

**GOVERNANCE COMMITTEE
FOR THE
MONTEREY PENINSULA WATER SUPPLY PROJECT**

California American Water • Monterey County Board of Supervisors
Monterey Peninsula Regional Water Authority • Monterey Peninsula Water Management District

This meeting has been noticed according to the Brown Act rules. This agenda was posted on March 20, 2015.

**Governance
Committee Members:**

*California American
Water*

Robert MacLean

*Monterey Peninsula
Regional Water Authority*

Jason Burnett, Chair

Alt. - _____

County of Monterey

David Potter

Alt. - Simon Salinas

*Monterey Peninsula
Water Management
District*

Robert S. Brower, Sr.

Vice Chair

Alt. – Jeanne Byrne

Staff Contact:

David J. Stoldt, MPWMD

Arlene Tavani, MPWMD

AGENDA

REGULAR MEETING

**Monterey Peninsula Water Supply Project
Governance Committee**

Wednesday, March 25, 2015, 1:30 PM

Monterey Peninsula Water Management District, Conference Room,
5 Harris Court, Building G., Monterey, CA

Call to Order/Roll Call

Pledge of Allegiance

Public Comments

Anyone wishing to address the Committee on matters not listed on the agenda that are within the subject jurisdiction of the Committee, may do so during Public Comments. The public may comment on any other items listed on the agenda at the time they are considered by the Committee. Please limit your comment to 3 (three) minutes.

Action Items – Public Comment will be Received

1. Approve Draft Revised Minutes of the May 23, 2014 Meeting, and Draft Minutes of the October 13, 2014, and June 19, 2013 Governance Committee Meetings
2. Adopt Meeting Schedule for 2015
3. Receive Update from California-American Water on Slant Test Well Construction and Operation Including a Review of Criteria and Timeline for Determining Feasibility of Subsurface Intake Based on Test Well Results – Provide Direction to California American Water on Subsurface Intake
4. Provide Direction to California-American Water on Upcoming Decisions to Be Made Related to the Pipeline Procurement

Discussion Items – Public Comment will be Received

5. Suggest Items to be Placed on Future Agendas

Adjournment

After staff reports have been distributed, if additional documents are produced by the Governance Committee and provided to a majority of the committee members regarding any item on the agenda, they will be available at the Monterey Peninsula Water Management District (MPWMD) office during normal business hours, and posted on the Governance Committee website at

<http://www.mpwmd.net/GovernanceCommittee/GovernanceCmte.htm>.

Documents distributed at the meeting will be made available in the same manner.

Upon request, a reasonable effort will be made to provide written agenda materials in appropriate alternative formats, or disability-related modification or accommodation, including auxiliary aids or services, to enable individuals with disabilities to participate in public meetings. A reasonable effort will also be made to provide translation services upon request. Please submit a written request, including your name, mailing address, phone number and brief description of the requested materials and preferred alternative format or auxiliary aid or service by 5:00 PM on Monday, March 23, 2015. Requests should be sent to the Board Secretary, MPWMD, P.O. Box 85, Monterey, CA, 93942. You may also fax your request to the Administrative Services Division at 831-644-9560, or call 831-658-5600.

Monterey Peninsula Water Supply Project Governance Committee

Meeting Date: March 25, 2015

Agenda Item: 1. **Approve Draft Revised Minutes of the May 23, 2014 Meeting, and Draft Minutes of the October 13, 2014, and June 19, 2013 Governance Committee Meetings**

Summary: Attached as **Exhibits 1-A through 1-C**, respectively, are draft revised minutes of the May 23, 2014 meeting and draft minutes of the October 13, 2014 and June 19, 2013 Governance Committee meetings.

Action: Review and approve the committee minutes.

Exhibits:

- 1-A** Draft Revised Minutes of the May 23, 2014 Committee Meeting
- 1-B** Draft Minutes of the October 13, 2014 Committee Meeting
- 1-C** Draft Minutes of the June 19, 2014 Committee Meeting

**GOVERNANCE COMMITTEE
FOR THE
MONTEREY PENINSULA WATER SUPPLY PROJECT**

California American Water • Monterey County Board of Supervisors
Monterey Peninsula Regional Water Authority • Monterey Peninsula Water Management District

EXHIBIT 1-A

**REVISED DRAFT MINUTES
Regular Meeting
Governance Committee
for the
Monterey Peninsula Water Supply Project
*May 23, 2014***

Call to Order: The meeting was called to order at 1:30 pm in the conference room of the Monterey Peninsula Water Management District offices.

Members Present: Chuck Della Sala, representing Monterey Peninsula Regional Water Authority (JPA) (Alternate for Jason Burnett)
Robert S. Brower, Sr., Vice Chair, representative for Monterey Peninsula Water Management District
Robert MacLean, representative for California American Water

Members Absent: David Potter, representing Monterey County Board of Supervisors
Jason Burnett, Chair, representing Monterey Peninsula Regional Water Authority

Pledge of Allegiance: The assembly recited the Pledge of Allegiance.

Public Comments: No comments were presented to the committee.

Agenda Items

The Chair received public comment on each agenda item.

Action Items

- 1. Develop Recommendation to Monterey Peninsula Regional Water Authority on Selection of Consultant to Conduct Value Engineering analysis of CDM Desalination Project Designs**

No comments were directed to the committee during the public comment period on this item.

Della Sala offered a motion to adopt the recommendation of the ad-hoc selection committee and contract with Value Management Strategies, Inc. (VMS) for preparation of a value engineering study for a not-to-exceed cost of \$124,000. Jim Cullum shall be authorized to negotiate with VMS to reduce the cost from \$129,997.22 to \$124,000. The motion was seconded by Brower and approved unanimously on a vote of 2-0 by Della Sala and Brower. MacLean expressed agreement with the committee action.

Discussion Items

2. Update from California American Water on Source Water Intake Location Investigations

Ian Crooks, Engineering Manager for Cal-Am's Coastal Division reported that the public comment period on the City of Marina's consideration of the application for construction of a test well at the CEMEX site closes on June 17, 2014. The goal is to obtain approval from Marina by August. The permitting process for the Potrero contingency test well site should be submitted to the California Department of Parks and Recreation by mid-June.

Public Comment: (1) David Stoldt, Monterey Peninsula Water Management District, asked when the CEMEX test well is to be considered by the California Coastal Commission (CCC). **(2) George Riley** asked if applications are being submitted for both the CEMEX and Potrero locations.

Crooks responded that an application for the CEMEX site has been filed with the CCC. If the City of Marina approves the application, the CCC could consider the application in October 2014. He also stated that the CEMEX site is the primary location under consideration for the test wells. The process for permitting the Potrero site is proceeding as a contingency plan.

3. Update on Development of Landfill Gas Term Sheet

Crooks reported that Cal-Am has been in negotiations with Monterey Regional Waste Management District (WMD) on development of a term sheet. A draft term sheet has been submitted to WMD that addressed all their concerns, but there is no agreement as yet. The cost for WMD to construct the infrastructure needed to deliver energy to the desal project is estimated to be in excess of \$1 million.

4. Discussion of Items to be Placed on Future Agendas

~~There was a request that Cal-Am provide to the committee a detailed critical path method for completion of the desalination project.~~

Public Comment: (1) James Cullum, *Executive Director of the Monterey Peninsula Regional Water Authority*, suggested that the Governance Committee in conjunction with the Water Authority should request that Cal-Am provide a detailed critical path method for completion of the desalination project. **(2) George Riley** requested that the committee provide an update on the three desalination project alternatives. He explained that Cal-Am's desalination proposal is behind schedule and the other two alternatives will be entering the EIR process soon. The other two alternatives would be less costly than Cal-Am's proposal, so it would be advantageous to review the project schedules again. **(3) Michael Warburton**, *representing the Public Trust Alliance*, stated that it would be very smart for the Governance Committee to consider preparation of a detailed critical path analysis. ~~**(2) Michael Warburton**, representing the Public Trust Alliance, expressed agreement with the request to develop a comparison of the three desalination project alternatives, and stated that the Governance Committee would be the appropriate entity to conduct the study.~~

Brower stated that the Water Management District's Water Supply Planning committee would consider the request to conduct a comparison of desalination alternatives. MacLean stated that a comparison study should not be conducted by the Governance Committee, but could be considered by the JPA.

Adjournment

The meeting was adjourned at 2:10 pm.

**GOVERNANCE COMMITTEE
FOR THE
MONTEREY PENINSULA WATER SUPPLY PROJECT**

California American Water • Monterey County Board of Supervisors
Monterey Peninsula Regional Water Authority • Monterey Peninsula Water Management District

EXHIBIT 1-B

**DRAFT MINUTES
Regular Meeting
Governance Committee
for the
Monterey Peninsula Water Supply Project
*October 13, 2014***

Call to Order: The meeting was called to order at 1:30 pm in the conference room of the Monterey Peninsula Water Management District offices.

Members Present: Jason Burnett, Chair, representing Monterey Peninsula Regional Water Authority (JPA)
Robert S. Brower, Sr., Vice Chair, representative for Monterey Peninsula Water Management District
David Potter, representing Monterey County Board of Supervisors
Robert MacLean, representative for California American Water

Members Absent: None

Pledge of Allegiance: The assembly recited the Pledge of Allegiance.

Public Comments: Michael Warburton, representing the Public Trust Alliance, made a plea for reasonableness. He stated that an agency might reschedule a public meeting to a holiday when they do not want the public present to comment on an agenda item. This is suspect, especially when the holiday is Columbus Day which is not observed consistently throughout the community.

Action Items

1. Approve Draft Minutes of April 16, May 23, July 10 and August 25, 2014 Governance Committee Meetings

Public Comment: Michael Warburton, representing the Public Trust Alliance, requested that minutes of the May 23, 2014 committee meeting be amended by removing a statement that says that alternatives to the Monterey Peninsula Water Supply Project will be part of the environmental review phase of the project (he later stated the reference was in the April 16, 2014 minutes). Warburton described that statement as a lie and requested that it be removed from the minutes. He reasoned that "everybody knows" that the EIR is shaping up to be inadequate, and it will not address alternatives to the desalination plant. Warburton also noted that in the April 16, 2014 minutes he was cited to have stated that other alternative desalination proposals would be important to consider. He stated that all through this process he has said that alternatives to desalination must be addressed.

On a motion by Brower and second of Potter, the April 16, July 10 and August 25, 2014 committee meeting minutes were approved. The minutes of May 23, 2014 should be amended as necessary following a review of the recording of the meeting. The motion was adopted on a vote of 3 – 0 by Brower, Potter and Burnett.

2. Review Bids Received on California American Water re Request for Proposal for Test Slant Well Construction and Develop Recommendation

Ian Crooks, Engineering Manager for California American Water’s Coastal Division, gave a presentation to the committee.

Public Comment: (1) Michael Warburton, representing the Public Trust Alliance, stated that the Governance committee had not considered that an alternative project should be considered and that test wells may not be necessary. The proposal is for a project that would serve the Monterey Peninsula for 100 years, and the infrastructure is to be constructed in the coastal zone that is vulnerable to sea rise and other intensifying events. Other technologies would leave the infrastructure inland. The legal environment has changed. It is no longer reasonable to think that public water in the Salinas Basin is not available for urban use by Monterey County residents who live on the Peninsula. There are more facts that should be considered by this committee in evaluating the test well bids. **(2) Tom Rowley**, Monterey Peninsula Taxpayers Association, asked when contracts would be assigned for test well construction if the Coastal Commission approves the test well application.

On a motion by Brower and second of Potter, the committee recommended that if California American Water awards bids for development of the test slant wells, it should contract for a total amount of \$6.27 million. The motion was approved on a vote of 3 – 0 by Brower, Potter and Burnett.

\$4.07 million	Slant Well Drilling
0.16 million	Pump and Motor
0.65 million	Casing and Screen
0.72 million	Monitoring Wells
0.67 million	Civil and Electrical Work
<hr/>	
\$6.27 million	Total Bid Construction Costs

3. Receive Report, Discuss and Develop a Recommendation on the Value Engineering Final Report for the California American Water Desalination Facility

Jim Cullum, Executive Director of the Monterey Peninsula Regional Water Authority (MPRWA), reported that the MPRWA recommended that the Governance Committee accept the Value Engineering (VE) review process, submit the final report to California American Water (Cal-Am), and request that they report back to the Governance Committee on VE alternatives. Burnett noted that the MPRWA endorsed the VE process and requested that Cal-Am provide a written explanation to the Governance Committee regarding any VE alternatives recommended by SPI or the VE team for inclusion in the final design that are ultimately rejected. Cullum stated that he would recommend to the Governance Committee that it

request Cal-Am provide an explanation on every VE alternative that will be included in final design.

Public Comment: **Richard Svindland**, Vice President of Engineering for California American Water, expressed support for the VE process. He noted that there are some differences in opinion on appropriate VE design changes. One example is that Cal-Am plans to install an interim storage tank, but SPI recommends deletion of the tank. A final decision must be made and Cal-Am is willing to have open dialogue and discussion on that issue. Svindland noted that the project is at 30% design and will evolve further. **Michael Warburton**, representing the Public Trust Alliance, stated that the entire VE project did not consider the most important VE question: the difference in value between the desalination plant and another technology to get water to the people of the Monterey Peninsula. There should be open discussion of this issue, not just because it is an environmental question for the Monterey Peninsula, but it is a question of technological commitment and what the Monterey Peninsula will be moving forward. It is a mistake for the Governance Committee to say that this is so technical that we will take the technical advice of experts on an artificially narrowed concept of what the project is.

Brower moved that the Governance Committee receive the Value Engineering Final Report, express support for the process California American Water would undertake with Value Management Strategies, Inc. to select the value engineering alternatives for incorporation into the desalination project design. In addition, the committee requested that California American Water provide a written report to the Governance Committee that states which of the 33 alternatives was accepted and rejected, and provides justification for decisions made regarding each of the alternatives. The motion was seconded by Potter and approved on a vote of 3 – 0 by Brower, Potter and Burnett. MacLean expressed agreement with the Governance Committee's recommendation.

Reports to Committee

4. **Progress Report from California American Water on Development of Monterey Peninsula Water Supply Project Desalination Plant**

Ian Crooks reviewed a project schedule that was included in the committee packet. Following is a summary of committee discussion. The staff report for the November 12, 2014 California Coastal Commission (CCC) hearing on installation of test wells at the CEMEX site will be distributed on October 24 or October 31, 2014. The outreach effort to the CCC should be done just prior to commission consideration of the issue, and Cal-Am staff should review the staff report carefully for any subliminal messages that could be fatal flaws. If the Potrero Road site must ultimately be utilized for construction of test wells, the Snowy Plover is not present there, so construction could begin at any time. There would be no delay due to the Snowy Plover nesting season. However, the two-year testing period would be shortened. A decision would need to be made as to how long the testing period would last. If the test wells were constructed at CEMEX, and it is determined that the site is not suitable for slant wells, the Potrero site could be utilized. Do not make the assumption that use of the Potrero site would not cause a delay.

Public Comment: (1) **Tom Rowley**, Monterey Peninsula Taxpayers Association, expressed concern about stranded costs. He stated that if the CCC makes a decision in Cal-Am's favor on December 12, 2014, Cal-Am should not award contracts for test well construction until the deadline for filing lawsuits on the CCC decision has passed. He expressed concerns that if bids were awarded and lawsuits were subsequently filed, the ratepayers would be responsible to pay the stranded costs. He noted that the MPTA is not opposed to the desalination project. (2) **Michael Warburton**, Public Trust Alliance, stated that there is a problem when a schedule is established that institutionalizes a hope and not actual approvals. It cannot be assumed that the California Public Utilities Commission will allow ratepayers to absorb costs that result from ambitious scheduling. The Governance Committee should pay attention to Tom Rowley's concerns and the difficulty of legal folly. This project is a case study in legal folly. Some of the difficulties have not been discussed, and some of them have been noticed. The November 4, 2014 election will be an opportunity for people to make up their minds about who they want to be making the decisions for them. **Rich Svindland** responded that a notice of intent to award is issued, followed by the notice to award, and finally the notice to proceed. Only then can the contractor begin billing. Cal-Am has no intent to issue a notice to proceed until all permits are in place. Between the notice to award and notice to proceed there are some costs that the contractor can bill for, but mobilization costs can only be charged following the notice to proceed.

5. Update on Development of Landfill Gas Term Sheet

Jim Cullum reported that the Monterey Peninsula Waste Management District is moving forward with a request for proposals for renewable power with three to five-year terms. The plan is that the three to five-year time-line allows contracts to end and then Cal-Am can negotiate final arrangements for renewable power for the desalination plant.

Public Comment: **Michael Warburton**, Public Trust Alliance, stated that this is another example of progress by assumption. When the desal plant made sense, the use of landfill waste for energy production seemed like a good idea. The desal plant no longer makes sense. As climate change becomes a larger issue in California, energy from fossil fuels and waste are thought of to replace old demands for energy. They are not considered as new sources for new emerging demands for energy. The desal project will be using power for something that has not required power in the past. It is stupid to arrange contracts not for replacing other uses of power but for keeping it on hold for a possibly new and stupid use of power. This is one more thing that is heaped on a pile of stacked cards supporting this project. Let's actually look for where water is in Monterey County and what is the easiest and cheapest way to get it to the people that need it.

Discussion Items

6. Suggest Items to be Placed on Future Agendas

MacLean stated that no items were eminent for consideration in November 2014.

Potter commented on a discussion that occurred during the Monterey County Board of Supervisors meeting of October 7, 2014 regarding his participation on the Monterey Peninsula Regional Water Authority. Potter stated that he never said that he had no personal interest in participating on the MPRWA, nor did he say that the county would not attend or provide

financial support. He simply asked for information such as: what are the expected future legal expenses; will the MPRWA focus on technical analysis related to water projects or advocacy and testimony at the state or federal level; what is the plan for the future of the agency; and is there duplication between the MPRWA and the Governance Committee. At the Board of Supervisors meeting, Potter asked that the MPRWA report back to the Board of Supervisors on the future of the agency and if it could be right-sized to reduce operating costs.

Burnett stated that the MPRWA will develop a focused budget and a response to the questions raised at the Board of Supervisors meeting, and then schedule a date to make a presentation to the Supervisors.

Public Comment: **Michael Warburton** suggested that the committee schedule a discussion on the notion of changed circumstances. Since the desalination project began, extreme changes have occurred in the legal, physical and public environments. Those changed circumstances should be openly discussed by the Governance Committee and not just assumed by the participants.

Adjournment: The meeting was adjourned at 2:40 pm.

**GOVERNANCE COMMITTEE
FOR THE
MONTEREY PENINSULA WATER SUPPLY PROJECT**

California American Water • Monterey County Board of Supervisors
Monterey Peninsula Regional Water Authority • Monterey Peninsula Water Management District

EXHIBIT 1-C

**DRAFT MINUTES
Regular Meeting
Governance Committee
for the
Monterey Peninsula Water Supply Project
*June 19, 2013***

Call to Order: The meeting was called to order at 10:05 am in the conference room of the Monterey Peninsula Water Management District offices.

Members Present: Jeanne Byrne, representing Monterey Peninsula Water Management District (alternate to Robert S. Brower, Sr.)
Jason Burnett, Chair, representing Monterey Peninsula Regional Water Authority (JPA)
David Potter, representing Monterey County Board of Supervisors
Rich Svindland, representing California American Water (Cal Am) (alternate to Robert MacLean)

Members Absent: Robert MacLean, representing California American Water
Robert S. Brower, Sr., Vice Chair, representing Monterey Peninsula Water Management District

Pledge of Allegiance: The assembly recited the Pledge of Allegiance.

Public Comments: **(1) Burnett** read a comment from Libby Downey that was submitted by email on June 3, 2013 stating that an experienced design/build from out of town would be preferable to a local inexperienced firm. **(2) Tom Rowley**, representing the Monterey Peninsula Taxpayers Association, stated emphatically that the Association never supported the Water Management District's Ordinance No. 152 that established the Water Supply Charge.

Agenda Items

The Chair received public comment on each agenda item.

1. Adopt Minutes of May 17 and May 28 , 2013 Committee Meetings

On a motion by Byrne and second of Potter, the minutes were approved on a vote of 3 – 0 by Byrne, Potter and Burnett.

2. Update from California American Water on Procurement of Desalination Project Design/Build Firm

Svindland stated that on June 18, 2013, a request for proposals was distributed to five firms. The responses should be available by September 17, 2013. Svindland also reviewed Cal-Am's response to the Governance Committee's seven recommendations on the request for proposals dated May 28, 2013 and responded to questions from the committee. Svindland agreed to submit a written response to the seven recommendations, with an emphasis on item 7 (see **Attachment 1**). He also noted that 57 comments were received from SPI, and Cal-Am agreed with 46 of them. An example of a comment that Cal-Am disagrees with relates to pretreatment. Cal-Am will develop some costs for pretreatment and then decide if it will be needed, until then it remains in the RFP. The next step is for Cal-Am to conduct one-on-one meetings with the technical and legal design build teams to determine if they have issues to be addressed. If a majority of the teams express concern about a component of the RFP, Cal-Am could consider modifications. Svindland stated that Cal-Am has not yet made a decision as to the date for issuing a notice to proceed. They would prefer to complete the EIR before the notice to proceed, but believe it may not differ much from the previous EIR. Cal-Am must also consider when the test well data will be available.

Public Comment: **(a) Nelson Vega** noted that funding the project through use of state revolving funds will establish a requirement to pay the prevailing wage, which could increase labor costs by 20 to 25 percent. He asked if an analysis has been developed to determine if the reduction in cost to the ratepayer by receipt of state revolving funds offsets the cost to pay prevailing wages. He also stated that the desalination project is sized to produce 9.6 million gallons of water per day. He asked if the groundwater replenishment project were to be constructed, would it be possible to decommission a portion of the desalination plant? Then in the future, when additional water is needed, could the desalination plant be expanded? And if so, what would be the cost to decommission a portion of the plant and to then expand it again. *Chair Burnett responded that the topic would be covered under agenda item 3.* **(b) Tom Rowley**, Monterey Peninsula Taxpayers Association, stated that the increase in cost for pretreatment will be so significant that a decision on that issue should be made at the beginning of the process. *Svindland responded that the project will be designed to be scaleable.*

3. Review Outcome of June 12, 2013 Public Utilities Commission Workshop on Groundwater Replenishment and Provide Direction

Burnett stated that at the Governance Committee's request, the California Public Utilities Commission (CPUC) conducted a workshop to consider criteria for making a decision on the appropriate size for the desalination project: either 6.4 MGD with groundwater replenishment or a 9.6 mgd without groundwater replenishment. The CPUC has expressed concern that issuance of a Tier 2 Advice Letter regarding the Governance Committee's recommendation is insufficient, and that if that path is followed, the criteria for sizing the project must be objective and easily checked off a list as complete before issuance of the Certificate of Public Convenience (CPCN). Burnett referenced a list of criteria that was reviewed at the June 12, 2013 meeting of the Monterey Peninsula Regional Water Authority, and was also distributed at the June 13, 2013 Governance Committee meeting. The Tier 2 Advice Letter has a 30 day processing period that is part of the project timeline. However, it could be appealed, which

would signal preparation of a Tier 3 Advice letter, a much longer process that would delay the GWR project and also the associated desalination project. If a Tier 1 filing can be accomplished by including a list of purely objective criteria that can be checked off as complete, that Tier 1 letter cannot be appealed. A decision must be made as to what is appropriate – filing a Tier 1 or Tier 2 letter. Burnett suggested that the parties are looking at which of the criteria could be resolved before the record closes on the CPCN, such as monetization of externalities, debt equivalency and water purchase agreement.

Public Comment: (a) **Nelson Vega** asked for clarification of his understanding that the concern is that if a party appeals the Tier 2 filing, a Tier 3 filing would be required which would delay approval of the GWR project. However the goal is to receive approval of the GWR project before the record closes on issuance of the CPCN on the desalination project. He stated that if Cal-Am had to build the 9.6 mgd plant, another entity would not be prevented from constructing the GWR project later when approvals are obtained. *Burnett responded that if some issues could be resolved prior to issuance of the CPCN, the Tier 1, 2 or 3 process could be avoided.* (b) **Tom Rowley**, Monterey Peninsula Taxpayers Association, expressed a concern about the threat of water rationing due to the potential for delays in desalination project approval. He said that the costs and impacts of delays are a concern to ratepayers and taxpayers.

4. Discussion of Items to be Placed on Future Agendas

Add a discussion of the merits and cost of video recording the Governance Committee meetings.

Adjournment

The meeting was adjourned at 11:05 am.



Attachment 1 to 6/19/13 Governance Committee Minutes

**CALIFORNIA
AMERICAN WATER**

MONTEREY PENINSULA WATER SUPPLY PROJECT GOVERNANCE COMMITTEE

TO: Jason Burnett, Chair, MPWSP Governance Committee
FROM: Richard Svindland, VP – Engineering, California American Water
DATE: June 28, 2013
**RE: Response to Recommendations from Monterey Peninsula Water Supply
Project Governance Committee – Draft Desalination Infrastructure
Request for Proposals and Draft Design-Build Contract**

As discussed at the June 19, 2013 Monterey Peninsula Water Supply Project Governance Committee (“Governance Committee”) meeting, this memorandum will confirm the decisions made by California American Water with respect to the six recommendations included in the Governance Committee’s May 28, 2013 correspondence. As explained in detail below, California American Water followed all six of the Governance Committee’s recommendations by revising language in the Request for Proposals (“RFP”) and draft design-build contract (“DB contract”) and by carefully considering revising terms in the DB contract related to the schedule for acceptance.

Background

On May 20, 2013, California American Water submitted to you Notification #2 pursuant to, and in compliance with, Section V.B. of the Agreement to Form the Monterey Peninsula Water Supply Project Governance Committee (the “Agreement”), dated March 8, 2013, entered into by and among the Monterey Peninsula Regional Water Authority (“MPRWA”), the Monterey Peninsula Water Management District (“MPWMD”), the County of Monterey (“County”), and California-American Water Company (“Cal-Am”). Capitalized terms used but not defined herein shall have the meaning set forth in the Agreement.

As described in Notification #2, pursuant to Section V.D., Category B.1., of the Agreement, the Governance Committee may recommend qualifications and selection criteria to be included in the RFP relating to the procurement of a Contract. Additionally, pursuant to Section V.D., Category C.2., of the Agreement, prior to Cal-Am’s commencement of negotiations with a selected contractor relating to a Contract, the

Governance Committee may review and issue recommendations concerning contract terms relating to such Contract. Section V.A of the Agreement provides: (1) if Cal-Am chooses not to follow a recommendation of the Governance Committee under Category B, Cal-Am must provide a written explanation of its reasons for the decision; and (2) if Cal-Am chooses not to follow a recommendation under Category C, Cal-Am need not issue a written explanation for its decision.

Responses to Recommendations

The Governance Committee's recommendations and Cal-Am's corresponding responses are set forth in detail below. In summary, Cal-Am followed all of the Governance Committee's recommendations. With respect to Governance Committee Recommendation 7, Cal-Am carefully considered, but did not incorporate, revisions to the terms of the DB contract relating to the schedule for acceptance.

Governance Committee Recommendation 1:

The request for proposals (RFP) continue to require detailed bids for the base-case design in order to facilitate the comparison of bids but should do more to encourage creativity in development of alternative designs that may save money and/or increase value. Alternative designs should require same level of detail as the base-case design and meet or exceed same performance standards.

Cal-Am Response:

This recommendation was followed. RFP Section 2.9.1 was revised, Section 4.4.3.M was added, and Proposal Form 13D was revised, to include the following language:

Revised Section 2.9.1: Proposers are encouraged to submit voluntary alternative proposals for each element of the Project that reduce life cycle cost or improve operations which deviate from the Design and Construction Requirements set forth in Appendix 2 of the draft DB Agreement ("Voluntary Alternative Proposals"). Each such Voluntary Alternative Proposal shall include detail sufficient for CAW to evaluate each element of the Voluntary Alternative Proposals individually including price impact and anticipated effect on operation and maintenance costs, comparison of its advantages and disadvantages to the Base Project, and contact information to allow CAW to perform diligence where such alternative has been implemented.

New Section 4.4.3.M: Proposers are encouraged to provide Voluntary Alternative Proposals that reduce life cycle cost or improve operation which deviate from the Design and Construction Requirements set forth in Appendix 2 of the draft DB Agreement. Proposers shall identify whether the Voluntary Alternative Proposal is for a Project with Rated Capacity of 9.6 mgd, 6.4 mgd, or both. Voluntary Alternative Proposals shall be numbered to correspond with the pricing information provided on Proposal Form 13D and shall clearly indicate how all provided documents correspond to the pricing information provided on Proposal Form 13D. Proposers shall include any changes to the

Preliminary Project Schedule, Scheduled Construction Date, and Scheduled Acceptance Date identified on Proposal Form 12, if any, and any changes to the plan for performance of the Design-Build Work identified in subsection I above, if any, for any Voluntary Alternative Proposals.

These Voluntary Alternative Proposals are to be independent of one another. For each Voluntary Alternative Proposal, the Proposer must provide similar comprehensive detailed information to that which is required for the Base Proposal so that the Voluntary Alternative Proposal can be effectively evaluated and compared against the Base Proposals and other Voluntary Alternative Proposals received. All Voluntary Alternative Proposals must meet the Acceptance Standards and Requirements set forth in Appendix 7 of the DB Agreement. Voluntary Alternative Proposals that consist of only general concepts or marketing materials will not be considered. CAW may elect to choose any or all such Voluntary Alternative Proposals at its sole discretion.

Revised Proposal Form 13D: see attached.

Governance Committee Recommendation 2:

The RFP should state that all workers will be paid, at least, the prevailing wage.

Cal-Am Response:

This recommendation was followed. Section 2.13 of the RFP and Section 3.11(E) of the DB contract were revised to include the following language:

Revised Section 2.13: CAW has the responsibility for financing the Project. CAW anticipates that a portion of the funding will come from the State's revolving loan program. Prevailing wages must be paid on projects receiving such funding. Proposers, therefore, will be required to pay prevailing wages.

Revised Section 3.11(E): The Design-Builder shall pay prevailing wage rates. The general prevailing wage rates for the Design-Build Work are available on the California Department of Industrial Relations' website at <http://www.dir.ca.gov>, copies of which are on file at the offices of Owner and are available to the Design-Builder or any interested party upon request. Pursuant to Public Resources Code section 75075 and Labor Code section 1771.5(b), the Design-Build Work is subject to a statutory requirement to adopt and enforce a labor compliance program for the monitoring and enforcement of prevailing wage requirements. The Design-Builder shall, at no additional cost to Owner, comply with labor compliance program requirements. The Design-Builder is responsible for all failures by Subcontractors to comply with labor compliance program requirements. Pursuant to section 1773 of the California Labor Code, the general prevailing wage rates in the county in which the Design-Build Work is to be done have been determined by the Director of the California Department of Industrial Relations.

Governance Committee Recommendation 3:

The Governance Committee supports inclusion of a goal for local hiring. California American Water (Cal-Am) shall review the County of Monterey ordinance that specifies local hires and consider inclusion of that or similar language in the RFP. The bidder's local utilization plan should be a factor in the 40% technical evaluation criteria.

Cal-Am Response:

This recommendation was followed. Section 2.12 of the RFP and Section 11.12(E) of the DB contract were revised to include the following language:

Revised Section 2.12: Proposers must prepare and submit a local resources utilization and reporting plan ("Local Resources Utilization Plan") as part of its response to this RFP. The Local Resources Utilization Plan is a written commitment to contract with local contractors, subcontractors, sub-consultants, vendors, suppliers, and labor forces. The DB Entity will be required to make a good faith effort to employ qualified individuals who are, and have been for at least one year out of the three years prior to the opening of Proposals, residents of Monterey County, San Benito County, or Santa Cruz County in sufficient numbers so that no less than fifty percent (50%) of the DB Entity's total construction work force, including any Subcontractor work force (with exception of specialty subcontractor items), measured in labor work hours, is comprised of residents of such counties.

Revised Section 11.12(E): The Owner acknowledges the benefit that the local community receives through utilization of local contractors, laborers, and suppliers. The Design-Builder has submitted a local resources utilization plan which is included in Appendix 17 (Local Resources Utilization Plan). The Design-Builder will make a good faith effort to employ qualified individuals who are, and have been for at least one year out of the three years prior to the opening of Proposals, residents of Monterey County, San Benito County, or Santa Cruz County in sufficient numbers so that no less than _____ percent [Note: percent to be proposed by Design-Builder and shall not be less than 50%] of the Design-Builder's total construction work force, including any Subcontractor work force (with exception of specialty subcontractor items), measured in labor work hours, is comprised of residents of such counties. The Design-Builder must monitor and report the continued implementation of the local resources utilization plan throughout the performance of this Design-Build Agreement.

Governance Committee Recommendation 4:

Establish a 30-year net present value cost comparison, instead of (or in addition to) a 20-year term.

Cal-Am Response:

This recommendation was followed. Section 5.2.6 of the RFP was revised to include the following language:

The net present value (“NPV”) life-cycle costs of the Proposals shall be calculated over an assumed 20-year operation period, as well as an assumed 30-year operation period, primarily based upon the following factors: . . .

Governance Committee Recommendation 5:

Bidders should be advised that the rate of corrosion is high in the local coastal marine environment. Good quality materials are required so that Cal-Am and the rate payers will not be responsible to pay for replacement of components that have developed rust after a short period of time.

Cal-Am Response:

This recommendation was followed. Section 5.2.3 of the RFP was revised and Sections 2(K) and 2(L) were added to Appendix 2 of the DB contract to include the following language:

Revised Section 5.2.3: CAW shall conduct an assessment of the technical viability factors such as, but not limited to: . . .

Quality of equipment and materials, including consideration of the corrosive local coastal marine atmosphere.

New Section 2(K): The coastal marine environment is corrosive to many metals, and the Design-Builder is to carefully select materials of construction to provide long service life and aesthetic appearance.

New Section 2(L): Saline water can be highly corrosive to metals. All metallic components in contact with saline water are to be selected with materials of construction that are compatible with seawater. Pitting is a particular problem with chlorides and stainless steels. Design-Builder is to identify a minimum Pitting Resistance Equivalency Number (“PREN”) for metals in contact with saline water.

Governance Committee Recommendation 6:

The Governance Committee agrees with the approach to apply penalties for late delivery, but understands and agrees with the approach to not provide for a bonus for early project completion.

Cal-Am Response:

No decision by Cal-Am was necessary.

Governance Committee Recommendation 7:

The Governance Committee understands that Cal-Am is proposing to ask for an estimated schedule for both permitting and construction and that the date for completion (and associated penalties for late delivery) would be set relative to the signing of the Design-Build contract. The Governance Committee requests that Cal-Am consider ways to bifurcate the permit schedule from the construction schedule, recognizing certain parts of the permitting process will be outside the control of the Design-Build firm/team.

Cal-Am Response:

This recommendation was followed. CAW carefully considered and discussed at length separating the permitting and construction schedules. The final decision was to keep the schedule as-is. The DB contract already provides a mechanism for schedule relief if permitting delays occur that are outside the control of the design-build entity (“DBE”). Further, bifurcation would be less beneficial to the DBE in that failure to meet the permit schedule could result in DBE liability for liquidated damages even if the DBE ultimately meets the scheduled acceptance date.

Cal-Am thanks the other members of the Governance Committee for their valuable input into this procurement process.

Attachment

PROPOSAL FORM 13D

VOLUNTARY ALTERNATIVE PROPOSALS

Proposers are encouraged to provide Voluntary Alternative Proposals. Pricing must be included for each Voluntary Alternative Proposal using this format. Identify whether the alternative is for a Rated Capacity of 9.6 mgd or 6.4 mgd. Voluntary Alternative Proposals shall be numbered so that the pricing information submitted on this Proposal Form corresponds with the technical information provided in Section 3.0(M) of the Technical Proposal.

A. Voluntary Alternative Proposal # __

B. Deduct to the Fixed Design-Build Price:

\$ _____

C. Expected Operating Cost Savings

(Identify savings by year, for 30 years, assuming no inflation)

For each Voluntary Alternative Proposal, the Proposer must provide in Section 3.0(L) similar comprehensive detailed information to that which is required for the Base Proposal so that the Voluntary Alternative Proposal can be effectively evaluated and compared against the Base Proposals and other Voluntary Alternative Proposals received. All Voluntary Alternative Proposals must meet the Acceptance Standards and Requirements set forth in Appendix 7 of the DB Agreement. Voluntary Alternative Proposals that consist of only general concepts or marketing materials will not be considered.

Proposers shall provide additional Voluntary Alternative Proposals using the format as shown above.

Monterey Peninsula Water Supply Project Governance Committee

Meeting Date: March 25, 2015

Agenda Item: 2. Adopt Meeting Schedule for 2015

Summary: Shown below is the proposed meeting schedule for 2015. Unless otherwise noted, all committee members have confirmed their attendance on the dates listed.

Action: Review and approve the meeting schedule.

2015 Proposed Meeting Schedule

Monday	April 27	2:00 pm	
Wednesday	May 20	2:00 pm	Jason Burnett cannot attend
Wednesday	June 17	2:00 pm	
Monday	July 27	2:00 pm	
Monday	August 24	2:00 pm	
Wednesday	September 16	2:00 pm	
Wednesday	October 21	2:00 pm	
Wednesday	November 18	2:00 pm	
Wednesday	December 16	2:00 pm	

Monterey Peninsula Water Supply Project Governance Committee

Meeting Date: March 25, 2015

Agenda Item: 3. **Receive Update from California-American Water on Slant Test Well Construction and Operation Including a Review of Criteria and Timeline for Determining Feasibility of Subsurface Intake Based on Test Well Results – Provide Direction to California-American Water on Subsurface Intake**

Summary: In preparation for the discussion, refer to **Exhibit 3-A**, a timeline titled the Draft MPWSP Pipeline Contracting Process that was submitted by California-American Water.

Action: The committee will receive an update from California-American Water staff and then provide direction on issues related to subsurface intake.

EXHIBIT 3-A

Draft - MPWSP Pipeline Contracting Process

	Pipeline Contract Process	GC Activity	GC Agenda Item	GC Meeting Dates
March	Prepare RFQ & RFP Package			
April		Submit Package to GC		
	DRAFT EIR RELEASE		Approve Package for Release & recommend preparing VE RFQ/RFP	April 27, 2015
	Release Docs to contractors			
May	Pre Bid Meetings Site Visits & Q&A's		Approve VE RFQ/RFP docs & recommended consultants	May 20, 2015
		Release VE RFQ/RFP's		
June			Discuss Pipeline & VE status	June 17, 2015
	RFQ/RFP Due			
		VE RFP Due		
July	Evaluate RFP's	Evaluate VE RFQ/RFP's		
		Submit Pipeline & VE Recommendations	Approve Pipeline & VE contractor	July 27, 2015
	NOI to Contractor			
August	VE Session & Evaluation			
		Submit VE Ideas		
	Contractor Prepare & Submit Formal VE Cost Changes		Discuss VE Ideas	August 24, 2015
September		Submit Final VE Recommendations	Approve VE REcommendations	September 16, 2015
	Prepare Final Contract w/ VE Changes			
October		Submit Final Contractor Bid w/ VE Recommendations	Approve Final Pipeline Contract Award	October 21, 2015
	FINAL EIR RELEASE			
	Issue Notice of Award			
November				November 18, 2015
December				December 16, 2015