debt costs and equity in a ratio as last approved by the Commission. The latest authorized debt/equity ratio is 53% equity and 47% debt. Cal-Am's actual weighted average cost of debt is 5.37%. Equity in any instance of use for AFUDC should be at the pre-tax rate which based on the currently authorized after-tax rate of 9.99% is 16.86%. The current weighted pre-tax AFUDC rate based on the 5.37% and 16.86% would currently be 11.44%. While the debt rate may change if new issuances are secured, the equity rates will not changes until after a decision in the to-be-filed cost of capital case of March 31, 2017.

Q26. For the Monterey Pipeline and Pump Station project, how should the revenue requirement amounts accrued to the after project in service portion of the memo account be determined?

A26. The amounts to be captured in the after in service memo account should be based on a prorated annual revenue requirement of the portion in service as determined using the current cost of capital, current deprecation rates and any other normal revenue requirement determinates necessary to capture the full revenue requirement that has been delayed for recovery by the process established by the Commission.

Q27. How does Cal-Am suggest that the revenue requirement for these facilities actually be placed in rates via the Tier 2 advice letter process?

A27. The revenue requirement for these necessary assets should be recovered in rates just as any other capital advice letter project. The revenue requirement should be added to the then latest authorized revenue requirement for the Monterey Main system (including Ryan Ranch, Bishop and Hidden Hills) and be recovered as part of base rates.

Q28. What is the customer benefit of the above process to recognize the revenue requirement of the Monterey Pipeline and Pump Station in rates as discussed above?

A28. As with any capital project, it is most beneficial to recognize utility plant in the revenue requirement as the project goes into service. The Commission has historically recognized that current customers should be paying for the facilities to provide service to them. Cal-Am sees no difference between this project and any other projects that the Commission reviews in the ordinary course of ratemaking, except that it is in this case a subset part of a larger project subject to its own proceeding. In this case, the Monterey Pipeline and Pump Station is being placed in service to allow provision of water from a new purchased water source, as well as additionally assist in provision of water from already in place ASR Project sources. As such, it should be treated no different than any other capital cost that is incurred to provide current service to current customers. The process proposed above is no different than any other memo account project approved by the Commission.

Q29. What is the annual revenue requirement estimated for the Monterey Pipeline and Pump Station?

A29. Please refer to Table 1 in Attachment 8 of this testimony for the calculation of the revenue requirement for the Monterey Pipeline and Pump Station.

Q30. Are there any additional issues that need to be considered as part of the ratemaking and financing proposal for the Monterey Pipeline and Pump Station?

A30. Yes. As with the Settlement Agreement, a cost cap needs to be established in a fashion similar to that for the overall Cal-Am Only facilities. Accordingly, the associated cost cap for the Monterey Pipeline and Pump Station is $50.3 million.

Q31. What are the estimated bill impacts of the project as herein discussed?

A31. Please refer to Attachment 8 of this testimony for the estimated bill impacts to the average residential customer in the Monterey Main system.

The bill impacts reflect the revenue requirement associated with the Monterey Pipeline and Pump Station based on the two advice letter filings. The bill impacts assume the rates

from the first and second advice letter filings go into effect on May 1, 2017 and December 31, 2017, respectively. The bill impacts associated with the purchased water costs from Pure Water Monterey Project assume a total cost of $6.02 million based on the cap of $1,720 per acre foot. These costs are assumed to impact customer rates in 2018.

Q32. Do the revenue requirements or bill impacts associated with the Monterey Pipeline and Pump Station or Pure Water Monterey Project impact the joint cost exhibit that was sponsored by Cal-Am, ORA, MPWMD and MRWPCA?

A32. No. The joint cost exhibit remains unchanged by the analysis presented here. The revenue requirement and bill impacts associated with the Monterey Pipeline and Pump Station and purchased water costs from Pure Water Monterey Project are a subset of the costs included in the joint cost exhibit. The joint cost exhibit looks at the Year 1 revenue requirement and life cycle costs assuming all components of the project (Monterey Pipeline and Pump Station, Other Cal-Am Only facilities, and the desalination plant alternatives with and without Pure Water Monterey Project) come on line at the same time in order to properly compare the two alternatives. The revenue requirement and bill impacts for the Monterey Pipeline and Pump Station and the purchased water costs for Pure Water Monterey Project are based on the same assumptions, namely, 3,500 acre feet of water at a price of $1,720 per acre foot and the capital costs for the Monterey Pipeline and Pump Station plus the other Cal-Am Only facilities still equal to the cost cap for the total portion of the project.

Q33. In light of the request to expedite the Monterey Pipeline and Pump Station and the associated ratemaking and financing, is there a need to make updates to the referenced Settlement Agreement?

A33. Yes. There are likely some limited changes that would be needed to update the Settlement Agreement. For example, the financing of the remaining Cal-Am Only facilities and the desalination plant will need to be examined in light of the delay in the MPWSP CPCN and the compression of the engineering and construction for these elements of the desalination

project. It is likely that the collection of $71.5 million from Surcharge 2 within this compressed period of time may result in significant rate pressures that will need to be re-examined as part of a review of the overall financing. The financing goals within the Settlement Agreement should remain unchanged. Cal-Am would propose that the settling parties meet after the Phase 2 approval to provide the limited updates to the Settlement Agreement and to file it with the Commission as part of Phase 1 of this proceeding.

V. OWNERSHIP OF THE MONTEREY PIPELINE AND PUMP STATION

Q34. **In response to Section 2.9 of the April 25, 2016 ACR, who should own the Monterey Pipeline and Pump Station?**

A34. The Applicant, the District, and the Agency agree that these facilities must be owned by Cal-Am and financed in accordance with the Settlement Agreement. These facilities are wholly in Cal-Am's service territory, they are backbone facilities for providing service to all Cal-Am customers with the change in water delivery from south to north, to north to south and they are facilities that will support all aspects of water delivery from north to south, not just for the Pure Water Monterey Project. For regulatory purposes, Cal-Am should own all facilities in its service territory to ensure the highest quality service at the lowest prices. Service facilities owned by someone else that are not controlled by Cal-Am could cause substantial issues. For example, if maintenance is required, it could require duplicative efforts to determine which provider was responsible for the facilities, both delaying efforts and causing customers to possibly incur unnecessary costs.

VI. ALLOCATION OF PURE WATER MONTEREY PROJECT COSTS

Q35. As requested in Section 2.10 of the April 25, 2016 ACR, how will you ensure the Pure Water Monterey Project's costs will be fairly allocated between the beneficiaries of the Pure Water Monterey Project and ensure that the Company's ratepayers do not subsidize or unfairly pay for costs for services received by others, initially and over the life of the WPA?

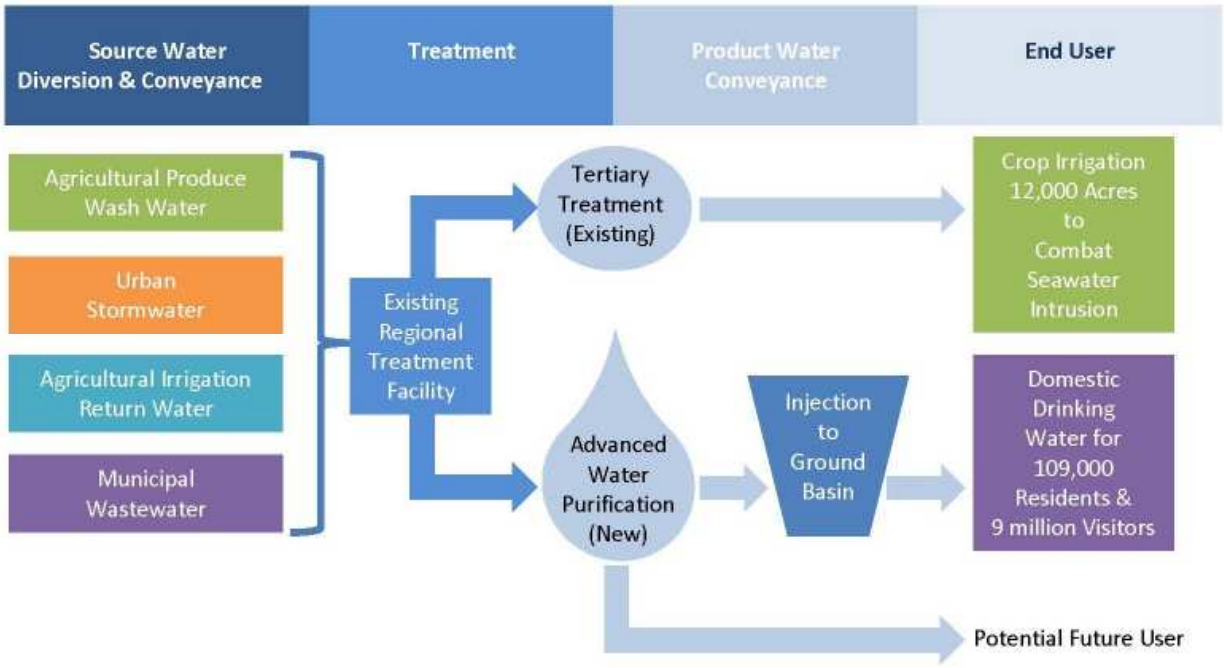
A35. As David Stoldt of the District has testified previously in this proceeding, "*we only allocate those costs for facilities and operations that serve to deliver potable supply to the Cal-Am system. Costs related to agriculture or other users are borne by those users*."[18]

The WPA[19] also provides certain assurances: Section 16 states "*the Company shall pay only its proportionate share of the costs of the Agency and the District producing AWT Water.*" Regarding the Pure Water Monterey Project's product water placed into reserves for later service to the Company, Section 17 ensures that *"The Company shall not be billed for Excess Water that goes into the Reserve Account."* Additionally, Section 16 states *"The Company shall not pay for deliveries to the Operating Reserve and the Drought Reserve until such reserves are designated by the Company or the District, as applicable, as Company Water."*

The allocation of capital and operating costs of the Pure Water Monterey Project initially is dependent upon the project component and the water received, as discussed below. The Pure Water Monterey Project can be conceptualized as shown below:

[18] Exhibit WD-9 (January 22, 2016 Direct Testimony of D. Stoldt), p. 11.

[19] *See* Attachment 2.



Capital Cost Allocation

Source water diversion and conveyance facilities collect a variety of source waters and bring them all comingled to the headworks of the existing Regional Treatment Plant in Marina, California for primary and secondary treatment. The allocation of capital costs is dictated by an agreement between the Agency and the Monterey County Water Resources Agency (WRA) which was attached to testimony submitted by the Agency on January 22, 2016.[20] WRA will pay 45.1% of the capital costs and the Agency will pay 54.9%. The Agency's portion will be passed through to the cost of purchased water under the WPA. The capital ratios were established based on the expected availability of water to each entity, irrespective of whether WRA schedules to receive water or not.

After secondary treatment, the waters are split. The portion for agricultural use is treated at an existing tertiary treatment facility and then transferred north to agricultural

[20] Exhibit PCA-1 (January 22, 2016 Opening Testimony of P. Sciuto), Attachment G, Section 2.02.

fields near Castroville, California for use in irrigation. The Company's ratepayers have no interest in, nor pay any expenses of the tertiary treatment or use of this water for irrigation. The portion of the source water intended for potable domestic drinking water is directed for treatment at the new Advanced Water Purification Facility that will be co-located at the Regional Treatment Plant in Marina. Upon initial operations, amortization of all costs of the Advanced Water Purification Facility is included in the price of purchased water under the WPA.

Water from the Advanced Water Purification Facility is then transported south in a product water conveyance pipeline to be built as part of the Pure Water Monterey Project. The product water is transported via the pipeline to an injection field at the Seaside Groundwater Basin located in Seaside, California. The conveyance pipeline is being constructed by the Marina Coast Water District (MCWD), which will reserve capacity in the pipeline for future use, and capacity rights are provided to the Agency in proportion to its needs for delivery of water to the Company. The costs of the pipeline are allocated 31% to MCWD and 71% to the Agency based on capacity needs. The Agency's 71% share of the cost is included in the cost of purchased water under the WPA.

The fourth project component is comprised of injection facilities in the Seaside Groundwater Basin. 100% of the amortization of the injection facilities cost is included in the cost of purchased water under the WPA because only the Company would receive delivery of water from these facilities.

If at some point a potential future user will receive water from the Advanced Water Purification Facility, Section 19 of the WPA states that Additional Project Participants may be added as long as *"there is no additional cost to the Company as a result of any such agreement"* as well as *"[a]ny Additional Project Participant will pay for all additional capital costs necessitated by existence of the new water purchase*

agreement, its proportionate share of both the unamortized capital costs of the Project, and its proportionate share of future operation and maintenance expenses of the Project. The District and Agency will provide supporting documentation to the Company to ensure the Company Water Payments do not include any costs properly allocable to an Additional Project Participant."

Operating Cost Allocation

The costs of primary and secondary treatment for municipal wastewater are borne by Agency's sewage ratepayers. The costs of primary and secondary treatment for Urban Stormwater and Agricultural Irrigation Return Water are borne by the recipients based on the metered amounts delivered to tertiary treatment (agricultural irrigation) or to advanced water purification (potable domestic). The costs of primary and secondary treatment for Agricultural Produce Wash Water is entirely borne (partially subsidized) by the City of Salinas, as provided in the Agency's agreement with WRA and the Agency's agreement with the City of Salinas, both of which were provided to the Commission in Paul Sciuto's January 22, 2016 testimony.[21] The treatment costs associated with the metered delivery to the Advanced Water Purification Facility is included in the cost of purchased water under the WPA.

Costs of treatment at the Advanced Water Purification Facility, conveyance to the injection site, and injection is included in the cost of purchased water under the WPA because only the Company receives delivery of water from these facilities. If at some later time an Additional Project Participant receives water from the Advanced Water Purification Facility, it will pay its proportionate share of such treatment and conveyance pursuant to Section 19 of the WPA as discussed above.

[21] Exhibit PCA-1, January 22, 2016 Opening Testimony of Sciuto, Attachment E, p. 4 (Section 2a); Attachment G (Section 4.03).

Q36. Does that conclude your joint supplemental testimony?

A36. Yes it does. Thank you.

ATTACHMENTS

Attachment 1: Transcript of April 13, 2016 Panel addressing requested data and concerns regarding the proposed Pure Water Monterey Project and draft Water Purchase Agreement (WPA)

Attachment 2: Proposed Revised WPA

Attachment 3: Proposed Revision to Section 16 of WPA (redline)

Attachment 4: Example of Budgeting to Set the Cost of Purchased Water and Annual "True-Up"

Attachment 5: Exhibit JE-1, April 13, 2016 Joint Exhibit, Updated Cost Model

Attachment 6: Methodology and Assumptions for Calculation of the Year-1 Indifference Cost of Water

Attachment 7: Examples of Public Agency Water Purchase Agreements with Class A Regulated Investor-Owned Utilities

Attachment 1

JOINT SUPPLEMENTAL TESTIMONY OF APPLICANT, DISTRICT, AND AGENCY ON SEPARATE PHASE 2 DECISION

A.12-04-019

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE

STATE OF CALIFORNIA

In Attendance: COMMISSIONER CATHERINE J.K. SANDOVAL
ADMINISTRATIVE LAW JUDGES GARY WEATHERFORD and BURTON W. MATTSON, co-presiding

	)	EVIDENTIARY HEARING
Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates.	)	Application 12-04-019

REPORTERS' TRANSCRIPT
San Francisco, California
April 13, 2016
Pages 2550 - 2757
Volume - 16

Reported by: Ana M. Gonzalez, CSR No. 11320
Thomas C. Brenneman, CSR No. 9554

PUBLIC UTILITIES COMMISSION, STATE OF CALIFORNIA
SAN FRANCISCO, CALIFORNIA

AFTERNOON SESSION - 1:30 p.m.

* * * * *

ALJ WEATHERFORD: I'd like each member of the panel to stand and area their right hand.

DAVID LAREDO, PAUL SCIUTO, RICHARD SVINDLAND, and DAVID STOLDT, called as witnesses, having been sworn, testified as follows:

ALJ WEATHERFORD: We're on the record.

ALJ MATTSON: Okay. Could we ask that each of you starting at the end state your name and who you're with for the record.

WITNESS STOLDT: Certainly. Excuse me. I'm David Stoldt, general manager with the Monterey Peninsula Water Management District.

WITNESS SVINDLAND: Rich Svindland, Vice President of Operations for California American Water.

WITNESS SCIUTO: Paul Sciuto, general manager of Monterey Regional Water Pollution Control Agency.

WITNESS LAREDO: David Laredo, general counsel to the Monterey Peninsula Water Management District, also in this proceeding city attorney for the City of Pacific Grove.

If I may, the other three members of the panel have provided their backgrounds by

way of testimony. This is my first testimony in this proceeding, and if I may, I'd like to provide a brief background.

ALJ MATTSON: Yes, please.

WITNESS LAREDO: I am an attorney. I am a partner with the firm of DeLay & Laredo. We are a Central Coast law firm that specializes in the representation of public agencies. And in that capacity I have been city attorney for the City of Pacific Grove since 2005, and I've also been general counsel to the Monterey Peninsula Water Management District since 1979.

ALJ MATTSON: Thank you.

Ms. Leeper, would you like to commence with the panel, or how do you propose we proceed?

MS. LEEPER: Certainly, your Honor. The panel members are prepared to go through the questions and respond accordingly. So if you would like, I think they actually can begin with Question 1. And we were planning to cover both Attachment 1 and Attachment 2, the questions, issues there.

ALJ MATTSON: Okay. Thank you.

WITNESS STOLDT: Yes. Let me describe a little bit of what we intend to do. So as an introduction I want to thank the

commissioner and her staff for the thoughtful and thought provoking data requests. We have spent quite a bit of the time on it beginning with convening late Sunday afternoon. I don't want to hear any more tales of woe about missed Warriors games, but there have been some, you know, we have convened as a group on at least four occasions this week to work on this. And I hope you'll enjoy some of our responses.

The approach we want to take, as Sarah Leeper mentioned, we want to go question by question from Attachment 1, but in so doing we believe we will map or address those responses to the concerns that you raised in Attachment 2 kind of obviating the need to go through Attachment 2 line by line, but we will kind of wrap up what we did and didn't cover of Attachment 2 kind of at the end to make sure we've covered al the bases.

I know most of the people in the room understand what the project is. Pure Water Monterey Groundwater Replenishment Project is an advanced water purification project that serves two needs, multi-regional, multi-benefit by providing additional tertiary irrigation water to about 12,000 acres to the north of Monterey County

and then about 3500 acre-feet of potable domestic water supply to the Monterey Peninsula as a deponent element in the overall Monterey Peninsula Water Supply Project.

And I know we gave some introductions, but I want, just briefly, if the public agencies and Cal-Am would just briefly describe the elements of its service area and what's being served by this project so that we know kind of where the overlap is and why we're doing this together.

So with that, my agency has boundaries that are roughly equivalent to California American's Monterey Peninsula main system boundaries. We were charged in 1977 legislatively with overseeing the resource of the area, water resource, environmental, and so forth, which we've done. We participate in this project because we have authority to pay for and sell water supply. And we've been kind of co-funding out of pocket to date with the Pollution Control Agency.

WITNESS SVINDLAND: Okay. This is Rich Svindland, Cal-Am. So Dave mentioned the Monterey main system. So talk about that. For Cal-Am that incorporates the six cities, peninsula cities of Monterey, Pacific Grove,

Seaside, Del Rey Oaks, Sand City, Carmel-by-the-Sea. We also serve a portion of what we call unincorporated Monterey County. For us that generally means the Carmel Valley from the city limits of Carmel all the way up to where the San Clemente Dam used to be and various reaches up the valley walls and also what a lot of people know as Pebble Beach.

In addition, for this project we also need this project to provide water for Bishop, Ryan Ranch, and Hidden Hills. Those are systems that their subbasin that they draw from would have zero safety in the future, and we need to provide water for them. So that's what this project, GWR project, provide water to.

COMMISSIONER SANDOVAL: Can you speak a little louder? I can barely hear you and I'm really close to you.

WITNESS SVINDLAND: Did everyone else hear that okay in the back? I just want to make sure.

COMMISSIONER SANDOVAL: Maybe my ears are bent up.

MR. MC TARNAGHAN: You probably want to speak more slowly also.

WITNESS SVINDLAND: Thank you. I will

do that.

WITNESS SCIUTO: So I'll refer to the PCA or Pollution Control Agency service area. So we provide wastewater conveyance treatment and reuse. And we're a regional entity. So we actually, in addition to the peninsula cities, Monterey, Seaside, Sand City, Del Rey Oaks, Pacific Grove, we also reach up into Moss Landing, Castroville, Salinas, and provide wastewater treatment for all that.

Where we do not overlap with the water management district and Cal-Am is certainly the Pebble Beach, Carmel Valley, the Carmel-by-the-Sea area. So there is a bit of an overlapping VIN diagram, if you will.

That Salinas area that is part of our territory is actually over 50 percent of our flows. So in terms of this particular project providing potable water to the peninsula, it's also providing the agricultural waters I alluded to on Monday to the Salinas Valley or the Castroville Seawater Intrusion Program Project. So it's certainly a great partnership for our entire service area.

WITNESS STOLDT: So with that, we do want to go through Attachment 1 question by

question. Looking out at the number of folks in the audience, this was a data request served to the service list. By a show of hands are there any participants out there who don't have a copy of it? Because we don't want to really repeat each question orally if we don't have to. So looks like everybody.

COMMISSIONER SANDOVAL: Although it might create a cleaner transcript and be easier for the reporter and the transcript if you did read the question. So thank you.

WITNESS STOLDT: That's good advice. So Attachment 1 of the data request, Question 1, which will be primarily handled by California American Water and the Pollution Control Agency. Pipeline to bring water from Pure Water Monterey Groundwater Replenishment Project to the Cal-Am water delivery system. In effect, the request is to elaborate on the pipelines. So Question 1A, is the pipeline needed to bring water from the GWR to Cal-Am?

WITNESS SVINDLAND: So Rich Svindland, Cal-Am. The short answer is yes, but like everything there's details. We have existing facilities located in the Seaside Basin that can pull GW water out but would only serve the City of Seaside. Still louder? Okay.

However, the City of Seaside in that area has plenty of supplies already. Really the point of getting a GWR on line earlier is to offset Carmel River pumping. And so in order to do that we need to move the water, the GWR water to the areas where Carmel River pumping is occurring. So we need to move it to the far side of Monterey, to the City of Pacific Grove and to some of the Pebble Beach areas. To do that we need this pipeline.

Question 1B is please describe that pipeline. Is it from the Seaside groundwater basin to the Cal-Am system and Pacific Grove? Yes. Generally it starts at the Hilby tank area near General Jim Moore. It will proceed through Monterey through the City of Monterey and through Pacific Grove.

Question C is what is the status of that pipeline design? Question mark. All necessary right-of-ways, land rights, and permits obtained in construction. So the pipelines are a hundred percent designed and bids received. And we have contracts for all that. All necessary land rights. The line of the pipeline is in public right-of-ways. So we do not have to obtain land to build a pipeline.

Permits obtained. We're working

through that right now. Each of the cities have their local permitting requirements. We're going through that process with each of the cities, and we already started that. Under construction. Not yet. We need to have all the permits in place. And certainly we would hope that a decision from this body before we did that.

Question D. Who will own the pipeline? The intent is for California American Water to own the pipeline.

E. Are there any regulatory steps to complete before the pipeline is built and operational?

WITNESS STOLDT: So point of order, Commissioner, how would you like to field questions either from the intervenors or from yourselves or the judges? As we go or at the end of each numerical question, category, section?

COMMISSIONER SANDOVAL: I think why don't we get through a section.

ALJ MATTSON: Each question. Probably each question and then ask. There are eight questions. Go through each question.

COMMISSIONER SANDOVAL: So because we've gotten like 1A, B.

WITNESS STOLDT: So get all the way

through 1, all the way through 2.

COMMISSIONER SANDOVAL: Yes. Thank you.

WITNESS SVINDLAND: Okay. So I was on E. Did I read the question already? I did. Are there any regulatory steps to complete before the pipeline is built and operational? Yes. Certainly we believe we need the CPCN or a decision from this body to move forward with the pipelines. As I mentioned, we are working with the various cities to obtain the permits needed from those cities. And those include encroachment permits. We need permits from the Division of Drinking Water which is the health department side of it. The Commission to put it in service. And we also need some permits from the air board. But those are all things we're working on as we speak.

Question F. And I think Paul and I were going to address this one together. But was the pipeline analyzed in the environmental impact report for the GWR?

WITNESS SCIUTO: So yes. The transfer pipeline that Rich is alluding to was analyzed as part of our EIR, which was certified by our board of directors in October of last year.

WITNESS SVINDLAND: Question G. If not yet built and operational, what are the projected dates for pipeline construction and operation? And what I would say right now is our goal would be to have this pipeline in service by October, November of 2017. And the primary reason for that would be that's typically when our ASR season starts, December 1st of each year. The rains are there. The river flows are up. We're able to pump water. This pipeline would handle that. So that would be our goal. We would work backwards from there.

WITNESS STOLDT: Remind me of what ASR means.

WITNESS SVINDLAND: Yes. ASR stands for Aquifer Storage and Recovery. Those are existing permits we have to pull water from the Carmel River in the winter months, high flow months, and inject them in the Seaside Basin. This pipeline helps with that.

And the last question or subpart for this question is H. Please provide and all other information necessary for the Commission to have a reasonable and complete understanding of how and when Cal-Am would take possession of GWR water on Cal-Am's system for provision to Cal-Am customers.

WITNESS STOLDT: So there's no barrier to Cal-Am taking possession of the water from day one because it's being delivered within the Cal-Am service area within proximity of existing Cal-Am production wells. And also the water accounting, even though the states indirect potable reuse regulations call for a resident time in the ground, the hydrogeologic modeling shows that a molecule injected at our injection well site could not be extracted by Cal-Am within 11 months. So therefore, on an accounting basis water can be extracted immediately.

However, as you may have noticed under the water purchase agreement, the intent is to build up an operating reserve of approximately a thousand acre-feet, which would be taking place from the initial production of water in roughly September, October of 2017 for a three-month period until a thousand acre-feet are in the ground as a reserve against outages, temporary outages and those kinds of things. And then we expect delivery of product water for real-time use by Cal-Am in roughly February of the subsequent year. But again, it's there for Cal-Am's beneficial use from Day 1. But we do want to build up the reserve.

So with that that concludes Section 1. And however you want to field questions of your own or from the parties.

COMMISSIONER SANDOVAL: Open it to the floor first?

ALJ MATTSON: No.

COMMISSIONER SANDOVAL: You have some questions?

ALJ MATTSON: I do. Could I ask two questions. The environmental impact report that analyzed the pipeline that's involved here, was that pipeline all the way to Pacific Grove as analyzed in the EIR?

WITNESS SCIUTO: Yes, it was. There was actually two alignments analyzed, this one being the preferred alignment from Seaside to Pacific Grove.

ALJ MATTSON: Okay. And perhaps this second question might be addressed to Ms. Leeper. I'm not sure. But I just want to clarify. It keeps coming up. The request for a CPCN for this pipeline is not yet before the Commission; is that correct? You're considering putting it in some supplemental testimony in this matter?

MS. LEEPER: That is correct, your Honor. So it would be approval for the pipeline and associated ratemaking. That's

correct.

ALJ MATTSON: Okay. Thank you.

ALJ WEATHERFORD: In terms of the local permitting, is there an arrangement with the local unit of the Coastal Commission so that the cities have the exclusive regulatory jurisdiction over it?

WITNESS SVINDLAND: So yes. We started looking at that. Most of our pipeline, if my memory is correct, is outside the coastal zone. There may be just a very, very small piece. And in talking with the cities, we're going to go through their local coastal program to make that work.

MS. LEEPER: And Judge Mattson, if I could actually just add some clarification to my response. So we're not necessarily seeking a CPCN for that pipeline, but the pipeline is of course included in the proceeding, but our request would be through some procedural mechanism as part of Phase, 2 and we would be seeking an opportunity for testimony on that.

ALJ MATTSON: Okay.

COMMISSIONER SANDOVAL: So yeah. Because I had the same question about that. And I think that it's important to clarify. Is the pipeline part and parcel of the GWR

project and thus the WPA includes the pipeline, or is the pipeline a separate, a separate thing that needs a separate authorization? And you know, and it sounds like your intention of Cal-Am on the pipeline would be to propose to put it into ratebase. And so there would need to be a application or a proposal to construct and have authorization to put this facility into ratebase.

So I just really want to be clear about what we're talking about here. Are these things separate or in terms of authorization?

MR. MAC LEAN: I'll see if I can make it clearer. Commissioner, Rob MacLean for Cal-Am. So in our original application there is a pipeline that moves water from the desal plant all the way to our service area. So somewhere along the way that pipeline would also have a point where we would be able to pick up groundwater, replenishment water in Seaside and move it to the rest of our service area. So the pipeline has a few uses.

And when I spoke at the PHC the other day, it has the use that it will move desalinated water once the desalinated water

exists. It will move groundwater replenishment water from Seaside over to the rest of our service area. And then thirdly, the third use for it is that it will have the opportunity to move aquifer storage and recovery water, that's winter water from the Carmel River, into storage in the Seaside Basin for later withdrawal out of the Seaside Basin. Usually that happens in the summer.

So this pipeline was -- is in the application. The issue that we are raising and I think may be the point of confusion is that we originally envisioned that the desal plant would be built for GWR. So this pipeline wasn't -- at that point it didn't need to be inextricably tied to GWR. But now that we're advancing GWR, the pipeline is needed to be able to move the 3500 acre-feet or some portion of that out to our service area.

So a question remains whether we need a CPCN for that pipeline. It's in our existing service area. And so I'm not the expert on that, but we certainly do want -- this is an expensive pipeline. It's probably, I think we have something like $35 or so million that we need to spend to get that pipeline in service. We spent a few

million already on it on the design and procurement. And so we don't really want to spend $35 million without Commission approval. That's a lot of money in our Monterey District to spend without approval.

So we were thinking, and I referenced this the other day at the PHC, that we could have some motion filed that would deal with the GWR approval, deal with the ratemaking around the pipeline and the financing of the pipeline.

WITNESS STOLDT: And just to clarify, there is a conveyance pipeline from the North Marina where the desal plant is into the service area which is called a conveyance pipeline. The pipeline we're discussing now is the Monterey transfer pipeline that moves water from almost the terminus of the conveyance pipeline and where the aquifer storage and recovery wells are to Pacific Grove.

And it serves four purposes. It will have capacity for the desal water when the desal plant gets built. It can move the groundwater replenishment water to fully utilize it to meet demands within the system. It can increase the flows of winter water from the Carmel River back to the aquifer

storage and recovery injection sites to maximum that use. And then fundamentally and most importantly from a regulatory perspective is as we face the cease and desists order over withdrawals from the Carmel River, in order to combat triggering a violation of the affected diversion limit, we need to have that water that's made available over in the Carmel Valley to meet demand so that we don't have enough water but we can't get it there and we trigger a violation any way. And so it's for those four combined reasons, one of which is a future reason. Whenever the desal plant debts built, whatever that looks like, the capacity will be t here to move that water.

ALJ WEATHERFORD: Are any changes required in the terms of the Seaside adjudication to accomplish this?

WITNESS STOLDT: That's a very good question. And the answer is no because Cal-Am is a producer, and there is effectively what's called a storage and recovery agreement which allows producers to inject water and recover it later. And they've already had approved a storage and recovery agreement for the aquifer storage and recovery project. And this is an

agreement that's already been drafted but hasn't been approved through the water master yet, but we don't feel it is an impediment.

ALJ MATTSON: Perhaps I can ask Ms. Leeper. Ms. Leeper, I know, I have a hundred percent confidence that this will be fully understand in your supplemental testimony, but I'm going to ask if perhaps tomorrow or Friday you might be able to bring a map into the hearing room and show on the map whatever pipeline we're talking about today.

MS. LEEPER: Sounds like heads are nodding here in agreement. So that sounds like something we can do.

ALJ MATTSON: Excellent. Thank you.

ALJ WEATHERFORD: Is that already provided in your amended application? I remember there's a pipeline map.

WITNESS SVINDLAND: It shows all the pinelines. We've actually created an exhibit that shows the highlighted Monterey pipeline portion just to highlight it and clarify.

ALJ WEATHERFORD: Thank you.

COMMISSIONER SANDOVAL: If I may follow up. So with what the Cal-Am folks were saying is, essentially this pipeline is an element of the application for the Monterey Peninsula Water Supply Project, which

1 includes the desal project.
2 MS. LEEPER: Yes. That's correct.
3 COMMISSIONER SANDOVAL: So essentially
4 what you would do is be asking us to fast
5 forward the consideration of just this
6 element separate from the desal plant.
7 MS. LEEPER: That's exactly right, your
8 Honor, Commissioner.
9 COMMISSIONER SANDOVAL: So we can talk
10 about the procedures for that, but I mean my
11 sense, I'm looking at Jonathan too, is that
12 even though it's an element of the
13 application of the larger desal project,
14 there would have to be some sort of motion to
15 just move that part up. And we can also talk
16 about our -- we might have to talk off line
17 about whether or not we think a CPCN would be
18 required if you want to ratebase that.
19 ALJ MATTSON: Correct.
20 COMMISSIONER SANDOVAL: You might what?
21 ALJ WEATHERFORD: There's a linkage.
22 COMMISSIONER SANDOVAL: Yeah. We'll
23 talk about that. So let's also put an
24 asterisk that we need to discuss the issue of
25 what sort of approval would be required to
26 authorize, you know, construction and
27 ratebasing of that. But I think even though
28 it is an element of your application, we

would need some motion to pluck that element out and move it forward and separate.

MS. LEEPER: Thank you. And I think that's something we're planning on doing.

ALJ WEATHERFORD: Okay. Jonathan, do you agree with that assessment?

MR. KOLTZ: On a very preliminary basis, yes. I'm not willing to commit myself further without doing more research, but yeah.

ALJ WEATHERFORD: Okay. Thank you.

ALJ MATTSON: Can we move on to Question 2?

COMMISSIONER SANDOVAL: I think some of the parties had questions.

ALJ MATTSON: Why don't we hold those until after. If the panel has been able to present all their answers and we've been able t o question.

COMMISSIONER SANDOVAL: I think they'll have a hard time hold ling it in their mind.

ALJ MATTSON: I'm afraid about the amount of time, but it's up to you.

COMMISSIONER SANDOVAL: Okay. Parties, I'm inclined to allow you to ask questions between, but if they start running off into big questions, then we'll have to shut it down. So.

You had a point in question, Mr. Poirier?

MR. POIRIER: Yes, Commissioner. Just a couple clarification questions. We've talked about pipeline that's necessary for GWR. Does that include any other infrastructure like pumping stations that we need?

WITNESS SVINDLAND: There is one pump station. We call it either the alternative ASR pump station site or the Monterey pump station site. The purpose of that pump station is to help take excess winter flow from the Carmel River, pump it up to the ASR injection fields. So we would need that pump station to move water that way. The pump station is not needed for GWR water to come out and serve that area.

MR. POIRIER: So within the definition of the pipeline, though, are you including the pumping station and anything else that that's necessary?

WITNESS SVINDLAND: Yes, we are.

MR. POIRIER: Okay. And one other question. Is the alignment essentially the same of the pipeline? Is it the same pipeline alignment that's in the application that was in the CEQA?

WITNESS SCIUTO: So in our EIR there were multiple pipelines, and that could be part of the confusion in this. There is certainly the conveyance pipeline from the advanced water treatment plant to the injection facilities in the Seaside Basin. And what we're talking about here is actually the transfer pipeline, different terminology, which is after Cal-Am extracts the water out of the Seaside Basin to Pacific Grove. Does that answer?

MR. POIRIER: It does. Thank you.

WITNESS STOLDT: Judge Mattson, just to your earlier question, we couldn't get it into evidence right now or into testimony, but if you do want to see a graphic just to have a better understanding, we have one. You want to wait till tomorrow.

ALJ MATTSON: Thank you.

MR. MC TARNAGHAN: Your Honor, if it would be helpful at all, the PCA EIR is not officially on the record although it's been referenced in the record. Without looking at it, I'm going to assume that we could excerpt a portion of it easily that would have the pipeline discussion and could provide that if that would be helpful.]

ALJ MATTSON: Well, it probably would.

But I think Ms. Leeper on behalf of the Applicant would probably put together what supplement testimony is needed. Why don't you coordinate with the Applicant and see what would be necessary.

MR. MC TARNAGHAN: Absolutely, your Honor.

WITNESS STOLDT: So have we decided to take questions?

COMMISSIONER SANDOVAL: Mr. Fogelman, again, briefly.

MR. FOGELMAN: I'm a little confused, and perhaps you can help me out. As I understand it --

COMMISSIONER SANDOVAL: Is your mic on?

MR. FOGELMAN: Can you hear me?

The impression I'm getting is that the pipeline, the GWR project including the pipeline, is not being viewed as a standalone project. It is also being put together with the anticipation of utilizing that pipeline to deliver desalination product water. And I am concerned about the expenditure of costs on a desalination plant that has not been constructed or certificated, and whether the ratepayers should be bound to pay for that. And also the environmental review that the Commission is doing.

I don't know, does constructing this pipeline based on the EIR that was done in connection with he GWR obviate the need for the PUC to look at the environmental impacts of the whole system? Because that would seem to potentially have a piecemealing problem. I raise this for your, telling me what the answer is.

Also the ownership issue. If water is being delivered into a Cal-Am owned pipeline, that would seem to be a delivery point and the operations with that water would be a Cal-Am thing, thereafter. I may be wrong. I'm just putting it out there. This is not your testimony, I want to understand it.

If that is the case, you are going to have a fairly substantial infrastructure piece that will be in ratebase as Commissioner Sandoval described, and you will be earning a rate of return on that, return on equity. Cal-Am will.

And somebody previously raised the notion of possibly having the PCA or the WMD actually own the pipeline and having it really be a part of the GWR process. I just wanted to raise those points.

WITNESS STOLDT: Let me address two of

1 those, and then Rich will address two of
2 those.
3 One is point of delivery of the
4 water is the injection facilities in the
5 Seaside Basin. And from that point on,
6 unless it is reserved water that has not yet
7 become Cal-Am's, it is Cal-Am's water while
8 it is resident in the ground. So the
9 pipeline doesn't come into play until it is
10 produced or withdrawn from the ground and
11 brought into the system, number one.
12 Number two, I don't think there is
13 any intent for the public agencies to have an
14 ownership in the pipeline that ultimately
15 serves distribution for the investor-owned
16 utility will accommodate future desal water
17 coming in. Allows them to move water from
18 Point A to Point B from the operations on the
19 system. It had only talked about possibly
20 assisting in financing if some reason the
21 Commission couldn't find their way to
22 approving the pipeline and we needed to do so
23 in the interim. It is fraught with so many
24 difficulties that it is really not a viable
25 alternative, as far as piecemealing and those
26 issues.
27 WITNESS SVINDLAND: So I was going to
28 echo a little what Dave said. The DWR

project takes and injections it into the ground. Its meters go into the ground -- GWR the water that is injected into the ground. Cal-Am owns the water we pay for when it is injected into the ground.

And then we are using existing ASR wells and existing seaside wells to pull that water out as potable water and then serve on customers. And then we need this pipeline, which our crews and our licensed operators would run to feed the water to our distribution system. That is why it makes sense for us to own it. We are the licensed operator for the water system.

As far as piecemealing, the way I understand it is the GWR EIR, when they looked at their project, if they built -- if they didn't have a pipeline to get the water out, their project didn't really solve an issue. So they knew that the pipeline was needed to help get the water somewhere. It was looked at as independent project to make sure GWR worked. That is how I understood. That is why we are pushing this forward.

ALJ WEATHERFORD: So at that juncture was it envisioned that the public and control agency would own the pipeline?

WITNESS SCIUTO: It was not envisioned

that PCA would own the transfer pipeline, no. That was -- it was analyzed within our EIR specific to the need of a pipeline to get water to the Cal-Am customers, but we would not construct nor own that line.

ALJ WEATHERFORD: Okay.

MS. LEEPER: I was actually going to interject here. It might be helpful to sketch this out on the whiteboard. Would that be an option? I know it won't necessarily be part of the record, but for discussion purposes it might be helpful to have a schematic map of the facilities.

ALJ MATTSON: Off the record.

(Off the record.)

ALJ MATTSON: Back on the record.

COMMISSIONER SANDOVAL: So number two.

WITNESS STOLDT: We are moving onto Question 2. This deals in the area of budget with respect to the water purchase agreement draft. And it says that the January 14th, 2016 Draft Water Purchase Agreement states that by May 1 of each year the agency and district shall estimate the fixed and variable costs for the next fiscal year. The estimates shall be available for review by the agency, district, and Cal-Am for at least 15 days prior to adoption by the board of the

1 agency and the board of the district. And
2 going forward we will refer to the water
3 purchase agreement as WPA or water purchase
4 agreement.
5 So Question A is please describe and
6 explain the technical and legal process used
7 or contemplated to be used by the agencies
8 and the district to adopt the annual budget
9 described in the draft WPA Section 15. And
10 so I'll field that to begin, then Paul can
11 describe what his agency does.
12 As a public agency, the budgeting
13 process is a public hearing process that
14 takes several months. In March we compile
15 costs, expectations on the following year,
16 costs of power, chemicals, services and
17 supplies, maintenance. We develop a working
18 budget for the cost of water.
19 In April we roll that into an
20 overall budget identifying both revenues to
21 pay these costs, which in this case wholesale
22 water purchase revenues of the company, as
23 well as the other revenues required for all
24 the operations of the agency.
25 That preliminary budget is then
26 taken to committees in -- early in the month
27 of May. The water-related costs of the costs
28 of this WPA would go to our water supply

planning committee. And then as a piece of the whole budget again to what is called our administrative committee. These two committees then vet what is in there and advance the preliminary budget to the board for a board workshop in May.

After the board workshop where there is a lot of interaction with board members raising questions, staff giving elaborations, first chance for members of the public to weigh in, a revived and proposed final budget is then prepared. Again, goes to the administrative committee for recommendation to the full board at a public hearing on the third Tuesday of June. And then adoption effective July 1 the following year for a full fiscal year.

This is basically the same process, for example, as Metropolitan Water District of Southern California. It is actually in the metropolitan act, specific section, very similar. They serve 19 million people, 17.1 million acre-feet per year. In fact, it is basically the same process you will see in the 109 public agency urban water providers in the state of California. So it is not like we are inventing anything new. That is how rates and charges and wholesale rates get

1 established.
2 WITNESS SCIUTO: Thanks, Dave.
3 So the PCA budget process, very
4 similar to that as the other management
5 district. Let me just start with a couple of
6 things about the agency or about -- yeah, the
7 agency.
8 So we do have a certificate of -- a
9 transparency certificate of excellence from
10 the California Special District Association
11 in reference to our budget, California
12 Society of Municipal Finance Officers issued
13 us an operating budget meritorious award for
14 15-16. And through the Government Finance
15 Officers Association we have a certificate of
16 achievement for excellence in financial
17 reporting. So certainly everything we do is
18 at the highest level for public agencies.
19 In terms of our budget process we
20 actually start in February, which I know
21 seems like a very long time to go through
22 budget process for a singular agency, and
23 established operating budgeting parameters
24 for that fiscal year.
25 As we move into March, we start a
26 rollup process from all of our managers to
27 the CFO and myself. There are multiple
28 points where we distribute a draft budget and

a mid-year budget update based on that rollup to not only a board committee, our budget and personnel committee in an open forum, but also to board of directors meetings.

Through an iterative process with the committee and the board we ultimately come back to our board snapping forward to early June to a half -- about four-hour budget workshop to go over the budget in detail with our entire board of directors in a public forum where certainly customers and anyone else can come and comment on it. And that ultimately a budget is adopted at the final board meeting in June for that next fiscal year.

Much of the detail that Dave lined up is similar to what we do as well. I want to just highlight the time frames.

ALJ WEATHERFORD: Has the water purchase agreement been involved in this process yet at all?

WITNESS STOLDT: No, but it -- it has undergone different -- a lot of these questions go to oversight, public participation, and control. So to date, because it is a draft subject to approval by the Commission it has gone simply through various committee levels, and then joint

boards, between both of our boards, workshop and then approvals by both boards independently.

ALJ WEATHERFORD: Has there been any involvement, participation by Cal-Am either in the past or anticipated with respect to this budget process and water purchase agreement?

WITNESS STOLDT: Not under this water purchase agreement, but we have many interactive relationships with Cal-Am. So, for example, the aquifer storage and recovery program has a reimbursement agreement. So it is contractual with Cal-Am where budgets are set at the front end and invoices are invoiced and paid by the company. The establishment of the annual budgets for that has happened before. This is not dissimilar in terms of looking at what is the next year's anticipated cost and then going through cyclic basis.

ALJ WEATHERFORD: What juncture is in this series of budgetary processes? Is there information provided to the public on the website?

WITNESS SCIUTO: Certainly for our budget the -- once a draft budget is established in the main time frame, it is

provided in the website and for review at our offices for anyone to come on in. And plus any -- per Public Records Act request, anyone can request a copy of the budget that is going to a public meeting. It is also -- the information is provided in the agendas for those budget and personnel committee meetings as well as our board meetings.

If I could add one thing to Dave's comment of has our board been involved with the water purchase agreement and the affects on the budget. Certainly during the joint board meetings and in the workshops our board has understood how we will establish an enterprise fund to deal with the water purchase agreement, and the revenues, and expenses in and of itself. And, frankly, I'll get into it in another question, but having been providing recycled water to the Monterey County Water Resources Agency for over 18 years, it is a similar process, different agreement certainly, in establishing expenditures and revenues for a specific project to a specific entity. So our board is familiar. The public certainly is familiar with that process.

ALJ WEATHERFORD: Quickly Mr. Stoldt, in terms of the district what is your answer

to that question?

WITNESS STOLDT: So very similar. So posting -- and we are actually getting into a couple of the additional questions here. It struck me, we've actually been selling wastewater from the Carmel Area Wastewater District to the golf courses and private schools in the Del Monte Forest since 1994-95 through water purchase agreement where budgets are established every year and reviewed by the project participants. And it is -- we are in our third decade.

ALJ WEATHERFORD: Thank you.

WITNESS STOLDT: The next question is in particular does the process include access to and review of those estimates. It speaks a little bit to what Judge Weatherford just asked by the public, which would include customers and the various intervening public interest groups, other governmental entities which would include ORA, for example, PUC staff, Cal-Am, frankly, as a member of the public or other interested persons.

The answer is yes. Paul addressed that through both postings and packets and materials that are made available.

C is are the estimates presented by the agency and district witnesses in an open

public evidentiary hearing with the witnesses subject to cross-examination. The answer is yes. The terms of art are a little bit different.

But under the Brown Act and our public hearing process, speakers, which can be individuals and/or organizations, can present testimony, present materials. The board can seek answers and direct staff to explain and make changes through the process. So it is a very open process where materials can be presented, opinions can be aired. And then ultimately the decision-making board weighs everything and makes a decision on what is moving forward.

ALJ WEATHERFORD: Is that information under oath?

WITNESS STOLDT: Well, attorney -- Counsel?

WITNESS LAREDO: It is not sworn testimony under oath, but the public officials have a duty to properly perform.

WITNESS STOLDT: The next question D is are witnesses with contrary estimates or views allowed to present their evidence and expert opinion subject to cross-examination? The answer is yes.

E, does the process include the

opportunity to present legal briefs. It has happened, usually it is not in the form of a legal brief, but the opportunity is there.

F, are budgets adopted by the agency and district in the form of formal written decision? In the case of ours it is yes, by resolution.

WITNESS SCIUTO: Certainly ours has been a vote of the board that is documenting the minutes and signed to move forward. We are looking more towards doing it by resolution as the district does.

WITNESS STOLDT: This final question we will let district counsel answer, what is the process for appeal of each agency and board final decision.

WITNESS LAREDO: Well, the final decision, whether it is by minute order or by resolution, has to be based upon substantial evidence in the record, the means by which a decision would be challenged is several. Depending on process followed, it would a writ of mandate for Code of Civil Procedure Section 1085, or writ of mandate or administrative mandate under Code of Civil Procedure 1094.5.

Also with respect to any contract that would be affected by the budget, there

could be a validation proceeding under Code of Civil Procedure Section 860. Technically, it would be a reverse validation if someone was trying to invalidate the action taken.

For the water management district there is a provision of the district enabling statute, and it is found at West's Water Code Appendix Section 118-412. And that gives any person the ability to bring a validation action under the Code of Civil Procedure if they feel aggrieved by any action of the district. So in addition to 1094.5 and 1085 there is the validation process.

WITNESS STOLDT: Your Honor, practical realities are going through this public hearing process usually results in feedback where, at least in our case, an elected official weighs the ramifications of his or her action on his future position as a director, and that usually has an immediate impact on trying to be reasonable. Frankly, in the execution of the public duty they try to like the write decisions.

Nevertheless, under the writ, a good example would be the second largest water wholesaler in the state, the San Diego County Water Authority. They purchase from Metropolitan Water District, which I

mentioned earlier. They are currently in a lawsuit over a disagreement of how those rates and charges are established, as you all know.

So it does happen. It happens infrequently that they go to that level. But that remedy does exist.

Any other questions on Item 2?

(No response.)

WITNESS STOLDT: I did want to point out that the response to Item 2 addresses in some part concern No. 4 in Attachment 2. And I guess it is important to note that, as I said earlier, that there is additional process in the 140 some odd public urban water providers.

So moving to Question 3 which is in the category of true-up, again dealing with the draft water purchase agreement. It says the water purchase agreement provides that there will be a true-up or reconciliation at the end of every fiscal year following the performance start date to ensure the principle set forth in this section are met.

Question A is what are the principles set forth in this section. I can tell you that we appreciate a new set of eyes on the draft water purchase agreement,

because it all seemed perfectly clear to us when we wrote it. Over the course of this week I think, admittedly, Section 16 is not as clear as perhaps it could be.

So to this end, we will provide revised language in that section of the water purchase agreement to address several of the points you raise in this data request. They have not been completely through approval. But one of the concepts is to add language that says the parties agree that the fundamental ratesetting principles of this agreement shall be, A, the company does not pay for water it does not receive; B, the cost of water shall only reflect the true cost of service consistent with California public agency laws and regulations; and C, the company shall pay only its proportionate share of the costs of the agency and district producing AWT water events, water treatment water.

So those are the principles that, frankly, weren't clearly laid out in that section. We will try to make them more clear.

ALJ WEATHERFORD: Who is going to eat the water that is not delivered?

WITNESS STOLDT: That is a good

1 question. It is actually in one of the next
2 questions. We will address that one
3 specifically. It happens on -- in two
4 occasions. We will get to that one.
5 The other change in the water
6 purchase agreement that I want to talk about
7 now, there will be two more we will talk
8 about later. On the true-up, I think we are
9 going to add something that says such true-up
10 shall mean actual costs of less than full
11 company water rates paid during the fiscal
12 year. A credit will provided against the
13 subsequent fiscal year budget in the process
14 we just went through, and computed company
15 water rate for that fiscal year, and the
16 converse. So if we are a little below, you
17 get a credit. If we are a little above, we
18 can adjust it in the following year budget to
19 make it up.
20 Finally, in this Section 3B, as with
21 the prior question, please describe and
22 explain the technical and legal processes
23 used or contemplated to be used by the agency
24 and the district for this true-up or
25 reconciliation. I think we covered the
26 budget process. But Paul has an example.
27 WITNESS SCIUTO: So as I mentioned, for
28 last 18 years, plus or minus, the agency has

been in agreement with the Monterey County Resources Agency to provide tertiary treated recycle water for agricultural irrigation. So there is some parallels in what GWR, the Pure Water Monterey project will be doing, that we have been doing water resources agency.

From a high-level budgetary perspective, as Dave mentioned, we do best estimates through our budget possess, which starts in February and continues through June, to identify expenditures associated with our tertiary plant and conveyance to the Monterey County Resources Agency.

There is certainly an open budget process where we provide them our data, whether it be actual labor hours, everything else, for comment. There is iterative process, once again, to come up with a final budget as of June 30th in a given year.

Now, as we continue through a fiscal year, as Dave mentioned, if our expenses are less, or frankly more than the budgeted amount, there is a line item in the subsequent year's budget to, lack of a better term, to roll over either saving or greater expenditures. So then that -- in that open budgetary process between the two boards you

are allowed to account for any savings or higher expenditures in the next year's budget process.

ALJ WEATHERFORD: Are those ag recipients going to be under a separate water purchase agreement?

WITNESS SCIUTO: So it is not a water purchase agreement. That is another question in here later on that we can get to. But there is a separate agreement with those ag recipients.

ALJ WEATHERFORD: And we want to get to comparative standards for setting prices at some point on that.

WITNESS SCIUTO: Okay.

WITNESS STOLDT: Which we will under Question 7, I believe.

So they are declaring victory on the schematic.

WITNESS SCIUTO: That is much clearer.

(Laughter.)

WITNESS STOLDT: I think it is a stand-alone. Let's come back -- if we can get through some of these oversight and access to data, and then we can come back to it.

Mr. Fogelman, you have a question?

MR. FOGELMAN: Just a couple of

1 questions.
2 I take it that Cal-Am is going to
3 essentially pay its fair share of the costs
4 of this, and there will be true-ups, and so
5 forth. But is there any provision or
6 thought, maybe there is none, that the PUC
7 will be accorded an opportunity to judge the
8 reasonableness of the cost of the agency and
9 the district expended and -- before it
10 essentially is recovered in rates?
11 WITNESS STOLDT: Yes, when -- we are
12 going to cover that.
13 MR. FOGELMAN: Thank you.
14 WITNESS STOLDT: Thank you for asking.
15 We might get to the first glimpse here in the
16 next two questions.
17 ALJ WEATHERFORD: Excuse me for
18 interrupting. Can we have Cal-Am use some
19 software and produce this so it can be
20 attached to the transcript?
21 WITNESS STOLDT: It is called an
22 iPhone.
23 MS. LEEPER: I will document this as
24 best I can.
25 WITNESS STOLDT: I think by tomorrow we
26 will have some other maps available.
27 I think we are moving to Question 4.
28 Question 4 is identified as access to books

and records, and there is a couple of other things that might come out of the discussion here.

And it is the draft WPA states that access to books and records for the agency and the district will be made available to the company for purposes of reviewing the accuracy and reasonableness of all costs relating to the project and determination of the company water rates. A little bit to Mr. Fogelman's point.

Question A what, if any, provisions are there for persons or entities other than the company to access the books and records of the agency and the district for the purposes stated above. Question, following question, will the Commission have access to books and records to agency and district. The short answer is yes. Under Brown Act, and a whole variety of other longstanding public laws, all information from public agency is available for review to individuals and the Commission.

WITNESS LAREDO: If I may add, it -- the Brown Act applies to attendance and awareness of meetings and agendas. In particular, it is the Public Records Act that applies here. It is California Government

Code 6250, and that allows any individual. And the definition of "individual" includes corporations and also public agencies and the state. It allows any individual to both receive a copy of records or to examine records without receiving a copy. It is at the choice of the requesting party.

ALJ WEATHERFORD: Would you consider a more streamlined method for access by Cal-Am and the Commission?

WITNESS LAREDO: The Public Records Act requires a response within 10 days, 10 calendar days of any request. And it also imposes upon the receiving agency an obligation to cooperate with the requesting party so that if the requesting party identifies or seeks a record that does not exist, it is incumbent upon the agency to describe those records that do exist, that might otherwise accommodate the request.

WITNESS STOLDT: I think that the information is going to be made available at least 15 days, probably sooner, before adoption to Cal-Am. It could be made available as informational item to ORA and the Commission, or whoever you may designate.

I think the standard of oversight is -- should not be any different than any

other of your water purchase agreements with any of your nine Class A utilities that you regulate. I think that would be the standard that we would ask for.

In a GRC you've got -- somebody is going to point out I probably got it wrong, I think it is also Table 11-4 that shows the cost of purchase water and production for that GRC period for every subdivision of any of your nine Class A utilities.

So it has been done this way all the time. I'll give you couple of examples. Golden State Water buys water wholesale from the Casitas Municipal Water District and Calleguas Municipal Water District. Cal Water buys from Butte County and Kern County Water Agency, Stockton East Water District, San Francisco. And there is some concern about binding the future commission.

The San Francisco Water Purchase Agreement is a 25-year agreement. They purchase from Santa Clara Valley Water District. Cal-Am purchases from the City of San Diego under a 25-year agreement. Placer County, Placer County Water Agency under a 20-year agreement.]

Also Cuyahoga County, Ventura County under a ten-year agreement, and the City of

Sacramento. In both those cases, for example, Cal Water, its operating revenues are about 560 million. And their cost of purchase water every year is about 170 million, most of which is from public agencies like ourselves. Same with Cal-Am, or actually, American Water, the parent is about $2.6 billion of operating revenue of which about 120 million is purchased water.

So whatever level of oversight the Commission has also in other states where American Water puts in place. We're not trying to usurp any of that. It's going to be the same as it is. We spoke this morning with ORA about the front end regulation over a cost cap. And we recognize that it wasn't in the water purchase agreement. We'll talk a little bit later about entering a cost cap into the water purchase agreement. And then the annual oversight through Tier 1 advice letter for chemicals, power, services, and supplies, and then the GRC process.

So I think it will be in there the way you've seen it before, and you'll have that authority.

Yeah. Go ahead.

WITNESS SVINDLAND: So this is Rich with Cal-Am. Just to help maybe provide a

1 little more perspective. Currently
2 California American Water, Dave mentioned we
3 purchase water from a couple of different
4 entities. We spend around $40 million a year
5 purchasing water. So for context this is
6 about a $7 million, somewhere in that range.
7 So it's something that we have done and
8 certainty part of our GRCs as we've done in
9 the past. We'll move forward that way.
10 WITNESS STOLDT: Any other questions?
11 Commissioner.
12 COMMISSIONER SANDOVAL: Thank you for
13 those clarifications. So to a certain extent
14 I think this becomes intertwined with the
15 rates issues and the cost issues that we'll
16 deal with later because if it gets the
17 combination of the term and cost. So I'm not
18 familiar with the details of all those other
19 water purchase agreements, but I can
20 certainly see why a water agency would want
21 to secure water for a period of time. But
22 often those agreements have some parameters
23 as well with cost. So I don't know if we're
24 just going to park the cost issue later but,
25 is the issue here really about the length of
26 time or is it about really the cost?
27 ALJ WEATHERFORD: I think the latter.
28 COMMISSIONER SANDOVAL: The cost. The

whole cost process. So we'll come back to that later.

And then the second is I think that this actually underscores the importance of separating out the pipeline from the GWR because, for example, on access to books and records, the Commission has very extensive rights regarding audits and access to books and records that gives us the right to ask for immediate access if needed. And so certainly for anything that is going to be proposed to be included and ratebased, we would have full access. We don't need to go through the Public Records Act in order to access that. So I think that this just underscores the need to really separate those two parts.

WITNESS STOLDT: Yes. I do want to underscore the separation of church and state. Not the right term. I don't want to get into a, you know, a lengthy discussion about Section 451 of the Public Utilities Code or even our most recent Supreme Court ruling about local agency authority. Suffice to say, we fully intend to be subject the regulatory framework that all those other public agencies are who are wholesaling water to a Class A investor-owned utility. And our

record are very accessible. And usually we -- when we know a Public Records Act is coming, we usually provide it based on a phone call instead of waiting for the formal process. And information will be made available if there's questions.

We talked earlier today about the mechanism. And so I think we're getting close to talking about the cost cap. As we move into Question 5, which is about the rate determined by water produced. So the draft WPA states that the company water rate in each fiscal year shall be the sum of the budgeted fixed and variable costs for that fiscal year divided by the amount of AWT, advanced water treatment water expected to be produced during that fiscal year.

So the questions, and there are three, and the first is, please explain the provisions if any to true up or reconcile the calculated rate. Well, I think we just did that in the previous question. So that was 3A. But B, and this goes to, Judge Weatherford, your earlier question about losses. Let's talk about losses. Please explain the provisions if any to true up or reconcile the calculated rate to account for lost water produced but not delivered to

Cal-Am. So with that there's actually two scenarios. One is losses on our side of the meter before delivery. And I'll ask Paul to kind of explain conceptually and geographically where water is produced and where it's delivered and where it's metered. And then there's the scenario of water lost on the Cal-Am side after receipt of delivery. So let's take both of those. Paul.

WITNESS SCIUTO: So actually, I'm going to refer to the drawing if that's okay. Just to point out, as Dave mentioned, on our side if there's a water loss. So generally speaking, where you see the rectangle that says PCA AWT, that represents the advanced water treatment plant. There will be a flow meter coming into the plant so we know how much water will be coming into the plant to be treated.

Once it comes out of the line below it and terminates at the Seaside Basin there, there will be injection wells where the purified water will be injected into the Seaside Basin. At those wells is where we will have flow meters. So we will know what we are delivering to Cal-Am. And that will be the basis for those charges.

So hypothetically, water loss on our

side is if on that pipeline, the line between the rectangle and the circle, hypothetically there is a break in the line, we lose a certain amount of water. We still know exactly what came into the plant, and we also know what has been delivered to Cal-Am. Cal-Am will be charged what is delivered to them. And we will have to reconcile on our books the costs for that amount that is lost, and that would be hitting our respective finances.

WITNESS STOLDT: Well, yeah. Actually, let's distinguish. So in a normal operating procedure where there's minor line losses. So we know what the cost of treatment is and what the cost of delivery is. Just like a retail customer, that will be in the cost of water because there's going to be 3 percent, 7 percent line losses as pipes age. But from the front end, nothing. A catastrophic loss or a loss due to maintenance becomes a cost we eat that does not find its way into the cost of water delivered wholesale.

ALJ WEATHERFORD: So the former your ratepayers are basically being allocated, and the latter?

WITNESS STOLDT: Is a risk on the agencies that if our -- if it's a contractor

mistake, we go after the contractor. If it's a catastrophic mistake, we try to get insurance to pay out. And if none of those work, then we just -- we're on the hook. These are risks that we've already taken to our board to help them understand that Cal-Am only pays for water Cal-Am receives. You know, it's different than a take-or-pay contract. It's different than a long-term power purchase agreement where you're paying the fixed costs of the entity no matter what. There are certain risks where we bear the financial ramifications.

ALJ WEATHERFORD: You say we. Wouldn't this be O&M that the ratepayer would ultimately being paying anyway?

WITNESS STOLDT: Not for a catastrophic event. In fact, we've talked about with Cal-Am about what types of things happen that they're not on the hook for just rolling into O&M in an advice, a Tier 1 advice letter type setting.

WITNESS SCIUTO: But certainly, as you mentioned, ongoing O&M is in the overall budget for the water. So you're absolutely right. There is the risk associated with water loss, a larger water loss is on the district and the agency.

ALJ MATTSON: Mr. Fogelman.

MR. FOGELMAN: Can someone just quickly point out the spot on that chart where the water goes from the agency and district system to Cal-Am. Where is it being delivered? Is there a delivery point?

MR. MAC LEAN: So that's where it goes in the basin, here at the injection wells.

MR. FOGELMAN: Okay.

MR. MAC LEAN: It will come out of the basin using our existing ASR extraction wells. And that's -- this is, you know, once it's in the basin, it's Cal-Am's. And so it will come out and go into our pipeline. This is the Monterey pipeline that we're talking about needing to build.

MR. FOGELMAN: Okay.

MR. MAC LEAN: As opposed to the two conveyance pipelines. One thing to remember here is this is technically not potable water. It doesn't technically become potable water until it sits in the basin for --

WITNESS SCIUTO: For six months.

MR. MAC LEAN: -- six months. So these pipelines have to be separated. And that's why you need two, one for desal conveyance, one for GWR conveyance.

MR. FOGELMAN: But it will be metered

to ascertain the volumes that are going into Cal-Am's procession prior to its injection into the basin?

MR. MAC LEAN: Correct.

WITNESS STOLDT: Correct.

MR. FOGELMAN: Thank you.

WITNESS STOLDT: Basically what you just heard about, it's technically not potable water. When you come visit Monterey, come out to a demonstration facility and --

WITNESS SCIUTO: And taste the water.

WITNESS STOLDT: -- and taste the water. We run tourists through there all the time at this point. Similar to Orange County part of the highlight is tasting the water. And it's really good. Okay. So moving forward.

COMMISSIONER SANDOVAL: I think there's a question.

WITNESS STOLDT: Oh, yeah, Russ.

MR. MC GLOTHLIN: You have a current storage agreement with Seaside Basin water master. Intention is to expand new or what form of storage agreement? First question.

WITNESS STOLDT: Right. So new. And there is a draft in Anthony Cerasuolo's hands that adds a wrinkle that allows for the district to designate withdrawals from the

reserve amounts that is contingent ownership position of Cal-Am until it's designated to be Cal-Am's, but because only Cal-Am can ever extract it that it doesn't violate the premise of a producer subject to the adjudication having the rights.

MR. MC GLOTHLIN: Second question on that. The existing storage agreement you have provides that Cal-Am may -- excuse me -- that Cal-Am has, that Cal-Am may recover the full amount of water actually stored in accordance with the agreement is the same provision in the new storage agreement. So there are no losses in the basin?

WITNESS STOLDT: There are presumed zero losses. Mr. Weitzman is not in the room.

ALJ MATTSON: Can we go off the record for a minute.

(Off the record.)

ALJ MATTSON: On the record.

WITNESS STOLDT: I've been advised. I mentioned that copy of the storage and recovery agreement is in Mr. Cerasuolo's hands. That's Anthony Cerasuolo, who is counsel for California American Water.

The last remaining question under 5 is, please explain the provisions if any to

true up or reconcile the calculated rate to account for other relevant effects if any. This is kind of a little open-ended, but I just wanted to reiterate, one, that we have mentioned chemicals, energy services and supplies as being handled in the future after the initial year under Section 18 of the water purchase agreement with the Tier 1 advice letter as a form of true-up for changes in variable costs within the purchase price of water.

And the second, and I don't think we've really gotten to it yet, is both ORA and in its testimony and you in the data requests have raised the issue of cost control through a cost cap. And we recognize that that was a bit of an oversight and that you should have cost control so that there are bounds set on the costs of this project as projected into the costs of water. And so what we have done in our current draft, and it will be cleaned up when we submit it, is something like this in the water purchase agreement Section 16. Approval of this agreement by the CPUC has assumed in the first year of operations the company water rates shall not exceed $1,720 per acre foot, paren, the soft cap, close paren.

Prior to operation of the project if the first year company water rate is computed to exceed the soft cap, the company shall be required to apply to the CPUC for the authority to pay an amount greater than the soft cap as a company water rate and in such instance may only proceed to accept deliveries of water, company water, excuse me, if at a first year company water rate so approved by the CPUC.

And I think that, with a little bit of word smithing to make it clearer, in effect says you can't take the water unless it's at an approved rate, preferably below the soft cap as originally approved when hopefully we get a decision to proceed.

And I think that closes out Question 5, which I think we covered a lot of things in terms of that since it was access to records but --

COMMISSIONER SANDOVAL: I have a question.

WITNESS STOLDT: Yes, please.

COMMISSIONER SANDOVAL: So from what you just proposed with regard to cost. So if for some reason the costs were to exceed the soft cap, then is it your proposal that Cal-Am would have to apply to the Commission

to take water at a price that exceeds that, but would its right to take water would be suspended in the meantime?

WITNESS STOLDT: Well, the cost cap applies to the first year cost of water. So its parallel would be a revenue requirement in the first used and useful year of a rate case, of a CPN hearing or something like that.

So if we're proceeding and now all the bids are in hand, and I know there's been a lot of discussion about bids in hand versus level of design and so forth, and if those bids now say, oh, my goodness, to amortize this cost, the fixed cost component is going to be higher than we expected. And then you put the O&M component, the variable piece on top and it exceeds 720, there's been some discussion if it exceeds it by only a little bit, then maybe it's a Tier 2 advice letter, but it's within bounds and it can be considered. If it radically exceeds it, and the choices are, well, it still makes sense to do this project, but it's at a little higher starting point than we expected, then possibly a petition for modification or some other, or a Tier 3, something with greater scrutiny.

But the goal right now is to get an approval to proceed based on a soft cap and then come in under that soft cap and never look back. That's the current plan.

But to your point, yeah, if all indicators were such that you're going to exceed it, then it would be one of those two mechanisms.

COMMISSIONER SANDOVAL: In a different proceeding involving Rule 21 interconnection there are some parties who have looked at the Massachusetts model which basically proposes a cost envelope. So it may be, you know, just something that's kind of a different way of thinking about it. Part of the argument there is should there be a fixed cost or a cost envelope. The cost envelope is an approach that Massachusetts has that allows for certain cost projections and dealing with either cost overruns or shortages.

So I'm just saying that that's a different model that you may want to consider. I'm not saying that's still at issue before us. I'm not saying it's good, bad. I'm just saying it's what Massachusetts is doing. But you know, I just think that the question here is if part of the goal is to provide safe, reliable water at just and

reasonable rates, that each of those components needs to be assured. And so if the cost, the proposed costs are for some reason way above the soft cap and then Cal-Am wouldn't have the right to take water, you get neither water nor the just and reasonable rates part.

So that's a question of like what is the mechanism that really could be created to create more certainty of both delivery as well as just and reasonable rates and the appropriate review mechanism.

WITNESS STOLDT: Thank you. We appreciate what you're saying. We didn't want to reinvent things. So we have an open mind on the Massachusetts model. But you know, the parallel of a soft cap is very similar to capital review for a CPCN for a project. And I'll tell you I moved here from Massachusetts. So I chose California over Massachusetts.

COMMISSIONER SANDOVAL: All right. Very good.

ALJ WEATHERFORD: Well, I think in any event we have to take the actual language once you developed it and have thorough legal review because thus far we have a very strong position with respect to the nondelegable

nature of our ratemaking authority.

WITNESS STOLDT: And we agree. We're just asking for similar treatment of any of the other wholesale water purchase agreements of your regulated offspring. And I did want to point out that that response covered or at least addressed your concerns No. 5, 6, and 7 in Attachment 2. So I think we're ready to move to No. 6.

ALJ MATTSON: Do you have a question?

MR. FOGELMAN: Just a quick question. Just so I'm understanding this project. You earlier said that the pipeline we're talking about is the transfer pipeline, not the conveyance pipeline. At least that's what I heard. And I see a conveyance pipeline. I see a Monterey pipeline Cal-Am owns. Is that the transfer pipeline? What are we talking about?

WITNESS SCIUTO: Yes.

WITNESS STOLDT: Yes. So that is the Monterey transfer pipeline.

MR. FOGELMAN: Okay. And do you know what the capacity of that is that's been studied in the EIR?

WITNESS SVINDLAND: So it's sized to be 36-inch pipeline. And it's sized for the GWR water, for the ASR water, and for ultimately

desal water. But it's also sized, and we have talked about this for years now, it's sized for the peak day and the peak hour needs of the system.

WITNESS STOLDT: And then this conveyance pipeline is part of the Pure Water Monterey Groundwater Replenishment Project paid for through the purchase water cost allocated for the proportion of the capacity of that pipeline that's dedicated to the water serving Cal-Am customers. This conveyance pipeline for desal is subject to the remaining piece of the Cal-Am only facilities in this application. And right now we're leaving that in the mix for later.

ALJ WEATHERFORD: Is the spreading basin going to have any standing water that would involve evaporative losses?

WITNESS STOLDT: Right. So the primary form of delivery, if you will, are injection wells with no losses. So there's two beta zone wells which are percolation style also with very little evaporation because of the diameter and the depth. And it kind of sits and percolates in. But the percolation delivers it to an aquifer called the Paso Robles aquifer that's got very low transmissivity. So the water doesn't go in

or come out very quickly. So very little of Cal-Am's production in the Seaside Basin comes from that aquifer. So the goal is to try to inject water in proportion to where most of the water comes from, which is the Santa Margarita strata. And that requires injection where there would be no evaporation.

WITNESS SCIUTO: Just to add on to the evaporation question. Certainly very minor, but there is back flushing or back of the injection wells, and that water would go to a perc pond which would eventually percolate into the Seaside Basin, but there could be some minor evaporation. But most of the water is just going into the injection wells as Dave mentioned.

WITNESS SVINDLAND: Final comment on that. And that's the same operation we have for the current 4A star wells we have to do. When you inject and retract from the same well, we have to have this process.

WITNESS STOLDT: Mr. Riley.

MR. RILEY: Quick question. There's a reservoir in one of these transfer pipelines. Is that the Cal-Am only that's not being talked about, or is it in the --

WITNESS STOLDT: Well, the terminal

reservoir if that's what you're referring to.

MR. RILEY: That's what I am referring to.

WITNESS STOLDT: Would kind of sit kind of over on this end. So is it or isn't it part of the transfer pipeline application?

WITNESS SVINDLAND: Let me clarify. So when we applied for this project several years ago, the pipeline routes were slightly different and the terminal reservoirs were technically at the end of the line. And there's a line that went from there to Pacific Grove. Through the course of meeting with the cities and working out alignment preferences with everybody else, we've redone the alignment. And now those terminal reservoirs, while they're still needed for storage and they provide storage benefit wells for fire protection other needs the, for the GWR portion to go forward, we don't need the terminal reservoirs now. So we are planning on doing that with the rest of the project.

MR. RILEY: That was my question. Thank you.

WITNESS STOLDT: Good answer. Okay. Question 6. And this area relates, really relates to the language in the water purchase

agreement about deeming costs to be reasonable and prudent. And we're going to rely on district counsel here. And I'm going to lump a couple questions together for counsel.

The first is, please site the law and/or laws requiring that the agency and the district only incur reasonable and prudent costs and expenses. And then B, please explain the technical and legal processes to address and adjudicate a potential dispute if a person or party believes the agency or district has incurred an unreasonable and/or imprudent cost or expense.

Mr. Laredo, please.

WITNESS LAREDO: Thank you. This is a several facetted response. Starting with the Government Code Section 50076, that provision provides that any fee or charge that exceeds the reasonable cost constitutes a tax. And we know since 1978 Proposition 13 requires voter approval of any new tax.

In 1985 there was a case, Beaumont Investors, that's B-e-a-u-m-o-n-t, Beaumont Investors versus Beaumont Cherry Valley Water District. And that case turned on level of evidence that the water district had to support its fees. And the case found that

evidence in the record must support that the fee does not exceed the reasonable costs, and if it does under the government code that fee without supporting evidence is a tax and therefore must comply with the requirements of Prop 13.

WITNESS STOLDT: Which means voters.

WITNESS LAREDO: Yes. I'm sorry. In 1996 then the law was amended by Proposition 218, which was denominated the Right to Vote on Taxes Act. And that prohibits proceeds of a jurisdiction being transferred to a general fund without demonstrating that costs are justified.

And there are two seminal cases there, both brought by the Howard Jarvis organization against the City of Fresno and the City of Roseville contending that there was not an adequate justification of those costs.

There is extensive lore on the technicalities of Prop 218. And our reference there would be the League of Cities has published a Prop 218 implementation guide in 2007 that helps further respond to the technicalities there.

Then in 2010 Proposition 26 was en acted by the people to further amend the

1 Constitution on Article 13 C and D. And that
2 clearly places the burden upon the public
3 agency to demonstrate that its fees do not
4 constitute taxes. The League of Cities
5 similarly published a guidance, an
6 implementation guide for Proposition 26 in
7 2011.
8 Taken together the public agencies
9 have a high standard. They hold the burden
10 to demonstrate in the record that their fees
11 are founded in just and reasonable costs, and
12 the consequence of not demonstrating that in
13 the record is that these fees run the risk of
14 being invalidated.
15 Then in answer to Question 6B, how
16 in fact would those be adjudicated, the
17 answer is the same as how one would challenge
18 the budget, that a writ of mandate could be
19 sought under Code of Civil Procedure 1085, or
20 a validation action could be brought.
21 So under, the comment No. 8
22 discusses what happens if the agencies don't
23 have reasonable costs. I think there's the
24 example of purchasing excess insurance. It
25 would be the burden upon the agencies to
26 demonstrate what is the public purpose that
27 is being relied upon for that expenditure and
28 how does it tie specifically back to the

1 project for whom the -- for which the fees
2 are being imposed.
3 WITNESS STOLDT: And to follow up on
4 that point, the water purchase agreement that
5 was submitted with testimony did not have
6 Exhibit D complete, which is in the insurance
7 provisions. And I think that's highlighted
8 as seemingly open-ended. That was just by
9 virtue of not being ready at the time of
10 submission. The current draft has that whole
11 provision filled in and will be available
12 with the next submittal. So you'll see that
13 it's just -- it's normal insurance provisions
14 of the two agencies.
15 C under Question 6 I think we've
16 addressed pretty much to date. That was
17 dealing primarily with budgets true-up,
18 access to books. But D I think goes to the
19 heart of something we all want to discuss,
20 and that goes back to the line, all fixed
21 projects costs and project operation and
22 maintenance expenses incurred by the agency
23 and the district in compliance with the terms
24 of this agreement shall be deemed and
25 reasonable and prudent. And I think that got
26 a lot of attention from everyone involved
27 here at the Commission.]
28 I do want the point out that we

actually listed that language from an approved water purchase agreement and the failed regional desal project. So we declare innocence on the one hand. On the other hand, I don't think you will find that language in very many water purchase agreements anywhere.

So we understand why initially ORA flagged it, and then subsequently you flagged it. We've agreed to remove it. In the current draft we have kind of replaced that line. The line in Section 16 used to say what I just read. Now it is going to say something like all fixed project costs and project operation and maintenance expenses incurred by the agency and the district in compliance with the terms in this agreement, shall -- this is new language -- only reflect the true cost of service consistent with California public agency laws and regulations. And shall be subject to the standards of review consistent with existing water purchase agreements incurred by the Class A investor-owned water utilities regulated by the CPUC. Something like that.

Hopefully, that and the other answers we've provided in 6A satisfy some of the concerns reflected in numbers 1, 2, 4, 8

1 and 9 raised in Attachment 2.
2 ALJ WEATHERFORD: I think that latter
3 language with respect to Class As gives at
4 least me some comfort. But I would observe
5 that however high the standards that are made
6 up by composite of the propositions and the
7 court rulings, that is not necessarily equate
8 with the standards and elements that go into
9 reasonable and prudent with respect to the
10 Public Utility Code. And specifically there
11 are elements with respect to affordability
12 investment, environment, et cetera, that
13 relate to the utility code and to the
14 Commission which the Legislature has insisted
15 upon.
16 So I don't think establishing the
17 high standards of what you are operating
18 under necessarily disposes of this issue.
19 WITNESS STOLDT: I think we agree that
20 your standards are not the same. I think we
21 agree that our standards are very high, but
22 different. And that is why we want to
23 subject ourselves to the same regulatory
24 framework that all the other water purchase
25 agreements are subject to. In the early
26 years of getting comfortable there may be
27 more data you want to know about, and later
28 years after it is working really well the

less data you want to know about.

And I think one of the comments made about all the existing water purchase agreements that Cal-Am or Cal Water or Golden State, or any of these folks are doing, is that they are such ancient history now people don't give it the scrutiny they did at day one. We recognize that.

ALJ WEATHERFORD: This project may have complexities that require different consideration in past water purchase agreements.

WITNESS STOLDT: True.

COMMISSIONER SANDOVAL: So can I suggest, especially if you are referring to the class of Class A water utilities, water purchase agreements, would it be possible to submit some examples of other water purchase agreements that Cal-Am has in California so we can look at it by comparison? I think it would be good to have a combination of when you are purchasing water from the California Water Project versus some of these others, especially local water purchase agreements. That that would be very helpful. Thank you.

MS. LEEPER: Yes, Commissioner.

WITNESS STOLDT: I'll caution you that under the category "be careful what you wish

for," because some of these are spot agreements. Some of them are legacy agreements from -- and not just Cal-Am, but any of the utilities. But, for example, an acquisition of Citizens Water, some of them are purchase orders, and that is the agreement.

So there is a wide variety of things that are out there, and possibly none will be good models. We haven't gone through this. I think it is a very good model. We started with what we had hoped for what is called a take-or-pay contract which is, whether the water is delivered or not, you cover our fixed cost because we have to pay our debt.

This is favorable contract for a utility that, as we've said throughout, only wants to pay for water it receives. It is a very resource-driven contract. We think it is pretty good. The protections -- let's put it this way: The risk profile on the agency is probably more risk on a public agency than most, if not all the ones you are going to find if you do some of that research.

COMMISSIONER SANDOVAL: I teach contracts, so I like reading contracts.

MR. FOGELMAN: Just to get an idea of this. Hypothetically, under your current

thinking about the water purchase agreement if the agencies felt that they made expenditures on the project that were just and reasonable, appropriate and satisfied all normal requirements for them, but the Commission maybe after getting some short form request for approval for the Commission, reasonableness review or otherwise, disagrees that a million dollars was not just and reasonable. How would that be resolved? Would Cal-Am be obligated to pay you, or would you basically say sorry, we overspent. You don't have to pay us.

How would that happen? What would happen?

WITNESS STOLDT: That's a very good question. And it is not just the scenario you've painted. There is risks under the water purchase agreement, so construction risk. We've established a level of $73 million. All the pieces come in at 80 million. Somebody screwed up. We go after the contractor, or worse came in at 73 million but it doesn't work. Instead of producing 3500 it produces 2500. We go after the contractor.

But let's say now we are into the fifth year, the contract was gone, the

warranties are gone, and it is in decline and not producing enough. If we have to do a large capital fix, it is very likely that we are exposed. We would come to the Commission and say, hey, it has been going great. Now it needs a fix. We want to put this capital cost into the price of purchase water. Because it is a significant cost, it is not going to go through on a Tier 1 Advice Letter, whatever proceeding it happens.

If in the Commission's review they say, well, you know, you should have seen this coming. We are not going to allow Cal-Am to pay that. We've already apprised our boards with board approval. We are going to have to find a way to eat that either through reserves or some form of revenue raised, interruption. So we said you only pay for water that is delivered.

So we are establishing operating reserve at the beginning about a thousand acre-feet over time to grow to 1750 acre-feet. If there is long-term interruption, 1750 would probably cover five to six months of expected deliveries. But once that is depleting or if it gets depleted and we need to keep trying to refill it and we haven't refilled it, we are on the hook

for that. Cal-Am doesn't pay for water it doesn't receive. Now there is a default, because we haven't delivered. We haven't met minimum delivery requirements. Their choices are abrogate the contract to move on, which is going to be hard, of course, because it is a fixable water supply at that point. The cost of the fix is going to be on the public agencies.

We've talked about repairs, services, supplies, power, things like that, Tier 1 Advice Letter annual review, GRC review, and so forth.

Damages, well, there could be damages under the contract where we breach. They don't abrogate the contract, but they've had harm. We can't -- we've agreed not to pass damages or fines and penalties onto the ratepayer. So if we go first to our insurance and if insurance doesn't cover it, we are going to have to find it through other sources rather than water purchase agreement.

On the other hand, Cal-Am failure or bankruptcy. So there is risks on both sides. If Cal-Am were to go under, the bankruptcy court appoints a receiver or an operator or give the remaining Cal-Am people a contract, whatever it is, if they fail to pay the water

purchase agreement amounts on time, the costs, we've actually stepped up and said we will raise that money to ensure there is payment for the recycled water on the district's bill with the district's Prop 218 revenue raising capability to go out and back up the failed performance of Cal-Am.

Then there is water that is being put into the reserve, and that water has to be treated, but it is not Cal-Am's water yet. So who pays for the cost of treatment and deliver and injection. The district does that on the front end, and it is not until that water is deemed to come out that Cal-Am pays for it.

So Cal-Am, in effect, is paying the current price of water at that time, whenever that time is. We may have paid the treatment three years earlier or four years earlier. It is not until that gets paid for that they actually get reimbursed for the treatment. Then we turn around and try to refill the operating reserve by paying for the -- then we try to refill the operating reserve and begin paying for the cost of treatment the then current rates, which are probably higher than they were four years ago.

So those are the risks that are kind

of throughout this agreement. And so it is a fairly -- as I mentioned earlier, a lot of risk to the public agencies.

With that, I think we are at Question 7. Judge Mattson, are we making progress?

ALJ MATTSON: Yes, thank you very much.

WITNESS STOLDT: So Question 7 is a topic around cost recovery assurance from other customers, but also relates a little bit to what is the business deal between delivery of domestic supply and delivery to the growers or delivery to any other party at some point.

So the question says the two purposes of the GWR are to, A, produce up to 3500 an acre-feet per year for Cal-Am and, B, provide additional recycled water for use in the Castroville Seawater Intrusion Projects agricultural irrigation system.

It is anticipated that approximately 4500 to 4700 acre-feet per year could be created for agricultural use, and as much as -- I'm sorry, in normal and wet years, and as much as 5900 acre-feet per year in drought years.

So Question 1, it appears that 40 percent of the project will be for Cal-Am,

the first purpose, and about 60 percent of the project will be used for irrigation, the second purpose. Is this correct? The answer is no, it is not correct. But that doesn't mean that there is no explanation for why you might think so.

It is a very complex project. There is essentially four project components. There is the diversion and conveyance of source waters, and the source waters come from a variety of sources. There is wastewater primarily in winter months when it is not being recycled for use by the growers. There is storm water from the City of Salinas. There is architecture produce wash water. So your bags of perfect little lettuce that Paul likes to say his kids think grow that way, that is all prewashed. And it was invented outside of Salinas, and it raised the margins on lettuce product enormously, highly lucrative. And it has been a convenience for all of us. That is almost a billion gallons of year of water that had gone to no beneficial use, either percolated into the ground or evaporated into the air.

Finally, there is return tile drain water, which is basically water that is

1 irrigated fields, trickled through, been
2 collected in their drainage system. And
3 flows into ditches or drains which are
4 impaired surface waters of the state.
5 So they are treated as surface
6 waters for which we've applied for water
7 rights. And the combination of all of those
8 will be brought into a single head works at
9 the front end of the existing primary
10 treatment facility in Paul's agency.
11 WITNESS SCIUTO: So the larger
12 rectangle it says "WWPT." All that source
13 waters are going into the treatment plant, if
14 you can imagine one source of water, and then
15 it is just divided thereafter, whether it be
16 used for agricultural irrigation or the Pure
17 Water project.
18 WITNESS LAREDO: What is WWPT?
19 WITNESS SCUITO: WWPT stands for
20 wastewater treatment plant.
21 WITNESS STOLDT: So that is component
22 one, conversion and conveyance to the plant.
23 And that is the only piece of the project
24 that the growers also participate in the
25 capital costs. And so it is only about 8 to
26 9 million of the total project, and so they
27 will have a proportionate share of those
28 capital costs based on a formula that is

created based on how much water is made available in an average year. We will talk a little bit about that in a second.

The second component is the advance water purification plant or the advance water treatment facility. And that is the largest component cost element, 53 million roughly of pretreatment microfiltration reverse osmosis, and what did we do at the end, zone?

(Cross-Talk)

WITNESS LAREDO: One at a time, please.

WITNESS STOLDT: So that is the recycling treatment component.

The third element is conveyance from that plant to the injection site. That is the conveyance pipeline that we talked about earlier that is part of this project. That conveyance pipeline is going to be built by another water agency, water district, who is going to reserve some capacity in that pipe for being able to accept future recycled water to irrigate Bayonet and Black Horse Golf Course and irrigable proprieties throughout California State University Monterey Bay and any other recipient location.

So that pipeline cost will be split approximately 71 percent to the peninsula

domestic water supply to Cal-Am and 29 to the other water district for its purposes. And so, again, proportionate share of different pieces.

The final are the injection facilities; and as I mentioned earlier, two injection wells and two percolation wells. That is 100 percent allocable to domestic water supply on the peninsula. So none of these ratios work out perfectly anymore. The primary large piece of those capital costs is for water supply for the Monterey Peninsula.

There is an agreement between MRWPCA and the County Water Resources Agency. And Paul talked about the true-up mechanism of that earlier.

The proportionate split on capital cost is 45.1 percent to the growers or the irrigators and 54.9 percent to the peninsula or to the agencies; but O and M is split 50.3 percent to the growers and 49.7 percent to the agencies. And why is there a difference there? Well, in the course of allocating cost-based, capital costs based on water produced or made available, it was determined that some of that percolation and evaporation that was happening at the ponds, a portion of the percolation actually assisted the growers

with recharging their aquifer, their river for the rubber dam that we talked about earlier. Nevertheless, they were losing a component element of water so that O and M based on new water that was made available, but capital is based on slight credit for the lost water. And that's reasonable for the difference in these ratios. Those are the ratios but only for the diversion and conveyance capital cost. So the small $9 million dollar piece.

So there is no easy way to say, huh, what is the split. Because they don't see this highly treated advanced domestic supply. They only see up to that point between the WWPT and the AWT the pipes split. When it goes to them, it goes to their already existing tertiary treatment and already existing 12,000 acres of pipe and distribution system.

They may annex new properties to take advantage of the additional water, and they are in the process of looking at that right now. But once it is in their hands, they are paying for treatment. They are paying for conveyance, power, and everything else. So we have done a thorough cost allocation. It just doesn't come out in nice

round percentages in a way that you can see it. So prices of water will vary.

So let's say in the future we add a train to the -- and the term "train" Rich introduced earlier today, a module to the advance water treatment facility for the sole purposes of delivering groundwater replenishment water, but to this other water district who has reserved capacity in the pipe. That may happen five years after, it could happen 10 years after. They've already got their applicable piece of the pipe. Now they are going to pick up treatment costs, 100 percent of the cost of that train so the Cal-Am ratepayer won't see that.

From that point going forward there are some component elements that they need to pick up the capital cost of that hadn't been envisioned that now will roll off of Cal-Am's ratepayers and will roll onto their ratepayers so there will be a reduction. We do balance all of those, but the price of the water that they are going to receive because they don't have participation in the injection facilities or the conveyance pipeline to the injection facilities won't include any element of that. So there will be different prices for water delivered from

the same plant based on how many facilities you use. And that math can be done and shown and put out there at each juncture when it happens. If you get another offtaker and you are in year nine in a new rate case, you will have the chance to take a look at that.

ALJ WEATHERFORD: I understand that the ag users face uncertain capital investments from what you've said. But at this point obviously you must have some sense dependent on those investments what the pricing for the ag users willing be. And we are interested obviously in how that compares with Cal-Am's price ultimately.

WITNESS STOLDT: Yes, and so because they are not getting the standard of treatment that Cal-Am is, it is not for domestic supply, they are going to pick up about 4.3, just under 5 million of capital costs, is it 3.8 now? We took something out. It is a very small amount. We got that allocated.

And so their price of water will be their cost of treatment for some portions of the water. There is a price of treatment that the City of Salinas is going to pay for directly. So they are going to end up in the hundreds of dollars per acre-foot, because

their component element costs are different. The cost of treatment through the advance water treatment facility and delivery is close to $800 dollars per acre-foot, that they don't see any of those costs. There is going to be a big differential.

We've been talking about a cost cap 1720. We have some scenarios that are in the 1200 and 1300 dollar per acre-foot range, and that compares to -- so between 13 and 17 compares to 2 to 300 dollars an acre-foot over on the growers' side because of these vast differences in treatment level.

ALJ WEATHERFORD: Has this been scrubbed enough so you can ensure there is no cross-subsidy going on?

WITNESS STOLDT: Yes.

WITNESS SCIUTO: Yes. If I could add onto what Mr. Stoldt has mentioned. Obviously, this is very highly interrelated with a number of entities that are involved at different investment levels. So from a financial perspective, we have developed the accounting procedures that we have the fiduciary responsibility to the Monterey County Water Resources Agency, to the City of Salinas, as -- Mr. Stoldt mentioned, Cal-Am, and so on. So with the accounting protocol,

as well as a number of flow meters to identify where water is coming from, where it is going, we can best allocate those costs to the right place.

In terms of the Questions A through C, saying 60 percent, 40 percent, obviously it is not that simple. And what we can assure, and we can certainly provide other agreements if you would like, that the appropriate costs are going to the appropriate end user on a results oriented fashion, if that makes sense.

ALJ WEATHERFORD: Will the water purchase agreement spell out a process with respect to this obviously changing procedure proportionately?

WITNESS STOLDT: Not in detail so much as the principles that I mentioned earlier.

And also in a couple of places related to additional project participants there are assurances provided in the water purchase agreement that Cal-Am only pays its proportionate share, and that it will be relieved of ongoing payment for components that may have originally been funded for only Cal-Am's behalf that are now being shared by parties. And then some of the language I mentioned in Section 16 earlier also speaks

to the proportionately and only for the costs related to the service of their water.

ALJ WEATHERFORD: So it sounds as if there is going to be some ongoing bargaining?

WITNESS STOLDT: Not much bargaining. We still hold hard and fast to the principle that everybody has to pay their true cost of service. And, frankly, the current ratepayers should pay the then current cost of service. And so it is simply an allocation of capital and variable related to the service of that acre-foot or that gallon.

Yes, sometimes it is on averages. So if we deliver 3500 acre-feet per year to Cal-Am, all the costs are based on 3500 acre-feet. The growers may choose to say I don't want water. It rained. But they are still going to have to pay based on the averages, because it is almost like a standby in that case. On average we've built facilities for you to get this much water. Whether you take it or not, you are going to have to pay for the capital piece of that much.

All of that has been bargained. As Paul mentioned, we have five public agencies which -- it was heavy-lifting. It has all been put into agreements or principles at

this point.

ALJ WEATHERFORD: So the ags will have kind of a modified take and pay?

WITNESS STOLDT: That is a good way to look at it. They do have a requirement to pay their capital. But if they don't take water, they don't track the treatment cost of water.

There is another wrinkle, that you probably don't want to get into, but there is an order by Central Coast Regional Water Quality Control Board that looks at those compared surface waters of the state and said the county as a discharger, you need to clean it up. So one element of their cost is going to treatment versus water supply. And so we have to allocate a piece as treatment. There may be ongoing requirement to treat water, whether they want it back or not. So that costs are going to have to pick up as treatment costs. There is a lot of moving parts to this, but the allocation process is pretty well understood.

WITNESS SCIUTO: To your question, there is a fixed portion of costs going to Marina -- Monterey County Water Resources Agency, as you mentioned. So, for instance, I believe you discussed the Salinas River

diversion facility, or the rubber dam. The water resources agency has paid PCA costs for that even though they have not taken any water over the last few years. So there is a fixed portion there that they pay for.

WITNESS SVINDLAND: Your Honor, I was going to add, I can't tell you how many hours I spent trying to figure this out to make sure it makes sense for Cal-Am as well. Because I've drawn that figure maybe 40 or 50 times to make sure the allocation is right. Something that I will be watching as we move forward in this agreement as well.

ALJ MATTSON: Mr. Fogelman.

MR. FOGELMAN: Another quick question. This is for Mr. Sciuto, that is in your testimony a couple of days ago I recall, I might not have this exactly right, but you talked about downsizing a particular pipeline from 36 inches to 20 inches in diameter which would generate a savings to ratepayers in the range of $37 million. I'm wondering on that map where you talking about the Monterey transfer pipeline, or a different pipeline, or is it not on that map?

WITNESS SCIUTO: So in my rebuttal testimony on page 6 lines 8 through 10 you are absolutely right. I say, and this is per

the Hazen and Sawyer review of the cost estimates, a change in the conveyance pipeline from 15.6 miles of 36 inch to 15.6 miles of 20 inch results in approximately $37.9 million of savings. That conveyance pipeline is detailed from the desal plant, desal conveyance.

MR. FOGELMAN: Thank you.

WITNESS SVINDLAND: To confirm that length, 15.6 miles goes from desal all the way to Cal-Am system. As we've talked about before, I've got other needs for this pipeline.

MR. FOGELMAN: When you say the "Cal-Am system" are you including the transfer pipeline? Because it looks like the conveyance pipeline feeds into the transfer pipeline.

WITNESS SVINDLAND: The 15.6 miles, if you measure on the map, that includes that entire length.

MR. FOGELMAN: All the way to Cal-Am system. Thank you.

ALJ MATTSON: Mr. Warburton.

MR. WARBURTON: Public Trust Alliance.

COMMISSIONER SANDOVAL: Please use the microphone.

MR. WARBURTON: Mike Warburton for

Public Trust Alliance.

Why, in the concern for ratepayers and consumers, why isn't the Monterey water, Monterey County Water Resources Agency here?

WITNESS STOLDT: Because they have their own project and their own concerns. And they may occasionally find their way here as they continue to work with Cal Water Service in Salinas. Generally speaking, they are a signatory to this, because the exchange of benefits that made this project happen included their customers, the growers to the north outside of the Cal-Am service territory. But it is a contractual agreement.

So when we speak of do we have another water purchase agreement, it is water purchase like it is a different style of agreement. But that part is done. The cost allocation is done. The agreements are in place, and there is no need to have them here at the table.

WITNESS SCIUTO: They are not associated with the desal plant nor the water purchase agreement that we are discussing.

WITNESS STOLDT: Okay. There is still some oxygen left in the room.]

COMMISSIONER SANDOVAL: So one quick

clarification, and then we'll check if people need a quick break. So it mentions wastewater. So is this purely ag wastewater, or is there also some sewer water?

WITNESS SCIUTO: There is domestic wastewater also. So yeah, the four water sources, as Dave mentioned, domestic wastewater that we are currently conveying and treating, the agricultural irrigation water or waste product water, the irrigation water, and the storm water.

COMMISSIONER SANDOVAL: Are there other projects in California that are harnessing the ag water and irrigation water in this fashion?

WITNESS STOLDT: No.

WITNESS SCIUTO: This is where we get all excited about it. Sorry about that.

ALJ WEATHERFORD: One at a time.

WITNESS SCIUTO: Certainly the REIR when it was certified last year, we have been told that it is the only EIR of its kind to look at indirect portable reuse from a multitude of sources such as this. As we -- Mr. Stoldt and I have spoken in a number of conferences highlighting this particular project because certainly in our opinion it is a model for future projects throughout the

state let alone the country to utilize all sources of water, not just wastewater as many indirect potable use projects have done in the past.

WITNESS STOLDT: And Commissioner, we really need your help because last year we were 2015 Water Reuse Association national project of the year in the agriculture category. And the project doesn't go forward without the domestic piece. Until we get the approval for the water purchase agreement, we're going to have to return the award.

COMMISSIONER SANDOVAL: Just wanted to do a break check. Tom, are you doing okay? Does anybody need a five-minute break? We're still scheduled to end at 4:00. All right. So we're going to soldier on for 25 minutes.

So one just sort of quick planning and time check is I don't see how it's possible in 25 minutes to get through Attachment 2. We could finish Attachment 1. So what do we think? Are you?

WITNESS STOLDT: Yes. So what we had proposed at the outset was to highlight and watch this circle around at the end. Where as we went through this methodic, the death march. No. This has been great. But as we slowly go through here, we try to highlight

where we've hit your concerns in Attachment 2, and at the end we'll circle back and reidentify those and leave that to sit and then in our filings we'll try to pick up anything else. But if you do want to have separate discussion on that specifically, we could certainly entertain doing that.

MR. MC TARNAGHAN: Your Honor and Commissioner Sandoval, just to defend my client, Mr. Sciuto is supposed to be on vacation, actually, not even a fun vacation but a vacation all the same. And I think we'll have to leave at the end of the day today unless I have that wrong. So one way or another we could muddle through without him and including if you'll indulge me to maybe try to channel him if need be.

ALJ MATTSON: We have sitting here a good commissioner and a good judge. My role is to be the bad judge, I guess. I'm the one that has been so concerned about the timing. But I feel optimistic about how we're progressing. So I'd like to move forward and see how far we get.

ALJ WEATHERFORD: Can I raise the subject. We do have still required written comments, and the deadline is this coming Monday on that. Do we want to raise that

1 issue with respect to the deadline in terms
2 of getting responses in comment form or for
3 exhibit or testimony form?
4 ALJ MATTSON: Right. I think we can
5 address that after we have the panel
6 completed. Is that okay?
7 ALJ WEATHERFORD: Okay.
8 WITNESS STOLDT: Terrific. So we
9 believe that this last discussion on Question
10 7, while not being able to Answer A, B, and
11 C, directly did provide an answer to how we
12 allocate costs and so forth. And D, E, and F
13 we covered as we have discussed the
14 relationship with the county water resources
15 agency and contracts. So I think we're done
16 with 7, which brings us to remaining hurdles
17 categorically under Item 8. And Paul, I'll
18 let you read the question and answers and
19 provide answers.
20 WITNESS SCIUTO: So under 8 remaining
21 hurdles, A is if the WPA is approved by the
22 CPUC, based on the January 14th, 2016 draft
23 for modified to reflect CPUC concerns, first
24 question is what regulatory financing and
25 other hurdles remain to construct and begin
26 operation of GWR? So certainly from a
27 regulatory perspective we are continuing to
28 work on the project CEQA Plus or federal

component of our environmental work. Part of that is necessary to secure our financing through the state revolving fund program. As we mentioned I believe on Monday, most of this project's financing is coming from state revolving fund. So to secure the loan we need to have our completed environmental work as well as approval of a water purchase agreement which will be the revenue stream to secure the loan.

Dave mentioned earlier that there are four project elements. All four project elements are in design as we speak. So the advanced water treatment plant is in design. We would expect bids later this year. With all the knowledge we have now, I'm going to say September of 2016. The conveyance pipeline, the schedule currently shows bids in September of this year as well. The injection facilities are a little behind that with bids due in December of '16. And the diversion facilities, to get the source waters to the plant, we're looking at bids due in August of '16. So those four elements plus the financing will get us to construction.

ALJ WEATHERFORD: Are you still thinking of being on line in 2018?

WITNESS SCIUTO: Yes. So based on these bid dates and then the construction timeframes we are anticipating the facility will not be complete but will be producing water in November timeframe of 2017. So about the same time that I believe the desal's EIR is scheduled to be certified and then about three months after that after the operational reserve is in the ground, Cal American would be able to extract water in February of 2018.

So Question 2, I guess we ventured into that, is what would be the projected timeline for overcoming those hurdles? So the hurdles as identified are certainly approval of the WPA so we can secure financing. In reference to the environmental work, we are -- our staff and consultant team are working diligently to try to resolve the issues associated with National Marine Fishery Services and Fish and Wildlife at the state level. It's anticipated as we sit here today that in that -- this is April -- so by that August, September timeframe we should have completed all of that which would allow going to the state to secure the agreement for financing. And then as I think I outlined, the design elements for each of the

projects and getting through that from a timeline perspective.

Okay. Taking -- third question is taking those hurdles into account, what would be the projected timeline for construction and the commencement of operation of GWR? So as I mentioned, there are those four elements of the project. The diversion facilities is frankly the simplest of the constructions and would be complete in early '17, about March of 2017. Those facilities would be available to convey water to the treatment plant. The conveyance pipeline and the injection facilities would both be complete in our current estimates of September of 2017. And then as I mentioned, the advanced water treatment plant producing water in November of '17 but being complete in February of '18.

Now, the difference between producing water and complete is certainly painting, finishing up of the parking lot, other ancillary projects that are not associated with actual water treatment.

Does that answer those three questions? Okay.

Part B of that question is --

ALJ MATTSON: Could I interrupt. I'm sorry.

WITNESS SCIUTO: Absolutely.

ALJ MATTSON: There are four elements diversion facilities, conveyance pipeline, oh, and injection. Thank you.

WITNESS SCIUTO: Yes. If the water purchase agreement is not approved by the CPUC, what regulatory financing and other hurdles remain to construct and begin operation of the GWR? Not to be terse, but the project would not move forward. Frankly, we need the water purchase agreement as that revenue stream to secure financing for the project.

Even though PCA has a double A3 Moody's investors rating and an A plus Standard & Poor's rating. All of our eggs are in the financing basket for getting the state resolving fund loan. So if the water purchase agreement is not approved, this project is done. Which I guess would then easily answer Item No. 2, which is what would be the projected timeline for overcoming those hurdles. There would be no timeline, and so forth on No. 3.

COMMISSIONER SANDOVAL: So just a just a couple of quick clarifying questions, please. As I recall from reading the water purchase agreement, it alternatively

referenced a state revolving fund loan and state grants. So is there a combination of grants and loans?

WITNESS SCIUTO: Yes, there is. So we have submitted and have an approved application for a state revolving fund loan through the recycled water. In doing so we are positioned for $15 million worth of grants allocated through Proposition 1 for recycled water projects. So once again, we're just trying to get a funding agreement, and we're hopeful that we will get that $15 million loan or grant as well.

COMMISSIONER SANDOVAL: And then you mentioned although the project wouldn't be completed, for example, painting not done until 2018, would some water be available for transfer in 2017 or the transfers wouldn't start until 2018?

WITNESS SCIUTO: The transfers, as our schedule shows now, transfers would start into the Seaside Basin in November of 2017 for the purpose of building up the operational reserve as identified in the water purchase agreement with that completion in February for extraction by Cal American.

ALJ WEATHERFORD: Is the approved application for an amount that is the entire

amount that you need in terms of initial financing?

WITNESS SCIUTO: Yes. In fact, it is in excess of what we need for the product. Per recommendation from the State Water Resources Control Board, our board needed to pass a resolution to apply for the loan. And per their recommendation they say certainly put a higher amount in the resolution so you don't need to go back to your board. So the actual loan request is for $113 million. However, we feel that we're going to be, as Dave has mentioned, closer to that 72 or $73 million for the ultimate loan for the entirety of the project.

ALJ WEATHERFORD: And that is dependent, is it not, on setting a price on the water purchase agreement?

WITNESS STOLDT: No. It's only dependent on an approved water purchase agreement which now approval seems to be needing a set price. And so we believe that -- so the interesting piece of all of all this and the complexity is our financing cost is established, and that's $1720 per acre-foot cap, was established assuming no grant funding other than a Fort Ord Reuse Authority $4.32 million grant towards the

conveyance pipeline. But if the $15 million grant comes in from state revolving fund or a $5 million grant also from state revolving fund for the pipeline for the other water agency or if either of the public agencies reduce their reimbursement of pre-construction costs, that price can come down. So we've offered up a soft cost cap cost cap number. It's the approval of the water purchase agreement that will make the loan become available but at a loan rate that's known today. So it's our rate isn't going to change.

Which, interestingly, you raised in testimony the differences between bids in hand versus design that's still going. And the interesting thing about having most of your bids in hand is you know the cost but you don't know the cost of your financing. And so three years from now state revolving fund loans which are set at one half the most recent general obligation borrowing rate of the state could be 2.4 percent, could be 3 percent, could be 1.8. We don't know. And similarly, if for whatever reason Rich was not able to obtain that and they go to the corporate borrowing rate, that could be today's rate or it could be something higher.

So there are things still in the desal side that are unknown that would affect the revenue requirement. And there are things on our side that are known that limit the financing cost but affect the bid cost. And so you know, there's a lot of push and pull. But as far as getting the grant, the loan agreement signed, it's really just proof of an accepted water purchase agreement.

ALJ WEATHERFORD: That makes very dynamic, does it not, the burden on the Cal-Am ratepayers who are going to be paying for this project?

WITNESS STOLDT: Well, that was the reason we put a soft cap in there so that you knew what the worst case would be upon approval of an agreement. And then we do everything we can to get all these components elements to make it lower than that.

ALJ MATTSON: Mr. Fogelman.

MR. FOGELMAN: Yes. Another quick question. The SRF interest rate that you've applied for, I get the impression from what you've just said that is fixed for a period of time. How long is that period of time? Do they have to act within a certain time or and that goes away or if they don't?

WITNESS SCIUTO: So we, PCA, is

approved for 1 percent interest for a 30-year loan. And it was a specific program within the recycle water divisions that was frankly extended in February and has included our project in that 1 percent loan.

MR. FOGELMAN: And if you don't get a final approval maybe because you don't have this approved WPA and revenue stream that would facilitate the State Water Resources Control Board approving it, does it evaporate at some date or is there a length of time or do you have that as long as the project is pending?

WITNESS SCIUTO: At this point my understanding is as long as the project is pending. However, I do know that with these funds I believe, and I'll need to check on this, but I believe you needed to start construction in 2017.

MR. FOGELMAN: Thank you.

WITNESS STOLDT: So where we are right now, I'd like to do a little bit of the summary. Look at that. I got a note from my counsel to recap. I want to do two things. One is we have addressed throughout a lot of the Attachment 2 concerns, but I just want to go down and repeat so that if anybody is looking. So I'm going to go down the 11

concerns and kind of map over to where our responses did the best job we thought we could.

So concern No. 1 is answered with 6D. Concern 2 with 6D. Concern No. 3 will be addressed in whatever motion we make and deliver to the Commission. Concern 4 was addressed in 6C and 2 primarily in G but throughout. Concern 5 was addressed in 5C and in many cases 5A, B, C, but what have you. Concern 6 also in 5C. Concern 7 in 5C. Concern 8 as 6B. Concern 9 was 6B. Concern 10 is more of a policy issue that we didn't really address head on here today.

Concern 11, we didn't have a nifty way to address it. That was the question about addressing alternatives. And I'd like to just briefly say, trying to change horses in midstream right now is virtually impossible given the inertia, but I want to give you the comfort of knowing that since 1981 we've addressed -- we dispute whether it's Alternative H or Alternative G that we're at now, but in a large scale we've been through several dams and desal projects in '81, '86, '92, '93, '95, '97, '04, and 2010, but also during that time with every environmental impact report we evaluated

alternatives, anywhere from increased conservation activities to off-stream storage. Most recently we've begun to look at, as we mentioned earlier in the testimony, we've had atmospheric water generators come forward from the consumer end, not from the large scale development end. We've got gross concerns at the consumer end about public health issues and reliability. In general, we've got concerns about the carbon footprint, but we can ignore those.

But in '91 we considered 32 different alternatives. In '93 26 different alternatives. In '94 23 alternatives. In the '98 time period 44 alternatives. And these include things like Pueblo water rights harking back to when it was under the control of Mexico. 2002 Plan B was a roadmap through the Commission, a Commission run process as a result of Fred Keeley's assembly bill which directed that the Commission undertake an alternatives analysis.

And that alternatives analysis was actually the genesis of where we are today. It said, hey, take a look at desalination. Do conjunctive use aquifer storage and recovery. It did say look at Pueblo water rights. It did say a few other things, but

it laid out really the alternatives that remain and that we brought forward to you today.

The coastal water project and the regional desal plant looked at five different alternatives. And we've also been tasked by the water board to think creatively about additional conservation activities, a new rationing plan which is in the works. Cal-Am was tasked with legalizing their water right and looking at things. And the community has gotten pretty innovative with Odello East, it was also known as Malpaso, a water right that has been leveraged to offset diversions from the river and to also make water available to the Carmel Valley residents separate from the existing rights that we're talking about.

But also looking at fallowing programs or acquisition water rights, Cal-Am was tasked with looking at that really frankly all the way back to '95, but they have some things in the works that they're looking at. So we're constantly looking at innovative approaches that we can still fit into the timeline. As you know, being part to this process takes some time, and with this number of people watching, it takes maybe even more time. So trying to do

1 something new is not going to happen for us
2 here. But we've been looking at it obviously
3 through these numbers. And we continue to
4 embrace new technology when it comes along.
5 We'll do our best. But I think the plate
6 that you see in front of you is the dinner we
7 have to eat, or as Rob likes to say, the
8 plane we have to land. We have to land this
9 plane now.
10 So with that, we very much
11 appreciate the panel's time trying to address
12 this while you had the principals in the
13 room. And your questions and your data
14 requests very insightful and got us thinking.
15 So thank you.
16 ALJ MATTSON: Thank you. We --
17 COMMISSIONER SANDOVAL: Any other
18 questions from the parties?
19 ALJ MATTSON: Are there any other
20 questions for the panel today? Mr.
21 Warburton?
22 We have less than five minutes on
23 the record. So please.
24 MR. WARBURTON: Mike Warburton for the
25 Public Trust Alliance. This problem has been
26 decades long with avoiding looking at certain
27 solutions. There has been fundamental
28 changes in circumstances with Hurricane Sandy

which has totally changed the economics and the risks of public infrastructure in coastal zones. And California has totally changed its groundwater regulation and suggests -- I find it very, very --

Things don't change until they change, but wanting to have a free no-change policy as long as possible into the future doesn't seem like it's in the public interest. And I think circumstances have changed, and both the PUC and the public agencies involved. You know, the public is sitting there. Where is the water in Monterey County? And when you don't look at where that water is, there's a real problem.

And in 1928 the Constitution was amended to say that, hey, it doesn't make sense to do flood irrigation when domestic users right nearby don't have access to water.

MR. LAREDO: Your Honor, I'm not sure there's a question.

ALJ MATTSON: Right. Thank you for that statement. Certainly the Commission will consider that. I'm certain the panel will consider that.

Are there any questions or statements to be made today on the record in

the last two to three minutes?

(No response.)

ALJ MATTSON: Okay. The Commission truly appreciates the panel's appearing today. We know that you all sacrificed from other responsibilities and duties and perhaps mostly Mr. Sciuto, and we appreciate that. You gave very patient and thorough answers today. We appreciate those, and we'll give those, you know, thorough and proper consideration. Let's go off the record.]

(Off the record.)

ALJ MATTSON: We will be on the record.

In the off-the-record discussion we assessed various ways to move forward with the panel's good work today and allowing party to assess it and provide other thoughts.

I believe what we want to do is today we will vacate the deadline of next Monday for the Applicant and the district and the agency to file and serve responses to the assigned commissioner and administrative law judge's ruling, as well as that date Monday for other parties file their comments. And similarly that 15 days from the date of the ruling for replies for further comments.

So we will vacate those dates at the

Proposed Revisions
A.12-04-019
DRAFT 5-6-16

FORM OF WATER PURCHASE AGREEMENT FOR PURE WATER MONTEREY PROJECT

THIS WATER PURCHASE AGREEMENT ("Agreement") is made this _____ day of _____, 2016 (the "Effective Date") by and between California-American Water Company, a California corporation, hereinafter referred to as the "Company," Monterey Regional Water Pollution Control Agency, hereinafter referred to as the "Agency," and Monterey Peninsula Water Management District, hereinafter referred to as the "District." The Company, the Agency, and the District are hereinafter referred to individually as a "Party" and collectively as the "Parties."

RECITALS

A. The Company has a statutory duty to serve water in certain cities on the Monterey Peninsula and in a portion of Monterey County for its service area, the boundaries of which are shown in **Exhibit A** attached hereto and incorporated herein.

B. The Company has been ordered by the State Water Resources Control Board in orders 95-10 and WR 2009-0060 to find alternatives to the Carmel River to fulfill its duty to serve, and the Company has applied to the California Public Utilities Commission ("CPUC") for an order seeking a Certificate of Public Convenience and Necessity for the construction of water supply facilities and authorizing the recovery of the costs for such construction in rates.

C. The Agency will be responsible for the design, construction, operation, and ownership of facilities for the production and delivery of advanced treated recycled water, such facilities to be part of the Pure Water Monterey groundwater replenishment project.

D. The District will buy advanced treated recycled water from the Agency for purpose of securing the financing of and paying the operating costs of the project. The District will sell the advanced treated recycled water to the Company subject to the terms of this Agreement.

E. The Company desires to buy advanced treated recycled water from the District for the purpose of fulfilling its duty to serve its customers within its service area and the District is willing to sell advanced treated recycled water to the Company for this purpose on the terms and conditions provided for herein.

F. The Agency contends, and has so advised the District and the Company, that based on advice of counsel, (1) Agency assets and revenue derived from Agency ratepayers are not available for satisfying claims and judgments for any liability arising from this water project

Agreement, and (2) therefore, the single source for so satisfying is insurance coverage described as Required Insurance in this Agreement.

G. The Agency has separately entered into an agreement with the Monterey County Water Resources Agency in Section 4.05 of which, the Monterey County Water Resources Agency may request additional irrigation water from Agency sources. Pursuant to that agreement the Agency has committed to produce no more than 200 acre-feet per year, up to a total quantity of 1,000 acre-feet, for delivery to the District as a drought reserve. When such a request is made, the District may make available to the Company Drought Reserve Water in order to satisfy the Company Allotment. Additionally, in order to ensure delivery of the Company Allotment in the event of an interruption in project operations, the District has established an Operating Reserve. Together the two reserves are called the Reserve Account and will be paid for by the District until deemed delivered to the Company if needed at a future date

NOW, THEREFORE, the Parties agree as follows:

1. Purpose of Agreement.

The purpose of this Agreement is to provide for the sale of advanced treated recycled water from the Agency to the District and from the District to the Company derived from the Pure Water Monterey groundwater replenishment project owned and operated by the Agency, and to serve the Company's customers within its service area. The Parties confirm that this Agreement constitutes a contractual right to purchase advanced treated recycled water, that no water right is conferred to the Company, and that no additional rights in the Seaside Groundwater Basin are conferred to the District or the Agency.

2. Definitions

The following terms shall, for all purposes of this Agreement have the following meanings:

"Additional Project Participant" means any public district, agency, or entity, or any private water company, other than the Company, that executes a water purchase agreement in accordance with Section 18 hereof, together with its respective successors or assigns.

"Affected Party" means a Party claiming the occurrence of a Force Majeure Event and seeking relief under this Agreement as a result thereof.

"Agreement" means this Water Purchase Agreement, as the same may be amended from time to time.

"Applicable Law" means any federal, state or local statute, local charter provision, regulation, ordinance, rule, mandate, order, decree, permit, code or license requirement or other governmental requirement or restriction, or any interpretation or administration of any of the

foregoing by any governmental authority, which applies to the services or obligations of any of the Parties under this Agreement.

"AWT Facilities" means the advanced water treatment facilities portion of the Project that provides advanced treatment to source water that has undergone secondary treatment at the Regional Treatment Plant.

"AWT Water" means advanced treated recycled water produced by the AWT Facilities.

"Company Account" means the account managed by the District and the Company that tracks and records the quantity of Company Water delivered to the Delivery Point.

"Company Allotment" means 3,500 acre-feet of AWT Water, or another quantity of AWT Water as agreed to, in writing, by the Parties.

"Company Water" means the AWT Water delivered to the Delivery Point to be used and owned by the Company and will be counted toward the Company Allotment.

"Company Water Payments" means payments made by the Company to the District pursuant to Section 16 hereof for the furnishing of Company Water.

"Company Water Rate" means the dollar amount per acre-foot of Company Water that the Company pays the District for delivery of Company Water, as calculated pursuant to Section 16.

"CPUC" means the California Public Utilities Commission.

"Delivery Point" means any of the metered points of delivery identified in **Exhibit C**.

"Delivery Start Date" means the date that the District commences delivery of AWT Water to the Delivery Point.

"Drought Reserve" means one of the two sub-accounts that comprise the Reserve Account.

"Drought Reserve Minimum" means 1,000 acre-feet of Drought Reserve Water in the Drought Reserve.

"Drought Reserve Water" means Excess Water in the Drought Reserve Account at any given time.

"Event of Default" means each of the items specified in Section 20 which may lead to termination of this Agreement upon election by a non-defaulting Party.

"Excess Water" means a quantity of AWT Water in excess of the Company Allotment delivered by the District to the Delivery Point in any given Fiscal Year.

"Fiscal Year" means a twelve-month period from July 1 through June 30. Any computation made on the basis of a Fiscal Year shall be adjusted on a pro rata basis to take into account any Fiscal Year of less than 365 or 366 days, whichever is applicable.

"Fixed Project Costs" means all pre-construction, development, and capital costs of the Project, including debt service and reserves for the payment of debt service, incurred by the Agency or District in accordance with Section 6 hereof; provided, however, Fixed Project Costs shall not include any damages or other amounts paid by the Agency or the District to the Company as indemnification payments pursuant to Section 22 of this Agreement.

"Force Majeure Event" means any act, event, condition or circumstance that (1) is beyond the reasonable control of the Affected Party, (2) by itself or in combination with other acts, events, conditions or circumstances adversely affects, interferes with or delays the Affected Party's ability to perform its obligations under this Agreement, and (3) is not the fault of, or the direct result of the willful or negligent act, intentional misconduct, or breach of this Agreement by, the Affected Party.

"Injection Facilities" means the injection wells and appurtenant facilities portion of the Project used to inject AWT Water into the Seaside Basin.

"Minimum Allotment" means 2,800 acre-feet of AWT Water.

"Operating Reserve" means one of the two sub-accounts that comprise the Reserve Account.

"Operating Reserve Minimum" means 1,000 acre-feet of Operating Reserve Water in the Operating Reserve prior to the date that is three (3) years following the Performance Start Date, and 1,750 acre-feet of Operating Reserve Water in the Operating Reserve after the date that is three (3) years following the Performance Start Date.

"Operating Reserve Water" means Excess Water in the Operating Reserve at any given time.

"Performance Start Date" means the date set forth in a written notice provided by the District to the Company upon which the District's performance obligations with respect to the Water Availability Guarantee, the Water Delivery Guarantee, and the Water Treatment Guarantee shall commence, such date not to be more than six months following the Delivery Start Date.

"Product Water Facilities" means the product water conveyance facilities portion of the Project used to transport the AWT Water from the AWT Facilities to the Injection Facilities.

"Project" means the Pure Water Monterey groundwater replenishment project, including (a) Source Water Facilities, (b) AWT Facilities, (c) Product Water Facilities, and (d) Injection Facilities, all as additionally described in **Exhibit B.**

"Project Operation and Maintenance Expenses" means all expenses and costs of management, operation, maintenance, repair, replacement, renovation, or improvement of the Project incurred by the Agency and the District, including overhead costs, and properly chargeable to the Project in accordance with generally accepted accounting principles, including, without limitation (a) salaries, wages, and benefits of employees, contracts for professional services, power, chemicals, supplies, insurance, and taxes; (b) an allowance for depreciation, amortization, and obsolescence; (c) all administrative expenses; and (d) a reserve for contingencies, in each case incurred by the Agency or District with respect to the Project; provided, however, Project Operation and Maintenance Expenses shall not include any damages or other amounts paid by the Agency or the District to the Company as indemnification payments pursuant to Section 22 of this Agreement.

"Regional Treatment Plant" means the Agency's Regional Wastewater Treatment Plant.

"Required Insurance" means, with respect to the Agency and the District, the insurance each Party is required to obtain and maintain during the term of this Agreement as set forth in Exhibit D.

"Reserve Account" means the account managed by the District that tracks and records (a) quantities of Excess Water delivered to the Delivery Point, and (b) quantities of Reserve Water debited from the Reserve Account to satisfy the Company Allotment.

"Seaside Basin" means the Seaside Groundwater Basin.

"Service Area" means the Company's service area as of the Effective Date of this Agreement, as shown in **Exhibit A**, and as amended from time-to-time by the CPUC.

"Storage and Recovery Agreement" means the storage and recovery agreement among the Company, the District and the Watermaster that allows for injection of AWT Water into the Seaside Basin for purposes of continued storage or withdrawal.

"Source Water Facilities" means the source water diversion and conveyance facilities portion of the Project used to divert and convey new source waters to the Regional Treatment Plant.

"Watermaster" means the Seaside Groundwater Basin Watermaster.

"Water Availability Guarantee" means the water availability guarantee set forth in Section 13.

"Water Delivery Guarantee" means the water delivery guarantee set forth in Section 12.

"Water Treatment Guarantee" means the water treatment guarantee set forth in Section 14.

OPERATIVE PROVISIONS

3. Commencement of Service.

The Performance Start Date shall be no later than January 1, 2020. Failure of the Agency and the District to meet this deadline shall constitute an Event of Default upon which the Company may terminate this Agreement in accordance with Section 20. The Company shall not incur any costs or be responsible for any payments under this Agreement prior to the Performance Start Date.

4. Term of Agreement.

This Agreement shall be effective as of the Effective Date and shall remain in effect until the date that is thirty (30) years after the Performance Start Date (the "Expiration Date"), unless earlier terminated as provided in this Agreement.

5. Option for Continued Service.

The Company may extend the Expiration Date of this Agreement for one or more periods not to exceed ten (10) years, in total. The Company shall notify the Agency and the District, in writing at least 365 days prior to the then-applicable Expiration Date, of its intent to extend the Expiration Date and such notice shall indicate the new Expiration Date. At the election of any Party, the Parties will meet and confer to consider the Parties' interest in any additional extension or renewal of an arrangement similar to this Agreement. Such meet-and-confer sessions should take place approximately five (5) years prior to the then-applicable Expiration Date; provided, however, if pursuant to an extension under this Section 5 the new Expiration Date is less than five (5) years following the Company's notification of the extension, the Parties will meet and confer within a reasonable time prior to the new Expiration Date.

6. Agency and District to Develop Project.

Subject to all terms and conditions of the Agency's water rights, permits and licenses, and all agreements relating thereto, the Agency and District will cause and complete the design, construction, operation, and financing of the Project, the production and delivery of AWT Water, the obtaining of all necessary authority and rights, consents, and approvals, and the performance of all things necessary and convenient therefor. The Agency will own and operate the Project.

As consideration for funding environmental, permitting, design, and other pre-construction costs, as well as for pledging revenues for repayment of future costs under this Agreement in the event Company Water Payments are insufficient, the District shall (i) own AWT Water for sale and delivery to the Company, (ii) have the right to sell AWT Water to the Company or any Additional Project Participant (if approved by the Company pursuant to Section 19), (iii) have the right to bill the Company for Company Water Payments or to bill any Additional Project

Participant for AWT Water, and (iv) have the right to apply all Company Water Payments to payment of Fixed Project Costs and Project Operation and Maintenance Expenses.

7. Obligation to Pay Design and Construction Costs.

The Agency shall be solely responsible for the design, construction, implementation and performance of the Project, and shall bear all costs associated with such design, construction, implementation and performance. Title to the structures, improvements, fixtures, machinery, equipment, materials, and pipeline capacity rights constituting the Project shall remain with the Agency and the Agency shall bear all risk of loss concerning such structures, improvements, fixtures, machinery, equipment, and materials.

8. Obligation to Pay Operation and Maintenance Costs.

The Agency shall be solely responsible for the operation, maintenance, repair and replacement of the Project, and shall bear all costs associated with such operation, maintenance, repair and replacement.

9. Point of Delivery and Ownership of AWT Water.

All AWT Water shall be delivered to the Delivery Point. Water utilized to backflush an injection well that percolates into the ground is considered delivered AWT Water.

The Agency shall own the AWT Water until the point it leaves the AWT Facilities. The District shall own the AWT Water from the point it leaves the AWT Facilities to the Delivery Point. After the Delivery Point, if the water is Company Water, it will be owned by the Company. If, however, the water is Excess Water after the Delivery Point, then ownership of such water shall remain with the District. The District shall own any water in the Reserve Account, until such time as Operating Reserve Water or Drought Reserve Water is used to satisfy the Water Availability Guarantee at which point it shall become Company Water and be owned by the Company.

The Company recognizes and agrees that it acquires no interest in or to any portion of the District's system or any Agency facilities.

Delivery by the District and withdrawal by the Company shall be governed by the Storage and Recovery Agreement.

10. Points of Withdrawal.

All AWT Water furnished pursuant to this Agreement shall be taken from storage by the Company at the points of withdrawal controlled by the Company and permitted by the California

Department of Public Health. The Company shall be solely responsible for operating and maintaining all of its facilities for withdrawal of water.

11. Measurement.

All AWT Water furnished pursuant to this Agreement shall be measured by the Agency at the Delivery Point. Such measurement shall be with equipment chosen by the Agency, installed by the Agency on Agency facilities, and approved by the District and Company in writing. All measuring equipment shall be installed, maintained, repaired and replaced by the Agency. The Agency will provide annual meter calibration by an outside contractor and provide a copy of results of such calibrations to District and Company. The Agency shall have the primary obligation to measure the quantity of AWT Water delivered to the Delivery Point. The Company may request, at any time, investigation and confirmation by the District or Agency of the measurement being made as well as the charges associated with those measurements. Errors in measurement and charges discovered by the investigation will be corrected in a timely manner by the Agency and the District. The Company may, at its own expense, at any time, inspect the measuring equipment and the record of such measurements for the purpose of determining the accuracy of the equipment and measurements.

12. Water Delivery Guarantee.

(a) Beginning on the Performance Start Date and in every Fiscal Year throughout the term of this Agreement, the Agency shall use its best efforts to deliver AWT Water to the District in quantities at least equal to the Company Allotment.

(b) Beginning on the Performance Start Date and in every Fiscal Year throughout the term of this Agreement, the District shall use its best efforts to deliver Company Water to the Delivery Point in quantities at least equal to the Company Allotment.

(c) Beginning on the Performance Start Date and in every Fiscal Year throughout the term of this Agreement, the Agency shall deliver AWT Water to the District in quantities at least equal to the Minimum Allotment (the "Water Delivery Guarantee").

(d) Beginning on the Performance Start Date and in every Fiscal Year throughout the term of this Agreement, the District shall deliver Company Water to the Delivery Point in quantities at least equal to the Minimum Allotment (also, the "Water Delivery Guarantee").

(e) All AWT Water delivered by the District to the Delivery Point between the Delivery Start Date and the Performance Start Date shall be deemed Operating Reserve Water and allocated to the Operating Reserve. The Performance Start Date shall not occur until the

Operating Reserve Minimum has been allocated to the Operating Reserve. Beginning on the Performance Start Date and in every Fiscal Year throughout the term of this Agreement, the first 3,500 acre-feet of AWT Water delivered to the Delivery Point each Fiscal Year shall be Company Water.

13. Water Availability Guarantee.

(a) Beginning on the Performance Start Date and throughout the term of this Agreement, the Agency must deliver enough AWT Water to the District so that the Company may draw AWT Water (including Company Water, Operating Reserve Water, and Drought Reserve Water released by the District to the Company) from the Seaside Basin every Fiscal Year in an amount at least equal to the Company Allotment (the "Water Availability Guarantee").

(b) Beginning on the Performance Start Date and throughout the term of this Agreement, the District must deliver enough AWT Water to the Delivery Point so that the Company may draw AWT Water (including Company Water, Operating Reserve Water, and Drought Reserve Water released by the District to the Company) from the Seaside Basin every Fiscal Year in an amount at least equal to the Company Allotment (also, the "Water Availability Guarantee").

(c) If in any Fiscal Year the District delivers Excess Water, any such amount shall be credited to the Reserve Account. The Reserve Account will have two sub-accounts: the Operating Reserve and the Drought Reserve. The District will allocate all Excess Water into either the Operating Reserve or the Drought Reserve as it shall determine in its sole discretion.

(d) If the amount of Operating Reserve Water in the Operating Reserve at any time is less than the Operating Reserve Minimum, then all Excess Water in a Fiscal Year must be allocated to the Operating Reserve until the Operating Reserve Minimum is achieved, except for up to 200 acre-feet of Excess Water that may, at the District's election, be allocated to the Drought Reserve but only if the balance in the Drought Reserve is less than the Drought Reserve Minimum. In no instance shall the District reduce Company Water deliveries to make available additional irrigation water to the Monterey County Water Resources Agency from Agency sources in an amount exceeding the balance available in the Drought Reserve.

(e) If in any Fiscal Year the District delivers Company Water to the Delivery Point in quantities less than the Company Allotment, the Company shall have the right, but not the obligation, to draw Operating Reserve Water from the Operating Reserve to make up for any such shortfall in Company Water. In addition, if a shortfall still exists after Operating

Reserve Water is drawn by the Company, the District may, in its sole discretion, use Drought Reserve Water available in the Drought Reserve to satisfy the Water Availability Guarantee. Upon the occurrence of the Expiration Date, or the earlier termination of this Agreement as contemplated herein, the Company shall have the right to draw Drought Reserve Water from the Drought Reserve.

(f) Every three (3) months during the term of this Agreement, beginning on the Performance Start Date, the District will report to the Company the balances and activity in the Operating Reserve and Drought Reserve. In addition, the District shall, with ten (10) days following the Company's request, provide to the Company the balances and activity in the Operating Reserve and Drought Reserve.

14. Water Treatment Guarantee.

All AWT Water delivered by the Agency to the District and by the District to the Delivery Point must meet the water quality requirements set forth in Applicable Law (the "Water Treatment Guarantee"). If at any time the Agency or the District fails to meet the Water Treatment Guarantee, the Agency or the District shall give the Company immediate notice thereof and shall promptly meet with the Company to discuss the circumstances of such failure and the District's and the Agency's proposed action plan for remediation so that the Water Treatment Guarantee will be met. AWT Water delivered by the Agency to the District or by the District to the Delivery Point that does not meet the Water Treatment Guarantee shall not be considered Company Water or Excess Water.

15. Budgeting.

Not later than May 1 each year, the Fixed Project Costs and Project Operation and Maintenance Expenses shall be estimated by the Agency and the District for the following Fiscal Year. Such estimates shall be made available for review by the Parties at least fifteen (15) days prior to adoption by the Agency's or District's respective boards.

16. Rate of Payment for Company Water.

For Company Water furnished to the Company under this Agreement, the Company shall pay Company Water Payments to the District on a monthly basis determined as the Company Water Rate multiplied by the quantity of Company Water delivered the previous month. The Company shall not pay for deliveries to the Operating Reserve and the Drought Reserve until such reserves are designated by the Company or the District, as applicable, as Company Water.

The Company Water Rate in each Fiscal Year of the Agreement shall be the sum of the Fixed Project Costs and Project Operation and Maintenance Expenses budgeted for production and

delivery of AWT Water in such Fiscal Year, divided by the amount of AWT Water expected to be produced during such Fiscal Year. The Parties agree that the fundamental rate-setting principles of this Agreement shall be (a) the Company does not pay for water it does not receive, (b) the cost of water shall only reflect the true cost of service consistent with California public agency laws and regulations, and (c) the Company shall pay only its proportionate share of the costs of the Agency and the District producing AWT Water.

In the first year following the Performance Start Date, the Company Water Rate shall not exceed $1,720 per acre foot (the "Soft Cap"). Prior to the Performance Start Date, if the first-year Company Water Rate as calculated is expected to exceed the Soft Cap, the Company shall apply to the CPUC through a Tier 2 advice letter for approval of such rate before the Company shall be required under this Agreement to pay an amount greater than the Soft Cap as the Company Water Rate. Unless and until the CPUC approves a Company Water Rate in an amount greater than the Soft Cap, the Company shall only be required to pay an amount equal to the Soft Cap as the Company Water Rate. In no circumstance shall the District's or the Agency's obligations under this Agreement to deliver Company Water to the Company be affected by the pendency of the Company's application to the CPUC for approval of a rate greater than the Soft Cap or a decision by the CPUC to deny any such application.

As Project Operation and Maintenance Expenses are projected or budgeted for an upcoming Fiscal Year, the Parties agree there will be a "true-up" or reconciliation at the end of every Fiscal Year following the Performance Start Date to ensure the principles set forth in this section are met. Such "true-up" shall mean: if actual Project Operation and Maintenance Expenses are more or less than budgeted Project Operation and Maintenance Expenses used to calculate the Company Water Rate paid during the Fiscal Year, a corresponding adjustment (up or down) will be provided against the subsequent Fiscal Year budget and computed Company Water Rate for that Fiscal Year.

The Parties agree that, given the status of the Agency and the District as governmental agencies and the requirements under law that they incur only reasonable and prudent costs and expenses for purposes related to their governmental duties and the fact that such costs and expenses are subject to public review and scrutiny, all Fixed Project Costs and Project Operation and Maintenance Expenses incurred by the Agency and/or the District in compliance with the terms of this Agreement shall reflect only the actual cost of service consistent with California public agency laws and regulations and shall be subject to CPUC review consistent with that used for existing water purchase agreements by CPUC-regulated Class A investor-owned water utilities.

The District covenants and agrees to pay to the Agency the revenues received from the Company from the Company Water Payments provided, however, it will reduce the payment

amount by any portion of the Fixed Project Costs and Project Operation and Maintenance Expenses directly paid or incurred by the District.

17. Time and Method of Payments.

The District shall send the Company a detailed monthly statement of charges due for all Company Water delivered to the Delivery Point during the preceding month as measured by the Agency meters, which shall be read on a monthly basis, and all Operating Reserve Water and Drought Reserve Water used to satisfy the Water Availability Guarantee, The Company shall not be billed for Excess Water that goes into the Reserve Account.

The Company shall pay to the District all undisputed portions of statements, within forty-five (45) days after receipt. Statements shall be mailed to the Company at the following address:

California American Water Company
Director of Operations
511 Forest Lodge Rd # 100
Pacific Grove, CA 93950

The Agency shall send the District a monthly statement of charges due for all AWT Water actually delivered to the District during the preceding month as measured by the meters, which shall be read on a monthly basis. The District shall pay all statements within forty-five (45) days after receipt. Statements shall be mailed to the District at the following address:

Monterey Peninsula Water Management District
Administrative Services Division Manager
5 Harris Court, Building G
Monterey, CA 93940

If payment of any amount due hereunder is not made when due, excluding disputed amounts, simple interest will be payable on such undisputed amount at the legal rate of interest charged on California judgments, as provided in California Code of Civil Procedure Section 685.010, and shall be calculated on the basis of a 365-day year from the date such payment is due under this Agreement until paid.

The Company is obligated to pay to the District the undisputed amounts becoming due under this Agreement, notwithstanding any individual default by its water users or others in the payment to the Company of assessments or other charges levied by the Company.

GENERAL PROVISIONS

18. CPUC Rate Recovery Process.

All costs that the Company pays to the District pursuant to this Agreement shall be considered purchased water costs that are a pass-through to customers to be recovered via the Modified Cost Balancing Account ("MCBA") mechanism.

At least six (6) months prior to the Performance Start Date, at least one time between May 1 and June 1 of every year thereafter, and at any time throughout the term of this Agreement the District deems necessary, the District shall provide the Company with written notice of the Company Water Rate, supported by detailed information relating to the Fixed Project Costs and the estimated Operation and Maintenance Expenses to be incurred in the upcoming Fiscal Year that were used to determine the Company Water Rate. Within sixty (60) days following receipt of the written notice containing the Company Water Rate, the Company shall file a Tier 1 advice letter for rate recovery with the CPUC to update its rates and tariffs, and in doing so establish a surcharge rate to reflect the Company Water Rate.

All changes to the Company Water Rate resulting from annual increases or decreases to the Fixed Project Costs or Project Operation and Maintenance Expenses, as reflected in the Company Water Rate, shall be requested for rate recovery through a Tier 1 advice letter in accordance with Section 3.2 of Water Industry Rules in General Order 96-B, as amended from time to time, for processing expense offset rate changes. The rate change will be applied to the surcharge to ensure that the Company's customer rates remain aligned with the Company Water Rate under the Agreement.

The Company shall have no obligation to make Company Water Payments unless and until the CPUC approves payment and recovery of those payments in rates through the process set forth in General Order 96-B, including a Tier 1 advice letter, which is effective upon filing pending CPUC approval, or another process resulting in CPUC approval of such costs, which shall be diligently pursued by the Company. Failure of the Company to pay amounts in excess of the amount approved by the CPUC shall not constitute a breach, and the District and Agency shall not be relieved of any obligations hereunder as a result thereof.

Access to the books and records of the Agency and the District will be made available to the Company for purposes of reviewing the accuracy and reasonableness of all costs relating to the Project and determination of the Company Water Rate.

19. Additional Project Participants.

After giving sixty (60) days' prior written notice to the Company, the District and Agency may enter into water purchase agreements for AWT Water with Additional Project Participants subsequent to the Effective Date of this Agreement to the extent the District determines sufficient capacity exists (after accounting for the need to maintain the Operating Reserve Minimum and the Drought Reserve Minimum), to the extent there is no additional cost to the Company as a result of any such agreement, and to the extent any such agreement does not

adversely affect the Agency's or the District's ability to meet their performance obligations under this Agreement.

In order to not diminish the source waters available to produce AWT Water under this Agreement, the Company shall have the right, prior to the District or the Agency entering into any water purchase agreement for AWT Water and in the Company's sole discretion, to approve or not approve in writing any Additional Project Participants deriving water from the water sources identified for the Project, specifically source waters identified in Sections 1.04 and 2.02 of the Amended and Restated Water Recycling Agreement between the Agency and Monterey County Water Resources Agency, dated November 3, 2015.

The Company shall not have the right to approve Additional Project Participants deriving water from prior existing rights to wastewater flows to the Regional Treatment Plant pursuant to Section 4.01 of the Agency's agreement with Monterey County Water Resources Agency or from future additional sources, as yet unidentified, such as wastewater systems annexed to the Agency's service area.

Any Additional Project Participant will pay for all additional capital costs necessitated by existence of the new water purchase agreement, its proportionate share of both the unamortized capital costs of the Project, and its proportionate share of future operation and maintenance expenses of the Project. The District and Agency will provide supporting documentation to the Company to ensure the Company Water Payments do not include any costs properly allocable to an Additional Project Participant.

20. Breach, Event of Default and Termination.

(a) Remedies for Breach – The Parties agree that, except as otherwise provided in this section with respect to termination rights, if any Party breaches this Agreement, any other Party may exercise any legal rights it may have under this Agreement and under Applicable Law to recover damages or to secure specific performance. No Party shall have the right to terminate this Agreement for cause except upon the occurrence of an Event of Default. If a Party exercises its rights to recover damages upon a breach of this Agreement or upon a termination due to an Event of Default, such Party shall use all reasonable efforts to mitigate damages. If a Force Majeure Event occurs, the Affected Party shall be entitled to relief from determination of a breach pursuant to Section 23 of this Agreement.

(b) If the District fails to exercise, and diligently pursue, any legal rights it may have against the Agency pursuant to subsection (a) of this section 20 within forty-five (45) days after the Company's written request that the District do so, the District shall be deemed to have assigned to the Company all such legal rights. The Agency shall not object to any such

assignment, but shall not waive any defense it may otherwise assert to any claim brought by the Company.

(c) Event of Default – The following shall each constitute an "Event of Default" under this Agreement:

(1) The Delivery Start Date does not occur on or before July 1, 2019;

(2) The Performance Start Date does not occur on or before January 1, 2020;

(3) The failure of the Agency or the District to deliver Company Water to the Delivery Point in quantities at least equal to the Company Allotment in each of three consecutive Fiscal Years;

(4) The failure of the Agency or the District to meet the Water Delivery Guarantee in each of two consecutive Fiscal Years;

(5) The failure of the Agency or the District to deliver Company Water to the Delivery Point in quantities at least equal to 1,800 acre-feet in any Fiscal Year;

(6) The failure of the Agency or the District to meet the Water Availability Guarantee in any Fiscal Year;

(7) The failure of any Party to perform any material term, covenant, or condition of this Agreement, and the failure continues for more than thirty (30) days following the defaulting Party's receipt of written notice of such default from a non-defaulting Party; provided, however, that if and to the extent such default cannot reasonably be cured with such thirty (30) day period, and if the defaulting Party has diligently attempted to cure the same within such thirty (30) period and thereafter continues to diligently attempt to cure the same, then the cure period provided for herein shall be extended from thirty (30) days to one-hundred twenty (120) days;

(8) The failure of the Agency or the District to meet the Water Treatment Guarantee on a repeated basis; and

(9) The Company no longer has a statutory duty to serve water in the Service Area.

(d) Termination for Event of Default – If an Event of Default occurs, any non-defaulting Party may terminate this Agreement immediately upon written notice to the other Parties. A

non-defaulting Party may enforce any and all rights and remedies it may have against a defaulting Party under Applicable Law.

21. Dispute Resolution.

Representatives from each Party shall meet and use reasonable efforts to settle any dispute, claim, question or disagreement (a "Dispute") arising from or relating to this Agreement. To that end, the Parties' representatives shall consult and negotiate with each other in good faith and, recognizing their mutual interests, attempt to reach a just and equitable solution satisfactory to the Parties. If the Parties do not reach such a solution within a period of thirty (30) days after the first notice of the Dispute is received by the non-disputing Parties, then the Parties shall pursue non-binding mediation to be completed within one-hundred twenty (120) days after the notice of the Dispute is received by the non-disputing Parties. If the Parties do not settle the Dispute within the one-hundred twenty (120) day period, any Party may pursue any and all available legal and equitable remedies.

22. Indemnification.

Each Party (an "Indemnifying Party") shall fully indemnify the other Parties and their respective officers, directors, employees, consultants, contractors, representatives and agents (the "Indemnified Persons") against, and hold completely free and harmless from, all liability and damages including any cost, expense, fine, penalty, claim, demand, judgment, loss, injury and/or other liability of any kind or nature, including personal or bodily injury, death or property damage, that are incurred by or assessed against the Indemnified Persons and directly or indirectly caused by, resulting from, or attributable to the fault, failure, breach, error, omission, negligent or wrongful act of the Indemnifying Party, or its officers, directors, employees, consultants, contractors, representatives and agents, in the performance or purported performance of the Indemnifying Party's obligations under this Agreement, but only to the extent of and in proportion to the degree of fault, failure, breach, error, omission, negligent or wrongful act of the Indemnifying Party, or its officers, directors, employees, consultants, contractors, representatives and agents.

23. Force Majeure Event Relief.

(a) If a Force Majeure Event occurs, the Affected Party shall be entitled to (1) relief from its performance obligations under this Agreement to the extent the occurrence of the Force Majeure Event prevents or adversely affects Affected Party's performance of such obligations, and (2) an extension of schedule to perform its obligations under this Agreement to the extent the occurrence of the Force Majeure Event prevents or adversely affects Affected Party's ability to perform such obligations in the time specified in this Agreement. The occurrence of a Force Majeure Event shall not, however, excuse or delay

the other Parties' obligation to pay monies previously accrued and owing to Affected Party under this Agreement, or for Affected Party to perform any obligation under this Agreement not affected by the occurrence of the Force Majeure Event.

(b) Upon the occurrence of a Force Majeure Event, Affected Party shall notify the other Parties in accordance with the notice provisions set forth herein promptly after Affected Party first knew of the occurrence thereof, followed within fifteen (15) days by a written description of the Force Majeure Event, the cause thereof (to the extent known), the date the Force Majeure Event began, its expected duration and an estimate of the specific relief requested or to be requested by the Affected Party. Affected Party shall use commercially reasonable efforts to reduce costs resulting from the occurrence of the Force Majeure Event, fulfill its performance obligations under the Agreement and otherwise mitigate the adverse effects of the Force Majeure Event. While the Force Majeure Event continues, the Affected Party shall give the other Parties a monthly update of the information previously submitted. The Affected Party shall also provide prompt written notice to the other Parties of the cessation of the Force Majeure Event.

24. Amendments.

No change, alteration, revision or modification of the terms and conditions of this Agreement shall be made, and no verbal understanding of the Parties, their officers, agents or employees shall be valid, except through a written amendment to this Agreement duly authorized and executed by the Parties.

25. Remedies Not Exclusive.

The use by any Party of any remedy for the enforcement of this Agreement is not exclusive and shall not deprive the Party using such remedy of, or limit the application of, any other remedy provided by law.

26. Mitigation of Damages.

In all situations arising out of this Agreement, the Parties shall attempt to avoid and minimize the damages resulting from the conduct of another Party.

27. Failure of CPUC Approval.

If this Agreement is not approved by the CPUC in a manner acceptable to the Parties, any Party may, within sixty (60) days after the effective date of the decision or order of the CPUC relating to the approval of this Agreement, give written notice to the other Parties that the Agreement will terminate ten (10) days after receipt of such notice. Those acts and obligations

that are to be performed on or after the Execution Date shall be discharged and no Party shall thereafter be obligated to continue to perform this Agreement or any provision hereof. Whether this Agreement is approved by the CPUC in a manner acceptable to the Parties or not, those acts and obligations performed prior to the date of termination shall be final and no party shall have any claim to be restored to its pre-Execution Date status with regard to any of those acts or obligations.

28. Insurance.

The Agency and District will each obtain the applicable Required Insurance, as set forth in Exhibit D. If insurance proceeds fail to satisfy the obligations of the Agency or the District under this Agreement, the District and the Agency will utilize their own resources, including Prop 218 revenue raising capacity, to the extent allowable by law, to satisfy their obligations.

29. No Waiver.

Failure by a Party to insist upon the strict performance of any of the provisions of this Agreement by another Party, irrespective of the length of time for which such failure continues, shall not constitute a waiver of such Party's right to demand strict compliance by such other Party in the future. No waiver by a Party of any default or breach shall affect or alter this Agreement, and each and every covenant, term, and condition hereof shall continue in full force and effect to any existing or subsequent default or breach.

30. Successors in Interest, Transferees, and Assignees.

(a) This Agreement and all the rights and obligations created by this Agreement shall be in full force and effect whether or not any of the Parties to this Agreement have been succeeded by another entity, or had their interests transferred or assigned to another entity, and all rights and obligations created by this Agreement shall be vested and binding on any Party's successor in interest, transferee, or assignee. If the Company, the Agency or the District is succeeded by another entity, it shall assign this Agreement to its successor. If the District ceases to exist, the Agency and the Company shall continue their obligations hereunder in a manner that will substantively comply with the intent of this Agreement. Except as provided in subsection (b) of this Section 30, no succession, assignment or transfer of this Agreement, or any part hereof or interest herein, by a Party shall be valid without the prior written consent of the other Parties, such consent not to be unreasonably withheld.

(b) In the event of the creation of a local governmental agency duly established for the sole purpose of succeeding to, assuming, and performing all obligations and rights of Agency or District created by this Agreement, Agency or District may assign this Agreement and

all those obligations and rights to such local governmental agency without consent, written or otherwise, of any other Party.

31. Condition Precedent.

The obligations, duties, conditions, and terms of this Agreement shall become and be binding only upon and after the execution of an agreement between Company and Agency for a long term outfall capacity rights lease whereby Agency agrees to lease a portion of capacity in its ocean outfall (consisting of 12,742 lineal feet of buried land pipe and 11,286 lineal feet of underwater ocean pipeline) to Company for the purpose of brine concentrate discharge from a desalination plant proposed for construction by Company.

The Parties hereby agree that the paragraph immediately above describes and is a condition precedent as defined by California Civil Code, Section 1436.

Nothing in this Section is or shall be construed to be a commitment by either District or Company to finally enter into the described outfall capacity rights lease, or a commitment to any particular provisions that may become part of such lease.

32. Covenants and Conditions.

All provisions of this Agreement expressed either as covenants or conditions on the part of the District, Agency, or the Company shall be deemed to be both covenants and conditions.

33. Governing Law.

This Agreement and the rights and obligations of the Parties shall be governed, controlled and interpreted in accordance with the laws of the State of California.

34. Headings.

All headings are for convenience only and shall not affect the interpretation of this Agreement.

35. Construction of Agreement Language.

The provisions of this Agreement shall be construed as a whole according to its common meaning and purpose of providing a public benefit and not strictly for or against any Party. The Agreement shall be construed consistent with the provisions hereof, in order to achieve the objectives and purposes of the Parties. Wherever required by the context, the singular shall include the plural and vice versa, and the masculine gender shall include the feminine or neutral genders or vice versa.

36. Drafting Ambiguities.

This Agreement is the product of negotiation and preparation between the Parties. The Parties and their counsel have had the opportunity to review and revise this Agreement. The Parties waive the provisions of Section 1654 of the Civil Code of California and any other rule of construction to the effect that ambiguities are to be resolved against the drafting Party, and the Parties warrant and agree that the language of this Agreement shall neither be construed against nor in favor of any Party unless otherwise specifically indicated.

37. Partial Invalidity; Severability.

If any provision of this Agreement is held by a court of competent jurisdiction to be invalid, void or unenforceable, the remaining provisions will nevertheless continue in full force without being impaired or invalidated in any way.

38. No Third Party Beneficiaries.

Nothing in this Agreement is intended to create any third Party beneficiaries to the Agreement, and no person or entity other than the Parties and the permitted successors, transferees and assignees of either of them shall be authorized to enforce the provisions of this Agreement.

39. Relationship of the Parties.

The relationship of the Parties to this Agreement shall be that of independent contractors. Each Party shall be solely responsible for any workers compensation, withholding taxes, unemployment insurance, and any other employer obligations associated with the described work or obligations assigned to them under this Agreement.

40. Signing Authority.

The representative of each Party signing this Agreement hereby declares that authority has been obtained to sign on behalf of the Party such person is representing.

41. Further Acts and Assurances.

The Parties agree to execute, acknowledge and deliver any and all additional papers, documents and other assurances, and shall perform any and all acts and things reasonably necessary in connection with the performance of the obligations hereunder and to carry out the intent of the Parties.

42. Opinions and Determinations.

Where the terms of this Agreement provide for action to be based upon opinion, judgment, approval, review or determination of any Party hereto, such terms are not intended to be and

shall never be construed as permitting such opinion, judgment, approval, review or determination to be arbitrary, capricious or unreasonable.

43. Interpretation of Conflicting Provisions.

If there is any conflict, discrepancy or inconsistency between the provisions of this Agreement and the provisions of any exhibit or attachment to this Agreement, the provisions of this Agreement shall prevail and control.

44. Integration.

This Agreement, including the exhibits, represent the entire Agreement between the Parties with respect to the subject matter of this Agreement and shall supersede all prior negotiations, representations, or agreements, either written or oral, between the Parties as of the Effective Date.

45. Counterparts.

All signatures need not appear on the same counterpart of this Agreement and all counterparts of this Agreement shall constitute one and the same instrument.

46. Notices.

All notices to a Party required or permitted under this Agreement shall be in writing and shall be deemed delivered (i) when delivered in person; (ii) on the third day after mailing, if mailed, postage prepaid, by registered or certified mail (return receipt requested); or (iii) on the day after mailing if sent by a nationally recognized overnight delivery service which maintains records of the time, place, and recipient of delivery. Notices to the Parties shall be sent to the following addresses or to other such addresses as may be furnished in writing by one Party to the other Parties:

Monterey Peninsula Water Management District
5 Harris Court, Building G
Monterey, CA 93940
Attention: General Manager

Monterey Regional Water Pollution Control Agency
5 Harris Court, Building D
Monterey, CA 93940
Attention: General Manager

California American Water
Attn: President

1033 B Avenue, Suite 200
Coronado, CA 92118

SIGNATURE PAGE FOLLOWS

IN WITNESS WHEREOF, the Parties hereto have executed this Agreement as of the date first above written.

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY,

By: _____

[NAME]
Board Chair, Agency Board of Directors

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT,

By: _____

[NAME]
Chair, District Board of Directors

CALIFORNIA-AMERICAN WATER COMPANY,

By: _____

Robert G. MacLean
President

EXHIBIT A

Service Area

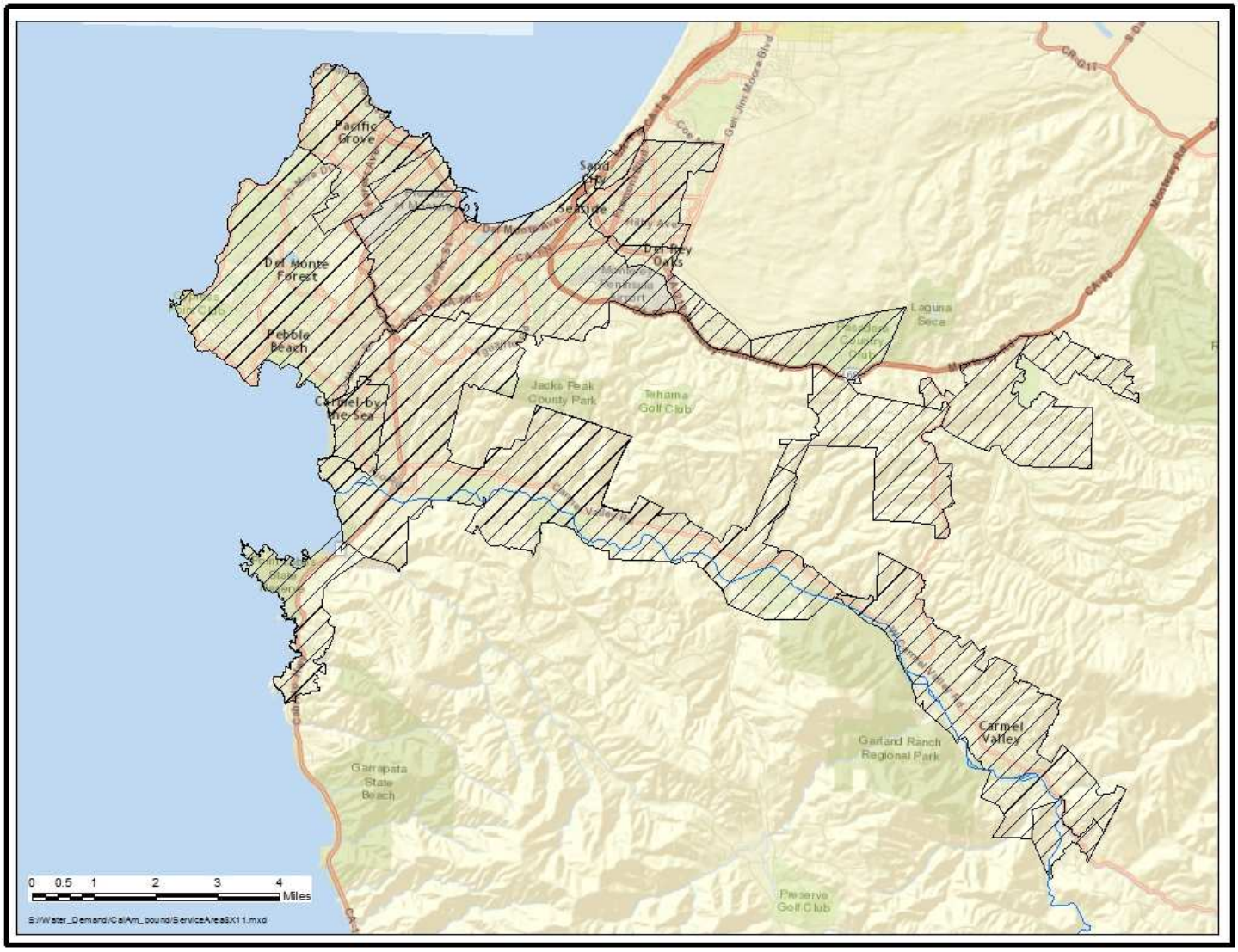


EXHIBIT B

Description of Project

Source Water Facilities – facilities to enable diversion of new source waters to the existing municipal wastewater collection system and conveyance of those waters as municipal wastewater to the Regional Treatment Plant to increase availability of wastewater for recycling. Modifications would also be made to the existing Salinas Industrial Wastewater Treatment Facility to allow the use of the existing treatment ponds for storage of excess winter source water flows and later delivery to the Regional Treatment Plant for recycling.

AWT Facilities – use of existing primary and secondary treatment facilities at the Regional Treatment Plant, as well as new pre-treatment, advanced water treatment (AWT), product water stabilization, product water pump station, and concentrate disposal facilities.

Product Water Facilities – new pipelines, pipeline capacity rights, booster pump station(s), appurtenant facilities along one of two optional pipeline alignments to move the product water from the Regional Treatment Plant to the Seaside Groundwater Basin injection well facilities.

Injection Facilities – new deep and vadose zone wells to inject Proposed Project product water into the Seaside Groundwater Basin, along with associated back-flush facilities, pipelines, electricity/ power distribution facilities, and electrical/motor control buildings.

EXHIBIT C

Delivery Point

AWT Water will be injected into the Seaside Groundwater Basin using new injection wells. The proposed new Injection Well Facilities will be located east of General Jim Moore Boulevard, south of Eucalyptus Road in the City of Seaside, including up to eight injection wells (four deep injection wells, four vadose zone wells, in pairs identified as #5, #6, #7, and #8 in the figure below), six monitoring wells, and back-flush facilities.

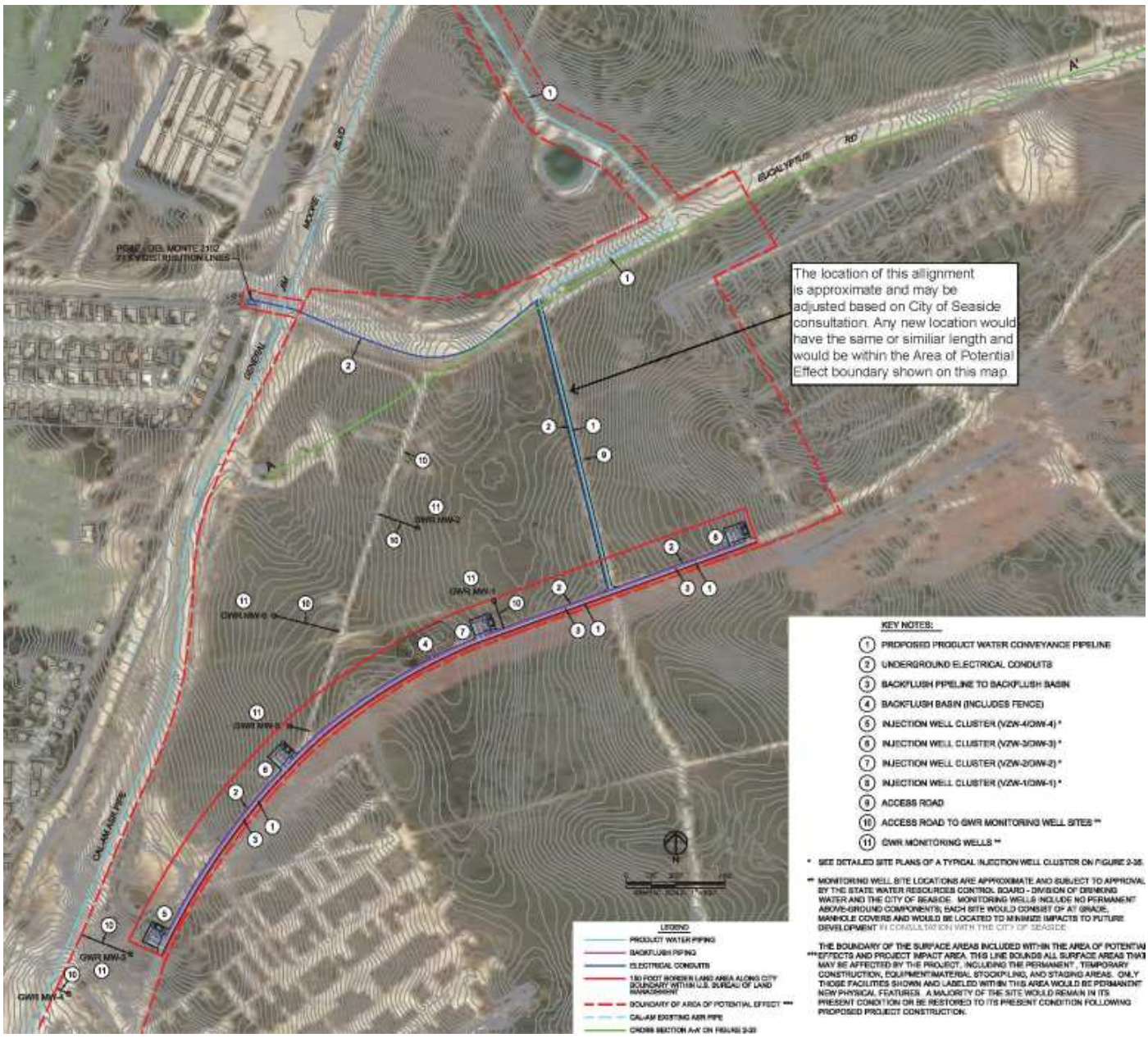


EXHIBIT D

Required Insurance
[THIS EXHIBIT CURRENTLY UNDER REVIEW BY THE PARTIES' RISK MANAGEMENT ADVISORS]

As provided in Section 28 of this Agreement, Agency and District shall obtain and keep in force during the term of this Agreement the following minimum insurance limits and coverage (or greater where required by Applicable Law). Such coverage will be in place not later than the inception of the covered activity, or such time as the Agency's and the District's insurable interest exists, and will be maintained until the Expiration Date.

The cost of Project insurance obtained pursuant to this Exhibit is a Project Operation and Maintenance Expense as defined in Section 2 of this Agreement.

Upon request, Agency and District will provide Company with a certificate of insurance or memorandum of coverage as to any Project insurance and/or complete copies of policies.

Company shall be provided at least 30 days' written notification of cancellation, material reduction in coverage or reduction in limits.

Project insurance may be issued by a public agency Joint Powers Authority Program and/or insurance companies authorized to do business in California with a current A. M. Best rating of A or better.

All commercial general liability insurance, including completed operations-products liability, automobile liability, and pollution liability insurance obtained pursuant to this Agreement shall designate Company, its parent and affiliates, their respective directors, officers, employees and agents, as additional insureds. All such insurance should be primary and non-contributory, and is required to respond and pay prior to any other insurance or self-insurance available to Company. In addition to the liability limits available, such insurance will pay on behalf or will indemnify Company for defense costs. Any other coverage available to Company applies on a contingent and excess basis. All such insurance shall include appropriate clauses pursuant to which the insurance companies shall waive their rights of subrogation against Company, its parent and affiliates, their respective directors, officers, employees and agents.

Agency shall require that the contractors and subcontractors of all tiers as appropriate provide insurance during the pre-construction and construction (as covered activities begin) of the AWT Facilities as described in "Pure Water Monterey – Insurance Requirements for Construction and

Design Professional Contracts," attached to this Exhibit D as Attachment 1. Approval of any deviation or exception from these insurance requirements resides solely with the Agency.

Coverages:

i. The Agency will provide coverage as follows:

(a) General liability insurance, including coverage for auto, errors and omissions and employment practices, and for the Water Delivery Guarantee, Water Availability Guarantee, and Water Treatment Guarantee at Sections 12, 13, and 14, respectively, of this Agreement. Total general and excess liability coverage limits shall be no less than $15,000,000 per occurrence.

(b) "All Risk" Property Insurance (including coverage for Builders' Risk, with additional coverage for loss or damage by water, earthquake, flood, collapse, and subsidence) with a total insured value equal to replacement cost of the AWT Facilities during the term of this Agreement

(c) Cyber Liability Insurance with $2,000,000 coverage limits for first and third party limits.

(d) (1) Public Entity Pollution Liability (claims made and reported) with coverage limits in the amounts of $25,000,000 policy aggregate and $2,000,000 per pollution condition with a $75,000 per pollution condition retention; (2) Pollution & Remediation Legal Liability with coverage limits in the amounts of $1,000,000 each pollution condition and $5,000,000 aggregate liability limits including a self-insured retention not to exceed $25,000 each pollution condition; and (3) TankAdvantage Pollution Liability with coverage limits in the amounts of $1,000,000 each claim and $2,000,000 aggregate.

(e) Workers' Compensation/Employers' Liability. Workers' Compensation and Employer's Liability insurance and excess insurance policy(s) shall be written on a policy form providing workers' compensation statutory benefits as required by California law. Employers' liability limits shall be no less than one million dollars ($1,000,000) per accident or disease.

ii. The District will provide coverage as follows:

(a) General Liability Coverage: $10,000,000 per Occurrence
Personal injury and Property Damage Coverage

(b) Automobile Liability Coverage: $10,000,000 per Occurrence
Personal Injury and Property Damage Coverage

(c) Workers' Compensation Coverage

A. Statutory Workers Compensation Coverage;
B. Employers' Liability Coverage: $5,000,000 each Occurrence

(d) Public Officials' and Employees Errors and Omissions: $10,000,000 per Occurrence

(e) Property Coverage: $1,000,000,000
Includes Fire, Earthquake, Theft and Flood Coverage

(f) Public Entity Pollution Liability (claims made and reported) with coverage limits in the amounts of $25,000,000 policy aggregate and $2,000,000 per pollution condition with a $75,000 per pollution condition retention; (2) Pollution & Remediation Legal Liability with coverage limits in the amounts of $1,000,000 each pollution condition and $5,000,000 aggregate liability limits including a self-insured retention not to exceed $25,000 each pollution condition; and (3) TankAdvantage Pollution Liability with coverage limits in the amounts of $1,000,000 each claim and $2,000,000 aggregate.

Attachment 1

Pure Water Monterey
Proposed Insurance Requirements for Construction and Design Professional Contracts

Contractors and design professionals (as that term is used in California Civil Code §2782.8) shall procure and maintain for the duration of the contract, and for twelve (12) years thereafter, insurance against claims for injuries to persons or damages to property which may arise from or in connection with the performance of the work hereunder by the contractor or design professional, his/her agents, representatives, employees, or subcontractors.[1]

All commercial general liability insurance, including completed operations-products liability, automobile liability, and pollution liability insurance obtained pursuant to this Agreement shall designate Company, its parent and affiliates, their respective directors, officers, employees and agents, as additional insureds. All such insurance should be primary and non-contributory, and is required to respond and pay prior to any other insurance or self-insurance available to Company. In addition to the liability limits available, such insurance will pay on behalf or will indemnify Company for defense costs. Any other coverage available to Company applies on a contingent and excess basis. All such insurance shall include appropriate clauses pursuant to which the insurance companies shall waive their rights of subrogation against Company, its parent and affiliates, their respective directors, officers, employees and agents.

MINIMUM SCOPE AND LIMIT OF INSURANCE

Coverage shall be at least as broad as:

1. **Commercial General Liability (CGL):** Insurance Services Office Form CG 00 01 covering CGL on an "occurrence" basis, including products and completed operations, property damage, bodily injury and personal & advertising injury with limits no less than $5,000,000 per occurrence. If a general aggregate limit applies, either the general aggregate limit shall apply separately to this project/location or the general aggregate limit shall be twice the required occurrence limit.

2. **Automobile Liability:** Insurance Services Office Form Number CA 0001 covering Code 1 (any auto), with limits no less than $5,000,000 per accident for bodily injury and property damage.

[1] The coverages herein are understood to be representative only and the Agency and District retain the right to modify the insurance and indemnity requirements based upon the scope of services for any engagement.

3. **Workers' Compensation** insurance as required by the State of California, with Statutory Limits, and Employers' Liability insurance with a limit of no less than $1,000,000 per accident for bodily injury or disease.

4. **Builder's Risk (Course of Construction)** insurance utilizing an "All Risk" (Special Perils) coverage form, with limits equal to the completed value of the project and no coinsurance penalty provisions.

5. **Surety Bonds** as described below.

6. **Professional Liability** (for all design professionals and contractors for design/build projects), with limits no less than $2,000,000 per occurrence or claim, and $4,000,000 policy aggregate.

7. **Contractors' Pollution Legal Liability and Errors and Omissions** (if project involves environmental hazards) with limits no less than $2,000,000 per occurrence or claim, and $4,000,000 policy aggregate.

If the contractor or design professional maintains higher limits than the minimums shown above, the Entity[2] requires and shall be entitled to coverage for the higher limits maintained by the contractor or design professional. Any available insurance proceeds in excess of the specified minimum limits of insurance and coverage shall be available to the Entity.

Deductibles and Self-Insured Retentions

Any deductibles or self-insured retentions must be declared to and approved by the Entity. At the option of the Entity, either: the contractor shall cause the insurer to reduce or eliminate such deductibles or self-insured retentions as respects the Entity, its officers, officials, employees, and volunteers; or the contractor or design professional shall provide a financial guarantee satisfactory to the Entity guaranteeing payment of losses and related investigations, claim administration, and defense expenses.

The insurance policies are to contain, or be endorsed to contain, the following provisions[3]:

1. The Entity, its officers, officials, employees, and volunteers are to be covered as additional insureds on the CGL policy with respect to liability arising out of with respect to liability arising out of work or operations performed by or on behalf of the Contractor including materials, parts, or equipment furnished in connection with such work or operations and automobiles owned, leased, hired, or borrowed by or on behalf of the Contractor. General liability coverage can be provided in the form of an endorsement to

[2] The term "Entity" as used herein means the Agency or the District.

[3] The term "Contractor" as used herein also means Design Professional in context of an agreement for services by a design professional as that term is used in CA CC 2782.8.

the Contractor's insurance (at least as broad as ISO Form CG 20 10 10 93, CG 00 01 11 85 or both CG 20 10 10 01 and CG 20 37 10 01 forms if later revisions used).

2. For any claims related to this project, the Contractor's insurance coverage shall be primary insurance as respects the Entity, its officers, officials, employees, and volunteers. Any insurance or self-insurance maintained by the Entity, its officers, officials, employees, or volunteers shall be excess of the Contractor's insurance and shall not contribute with it.

3. Each insurance policy required by this clause shall provide at least thirty (30) days' written notification of cancellation, material reduction in coverage or reduction in available limits.

Builder's Risk (Course of Construction) Insurance

Contractor may submit evidence of Builder's Risk insurance in the form of Course of Construction coverage. Such coverage shall name the Entity as a loss payee as their interest may appear.

If the project does not involve new or major reconstruction, at the option of the Entity, an Installation Floater may be acceptable. For such projects, a Property Installation Floater shall be obtained that provides for the improvement, remodel, modification, alteration, conversion or adjustment to existing buildings, structures, processes, machinery and equipment. The Property Installation Floater shall provide property damage coverage for any building, structure, machinery or equipment damaged, impaired, broken, or destroyed during the performance of the Work, including during transit, installation, and testing at the Entity's site.

Claims Made Policies

If any coverage required is written on a claims-made coverage form:

1. The retroactive date must be shown, and this date must be before the execution date of the contract or the beginning of contract work.

2. Insurance must be maintained and evidence of insurance must be provided for at least twelve (12) years after completion of contract work.

3. If coverage is canceled or non-renewed, and not replaced with another claims-made policy form with a retroactive date prior to the contract effective, or start of work date, the Contractor must purchase extended reporting period coverage for a minimum of five (5) years after completion of contract work.

4. A copy of the claims reporting requirements must be submitted to the Entity for review.

5. If the services involve lead-based paint or asbestos identification/remediation, the Contractors Pollution Liability policy shall not contain lead-based paint or asbestos exclusions. If the services involve mold identification/remediation, the Contractors Pollution Liability policy shall not contain a mold exclusion, and the definition of Pollution shall include microbial matter, including mold.

Acceptability of Insurers

Insurance is to be placed with insurers authorized to do business in California with a current A.M. Best rating of no less than A: VII, unless otherwise acceptable to the Entity.

Waiver of Subrogation

Contractor hereby agrees to waive rights of subrogation which any insurer of Contractor may acquire from Contractor by virtue of the payment of any loss. Contractor agrees to obtain any endorsement that may be necessary to affect this waiver of subrogation. The Workers' Compensation policy shall be endorsed with a waiver of subrogation in favor of the Entity for all work performed by the Contractor, its employees, agents and subcontractors.

Verification of Coverage

Contractor shall furnish the Entity with original certificates and amendatory endorsements, or copies of the applicable insurance language, effecting coverage required by this contract. All certificates and endorsements are to be received and approved by the Entity before work commences. However, failure to obtain the required documents prior to the work beginning shall not waive the Contractor's obligation to provide them. The Entity reserves the right to require complete, certified copies of all required insurance policies, including endorsements, required by these specifications, at any time.

Subcontractors

Contractor shall require and verify that all subcontractors maintain insurance meeting all the requirements stated herein, and Contractor shall ensure that Entity is an additional insured on insurance required from subcontractors. For CGL coverage subcontractors shall provide coverage with a format least as broad as CG 20 38 04 13.

Surety Bonds

Contractor shall provide the following Surety Bonds:

1. Bid bond
2. Performance bond
3. Payment bond
4. Maintenance bond

The Payment Bond and the Performance Bond shall be in a sum equal to the contract price. If the Performance Bond provides for a one-year warranty a separate Maintenance Bond is not necessary. If the warranty period specified in the contract is for longer than one year a Maintenance Bond equal to 10% of the contract price is required. Bonds shall be duly executed by a responsible corporate surety, authorized to issue such bonds in the State of California and secured through an authorized agent with an office in California.

Special Risks or Circumstances

Entity reserves the right to modify these requirements, including limits, based on the nature of the risk, prior experience, insurer, coverage, or other circumstances.

Hold Harmless - Contractor

To the fullest extent permitted by law, Contractor shall hold harmless, immediately defend, and indemnify Entity and its officers, officials, employees, and volunteers from and against all claims, damages, losses, and expenses including attorney fees arising out of the performance of the work described herein, caused in whole or in part by any negligent act or omission of the Contractor, any subcontractor, anyone directly or indirectly employed by any of them, or anyone for whose acts any of them may be liable, except to the extent caused by the active negligence, sole negligence, or willful misconduct of the Entity.

Hold Harmless – Design Professional

To the fullest extent permitted by law, Design Professional shall hold harmless, immediately defend, and indemnify Entity and its officers, officials, employees, and volunteers from and against all claims, damages, losses, and expenses including attorney fees that arise out of, pertain to, or relate to the negligence, recklessness, or willful misconduct of the Design Professional, or its employees, agents or subcontractors, except to the extent caused by the active negligence, sole negligence, or willful misconduct of the Entity.

Attachment 3

Proposed Revision to Section 16 of WPA
(Redline)

Additions in **Bold**

Deletions in ~~**Bold Strike Out**~~

16. Rate of Payment for Company Water.

For Company Water furnished to the Company under this Agreement, the Company shall pay Company Water Payments to the District on a monthly basis determined as the Company Water Rate multiplied by the quantity of Company Water delivered the previous month. The Company shall not pay for deliveries to the Operating Reserve and the Drought Reserve until such reserves are designated by the Company or the District, as applicable, as Company Water.

The Company Water Rate in each Fiscal Year of the Agreement shall be the sum of the Fixed Project Costs and Project Operation and Maintenance Expenses budgeted for production and delivery of AWT Water in such Fiscal Year, divided by the amount of AWT Water expected to be produced during such Fiscal Year. The Parties agree that the **fundamental rate-setting principles of this Agreement shall be (a) the Company does not pay for water it does not receive, (b) the cost of water shall only reflect the true cost of service consistent with California public agency laws and regulations, and (c) the** Company shall pay only its proportionate share of the costs of the Agency and the District producing AWT Water.

In the first year following the Performance Start Date, the Company Water Rate shall not exceed $1,720 per acre foot (the "Soft Cap"). Prior to the Performance Start Date, if the first-year Company Water Rate as calculated is expected to exceed the Soft Cap, the Company shall apply to the CPUC through a Tier 2 advice letter for approval of such rate before the Company shall be required under this Agreement to pay an amount greater than the Soft Cap as the Company Water Rate. Unless and until the CPUC approves a Company Water Rate in an amount greater than the Soft Cap, the Company shall only be required to pay an amount equal to the Soft Cap as the Company Water Rate. In no circumstance shall the District's or the Agency's obligations under this Agreement to deliver Company Water to the Company be affected by the pendency of the Company's application to the CPUC for approval of a rate greater than the Soft Cap or a decision by the CPUC to deny any such application.

As Project Operation and Maintenance Expenses are projected or budgeted for an upcoming Fiscal Year, the Parties agree there will be a "true-up" or reconciliation at the end of every Fiscal Year following the Performance Start Date to ensure the principles set forth in this section are met. **Such "true-up" shall mean: if actual Project Operation and Maintenance Expenses are more or less than budgeted Project Operation and Maintenance Expenses used to calculate the Company Water Rate paid during the Fiscal Year, a corresponding**

adjustment (up or down) will be provided against the subsequent Fiscal Year budget and computed Company Water Rate for that Fiscal Year.

The Parties agree that, given the status of the Agency and the District as governmental agencies and the requirements under law that they incur only reasonable and prudent costs and expenses for purposes related to their governmental duties and the fact that such costs and expenses are subject to public review and scrutiny, all Fixed Project Costs and Project Operation and Maintenance Expenses incurred by the Agency and/or the District in compliance with the terms of this Agreement shall ~~**be deemed reasonable and prudent and the CPUC, by its approval of this Agreement, shall be deemed to have agreed that such costs are reasonable and prudent.**~~ **reflect only the actual cost of service consistent with California public agency laws and regulations and shall be subject to review consistent with that used for existing water purchase agreements by CPUC-regulated Class A investor-owned water utilities.**

The District covenants and agrees to pay to the Agency the revenues received from the Company from the Company Water Payments provided, however, it will reduce the payment amount by any portion of the Fixed Project Costs and Project Operation and Maintenance Expenses directly paid or incurred by the District.

Attachment 4

Example Budget for Year 1 Cost of Water

Fixed Project Costs:

Cost of Pipeline	$26,966,428	
less Grant Proceeds	(4,320,000)	
plus Reserve Fund	998,572	
Amount Financed	$23,645,000	
Annual Debt Service (30 years; 1.60% interest rate)		$998,572
Less Interest on Reserve Fund		(15,977)
Multiply by pipeline capacity factor for GWR		71%
Fixed Pipeline Cost		$697,642
Cost of Other Facilities	$54,375,000	
plus Pre-Construction Costs	8,200,000	
Amount Financed	$62,575,000	
Annual Debt Service (30 years; 1.00% interest rate)		$2,424,663
Portion less Contribution by MCWRA ($3.9 million)		93.8%
GWR portion of Debt Service		$2,273,546
Plus GWR share of Salinas Ponds Lease (54.9%)		164,700
Fixed Other Facilities Cost		$2,438,246
Total Fixed Project Costs		$3,135,888

Project Operation and Maintenance Expenses:

Power (see page 3)	$809,030
Chemicals (see page 3)	723,694
Labor (see page 3)	492,212
Parts/Materials/Other (see page 3)	539,557
Primary and Secondary Treatment	84,731
Insurance	53,734
MPWMD Expenses	179,507
Total Project Operation and Maintenance Expenses	$2,882,465

Company Water Rate:

Fixed Project Costs	$3,135,888
Project Operation and Maintenance Expenses	2,882,465
Sum	$6,018,353
Divided by Amount of AWT Water Expected	3,500 AF
Calculated Company Water Rate	$1,720 per AF

Example of True-Up for Year 2

Year 1 Results:

Calculated Company Water Rate	$1,720 per AF
Multiplied by Amount of AWT Water Delivered	3,500 AF
Revenues Received by District	$6,020,000

Actual Project Operation and Maintenance Expenses in Year 1

Power (see page 3)	$778,400
Chemicals (see page 3)	643,900
Labor (see page 3)	505,000
Parts/Materials/Other (see page 3)	492,500
Primary and Secondary Treatment	90,000
Insurance	53,734
MPWMD Expenses	169,386
Total Project Operation and Maintenance Expenses	$2,732,920
Budgeted Project Operation and Maintenance Expenses	$2,882,465
Savings versus Budget	$149,545

Year 2 Company Water Rate:

Fixed Project Costs	$3,135,888
Budgeted Project Operation and Maintenance Expenses	2,882,465
Less Prior Year Savings versus Budget	(149,545)
Sum	$5,868,808
Divided by Amount of AWT Water Expected	3,500 AF
Calculated Year 2 Company Water Rate	$1,677 per AF

Cost of Operations - New Facilities

	Advanced Water Purification Facility (AWPF)				Conveyance Facilities			Injection Wells			Total
	Ozone System	MF/RO System	UV/AOP System	Post-Stabilization	AWPF Pump Station	Booster Pump Station	Pipeline to Injection	Deep Wells	Monitoring Wells	Other Facilities	
Power Cost											
kWh (assume 3700 AF)	1,564,494	4,269,231	506,036	38,462	567,000	1,344,600		73,500			
2016 Rate in $/kWh	$0.0939	$0.0939	$0.0939	$0.0939	$0.0939	$0.0939		$0.1190			
Factor for 3500 AF v 3700 AF	94.595%	94.595%	94.595%	94.595%	100.00%	100.00%		94.595%			
Number of Facilities	1	1	1	1	1	1		2			
Escalation to 2018	1.0609	1.0609	1.0609	1.0609	1.0609	1.0609		1.0609			
Total Power Cost	$147,428	$402,306	$47,686	$3,624	$56,484	$133,947		$17,555			**$809,030**
Chemicals Cost											
Budget per Consultant	$92,070	$442,518	$40,218	$118,800							
Plus 10.3% Overhead	1.103	1.103	1.103	1.103							
Factor for 3500 AF v 3700 AF	94.595%	94.595%	94.595%	94.595%							
Total Chemicals Cost	$96,064	$461,714	$41,963	$123,953							**$723,694**
Labor Cost											
Hours per Year	1,129	2,221	1,025	817	365	365	78	416	96	64	
Rate per Hour	$79.72	$79.72	$79.72	$79.72	$79.72	$79.72	$79.72	$79.72	$79.72	$79.72	
Agency Portion of Pipeline					71.43%	71.43%	71.43%				
Factor for 3500 AF v 3700 AF	96.704%	96.704%	96.704%	96.704%	100.000%	100.000%	100.000%	100.000%	100.000%	100.000%	
Total Labor Cost	$87,041	$171,229	$79,023	$62,987	$20,785	$20,785	$4,442	$33,165	$7,653	$5,102	**$492,212**
Parts/Material/Other Cost											
Hours per Year					365	365	78	416	96	64	
Agency Portion of Pipeline					71.43%	71.43%	71.43%				
Rate or Budget					$23.71	$23.71	$23.71	$23.71	$23.71	$23.71	
					$6,182	$6,182	$1,321	$9,863	$2,276	$1,517	**$27,341**
Hours per Year									96		
Rate or Budget	$68,772	$333,000	$50,000	$29,000					$100.00		
Plus 10.3% Overhead	1.103	1.103	1.103	1.103					1.103		
Factor for 3500 AF v 3700 AF	94.595%	94.595%	94.595%	94.595%					100.000%		
	$71,755	$347,445	$52,169	$30,258					$10,589		**$512,216**

Monterey Peninsula Water Supply Project (A.12-04-019)
Joint Comparative Revenue Requirement, Life Cycle and Bill Impact Exhibit
April 8, 2016

Monterey Peninsula Desal Project Scenario Impact to NPV				Year 1 Revenue Requirement		Year 1 Avg Res Bill	
	6.4 MGD + GWR	9.6 MGD	Difference	6.4 MGD + GWR	9.6 MGD	6.4 MGD + GWR	9.6 MGD
CAW Baseline Scenario NPV ($M)	**693.1**	**673.9**	**19.2**	**43.3**	**41.4**	**$95.87**	**$94.70**
NPV Impact to Baseline Scenario ($M)							
Power Inflation Rate (3% baseline)							
4.8%	42.8	51.2	(8.4)	**43.6**	**41.8**	**$96.12**	**$95.02**
6.0%	77.2	97.0	(19.9)	**43.9**	**42.2**	**$96.29**	**$95.25**
Power Cost per KwH Variant ($0.10454/$.09448 baseline)							
Primary Rate ($0.15685/$0.11162)	32.8	49.1	(16.2)	**44.8**	**43.6**	**$96.84**	**$96.13**
Include Outfall Expense? ("No" baseline)							
Yes	14.1	14.6	(0.5)	**44.1**	**42.2**	**$96.57**	**$95.43**
MPWMD & PCA Baseline Scenario NPV ($M)	**793.8**	**805.3**	**(11.5)**	**46.1**	**45.1**	**$97.86**	**$97.28**

Notes:
(1) Positive numbers increase the NPV, which is more expensive for the customer.
(2) Baseline NPV is calculated at 5% discount rate, as are other scenario impacts.
(3) CAW Baseline Year 1 Revenue Requirement excludes Outfall lease costs as it reflects capital costs associated with the outfall agreement. However, a scenario is provided if the outfall costs estimated by MPWMD and MRWPCA are included in the model. The final outfall costs will be negotiated by parties.
(4) The 6.4 MGD scenarios include purchased water costs under the GWR WPA based on costs provided by MPWMD to represent a $1,720/AF purchase price in year 1.
(5) CAW Baseline power costs for the desalination plant are based on calculations provided by PG&E for its E-20 Transmission level service but final costs will be based on engineering and tariff rates in place at the time the plant is in service. Costs are shown in "Summer Rate/Winter Rate" format.
(6) MPWMD Baseline assumes Primary power rate, 4.8% power inflation & includes outfall expenses. Total impact of the combination of these assumptions is greater than the components ($11.5M vs. $6.0M) due to the compounding of the higher beginning power rate and the higher escalation.

Rate Assumptions for Average Residential Bill:
(1) Usage of 37 CGLs represents actual 2014 average consumption of single family customers on a 5/8" meter.
(2) The customer profile is based on a 5/8" meter, 1/4 acre lot in the summer and no large animals.
(3) All other assumptions provided with the 1/22/16 supplemental testimony apply.
(4) Assumes a rate design of 30% fixed, 70% variable. Rate design issues in the Monterey District are currently being reviewed in proceeding 15-07-019. The rate design assumptions herein are for illustrative purposes only.

Attachment 6

Methodology and Assumptions for Calculation of
Year-1 Indifference Cost of Water

Methodology

1. Utilize the 2015 Monterey Desalination Model v8.4 developed by Cal-Am and used to develop Exhibit JE-1, April 13, 2016 Joint Exhibit Updated Cost Model.

2. Of the six scenarios in the Joint Exhibit use the high and the low scenarios in terms of Year-1 revenue requirement.

3. For measure of "Total Revenue Required In Lifecycle", adjust Pure Water Monterey Fixed Costs, MCWD Pipeline Costs, and annual O&M costs such that the difference between a 9.6 MGD plant and the 6.4 MGD plant + Pure Water Monterey in the total of all annual revenue requirements across the lifecycle is approximately zero. Take the resulting Year-1 cost of Pure Water Monterey water and divide by 3,500 acre-feet.

4. For measure of "NPV of Lifecycle Revenues Required", adjust Pure Water Monterey Fixed Costs, MCWD Pipeline Costs, and annual O&M costs such that the net present value (NPV) of the difference between a 9.6 MGD plant and the 6.4 MGD plant + Pure Water Monterey in annual revenue requirements across the lifecycle is approximately zero. Take the resulting Year-1 cost of Pure Water Monterey water and divide by 3,500 acre-feet.

5. For measure of "Year-1 Revenue Requirement", take the difference between a 9.6 MGD plant and the 6.4 MGD plant revenue requirement in Year-1 and divide by 3,500 acre-feet.

Assumptions

The assumed changes to annual Pure Water Monterey Fixed Costs, MCWD Pipeline Costs, and annual O&M costs which achieve the indifference for each of the measures cited above is as follows:

High Scenario

1. For "Total Revenue Required In Lifecycle": Raise Pure Water Monterey Fixed Costs by 115%, MCWD Pipeline Costs by 115%, and annual O&M costs by 125%. Results in Year-1 cost of Pure Water Monterey water of $7.22 million, which divided by 3,500 acre-feet equals $2,062/AF.

2. For "NPV of Lifecycle Revenues Required": Raise Pure Water Monterey Fixed Costs by 105%, MCWD Pipeline Costs by 105%, and annual O&M costs by 115%. Results in Year-1 cost of Pure Water Monterey water of $6.61 million, which divided by 3,500 acre-feet equals $1,890/AF.

3. For measure of "Year-1 Revenue Requirement", take the difference between a 9.6 MGD plant and the 6.4 MGD plant revenue requirement in Year-1 of $5.03 million, which divided by 3,500 acre-feet equals $1,438/AF.

Low Scenario

1. For "Total Revenue Required In Lifecycle": Lower Pure Water Monterey Fixed Costs to 95%, MCWD Pipeline Costs to 95%, and annual O&M costs to 82%. Results in Year-1 cost of Pure Water Monterey water of $5.34 million, which divided by 3,500 acre-feet equals $1,526/AF.

2. For "NPV of Lifecycle Revenues Required": Lower Pure Water Monterey Fixed Costs to 90%, MCWD Pipeline Costs to 90%, and annual O&M costs to 75%. Results in Year-1 cost of Pure Water Monterey water of $4.98 million, which divided by 3,500 acre-feet equals $1,424/AF.

3. For measure of "Year-1 Revenue Requirement", take the difference between a 9.6 MGD plant and the 6.4 MGD plant revenue requirement in Year-1 of $4.12 million, which divided by 3,500 acre-feet equals $1,178/AF.

Attachment 7

Examples of Public Agency Water Purchase Agreements with
Class A Regulated Investor Owned Utilities

Golden State Water Co.

Casitas Municipal Water District
Calleguas Municipal Water District

California Water Service

Butte County
Kern County Water Agency
Stockton East Water District
City and County of San Francisco (25 years)
Santa Clara Valley Water District
Alameda County Flood Control and Water Conservation District (Zone 7 Water Agency)

California American Water

City of San Diego (25 years)
Placer County Water Agency (20 years)
Calleguas Municipal Water District
City of Sacramento

CALIFORNIA AMERICAN WATER
MONTEREY PENINSULA WATER SUPPLY PROJECT
REVENUE REQUIREMENT ON
MONTEREY PIPELINE AND PUMP STATION
ESTIMATED AS OF MAY 9, 2016
($ in Millions)

Plant Size - 6.4	Jan-16	Feb-16	Mar-16	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17	Mar-17	Apr-17	May-17	Jun-17	Jul-17	Aug-17	Sep-17	Oct-17	Nov-17	Dec-17	Jan-18
Beg CWIP Balance				$ 6.773	$ 6.928	$ 7.127	$ 7.398	$ 7.575	$ 7.834	$ 8.107	$ 8.531	$ 9.507	$ 10.488	$ 12.748	$ 14.942	$ -	$ 4.207	$ 10.479	$ 14.752	$ 19.039	$ 21.297	$ 23.585	$ 27.989	$ -	$ -
Additions				$ 0.127	$ 0.168	$ 0.240	$ 0.143	$ 0.225	$ 0.237	$ 0.386	$ 0.936	$ 0.936	$ 2.207	$ 2.130	$ 4.202	$ 4.205	$ 6.268	$ 4.228	$ 4.198	$ 2.135	$ 2.142	$ 4.229	$ 2.151	$ 1.777	$ 0.544
AFUDC				$ 0.004	$ 0.004	$ 0.005	$ 0.009	$ 0.011	$ 0.013	$ 0.016	$ 0.020	$ 0.030	$ 0.041	$ 0.063	$ 0.090	$ 0.001	$ 0.005	$ 0.045	$ 0.088	$ 0.124	$ 0.146	$ 0.175	$ -	$ -	$ -
Transfers to UPIS				$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -			
Ending CWIP Balance	0	0	0	$ 6.928	$ 7.127	$ 7.398	$ 7.575	$ 7.834	$ 8.107	$ 8.531	$ 9.507	$ 10.488	$ 12.748	$ 14.942	$ 19.225	$ 4.207	$ 10.479	$ 14.752	$ 19.039	$ 21.297	$ 23.585	$ 27.989	$ -	$ -	$ -
AFUDC Rate	0.0%	0.0%	0.0%	0.8%	0.8%	0.8%	1.4%	1.7%	2.0%	2.3%	2.7%	3.6%	4.3%	5.5%	6.3%	0.8%	0.8%	4.3%	6.3%	7.4%	7.8%	8.2%	8.7%		

ADVICE LETTER FILING	Apr-17		Oct-17	
Calculation of Revenue Requirement				
		Rev Requ		Rev Requ
Cumulative Plant Balance	$ 19.225		$ 27.989	
Rate of Return (Current)	8.41%		8.41%	
Return Requirement	$ 1.617		$ 2.354	
Net-to-Gross Multiplier	1.33485		1.33485	
Gross Up Return Requirement	$ 2.158	$ 2.158	$ 3.142	$ 3.142
Depreciation Rate (Lg Pipelines)	2.28%		2.28%	
Annual Depreciation Expense	$ 0.438	$ 0.438	$ 0.638	$ 0.638
Ad Valorem Tax Rate	1.179%		1.179%	
Annual Ad Valorem Taxes	$ 0.222	$ 0.222	$ 0.323	$ 0.323
Sub-Total Revenue Requirement		$ 2.818		$ 4.103
Uncollectible Rate	0.597%		0.597%	
Uncollectible Expense	$ 0.017	$ 0.017	$ 0.025	$ 0.025
TOTAL REVENUE REQUIREMENT		**$ 2.835**		**$ 4.127**
Rev Req as Percent of Plant		14.746%		14.746%

CALIFORNIA AMERICAN WATER COMPANY
A. 12-04-019 MONTEREY WATER SUPPLY PROJECT
RESIDENTIAL BILL IMPACTS UNDER MONTEREY PIPELINE, PUMP STATION & PURCHASED WATER COSTS FROM PURE WATER MONTEREY (estimated as of May 9, 2016

	Current Bill[1]	Proposed Jun 1, 2017[2]	Proposed Jan 1, 2018[2]	Proposed Jan 1, 2018 (with P. Water)[2]
Base Bill[3]	36.19	39.17	43.11	46.19
Surcharges[4]	8.64	8.78	8.96	9.10
Taxes & Fees[5]	1.33	1.42	1.55	1.64
Total Bill	46.16	49.37	53.62	56.94
$ Increase		3.21	4.25	3.32
% Increase		7.0%	8.6%	6.2%

Notes:
1) Current bill reflects the following rates: 2016 step rates and low-income surcharge update per Advice Letter ("AL") 1097, expiration of 2012 WRAM surcharge on May 9, 2016, inclusion of 2013/2014 WRAM surcharges per ALJ ruling on March 2, 2016 in A.15-07-019, and CEBA per AL 1115-A. Assumes 3-person household on 5/8" meter using 37 hundred gallons.
2) Excludes Surcharge #2 (is now expected to be deferred to later in 2018 & to be addressed in modification to settlement), and requested rate design changes in A.15-07-019. For the purposes of this analysis, a 3% annual inflation has been assumed on the base revenue requirement for 2017 and 2018.
3) Base bill includes the following volumetric-based surcharges: San Clemente Dam and 2013/2014 WRAM surcharges.
4) Surcharges under current and proposed bills include CAW & MPWMD conservation, CEBA, low-income, Seaside Basin, and Carmel Mitigation as of May 9, 2016.
5) Includes PUC fee of 1.17% and a proxy for all other taxes and fees of 2%.