EXHIBIT 2-B

MONTEREY PENINSULA
WATER MANAGEMENT DISTRICT

5 HARRIS COURT, BLDG. G
POST OFFICE BOX 85
MONTEREY, CA 93942-0085 • (831) 658-5600
FAX (831) 644-9560 • http://www.mpwmd.dst.ca.us

July 8, 2004

Michael Waxer
Carmel Development Company
P.O. Box 450
Carmel, CA 93921

Subject: **Monterra Ranch Mutual Water Company (MRMWC) Annual Water Monitoring Program Report for Water Year 2003**

Dear Michael:

As you know, the MRMWC *Annual Water Monitoring Program Report* for Water Year (WY) 2003 was received and discussed by the Monterey Peninsula Water Management District (District) Board of Directors at their meeting on June 21, 2004. In addition to the report dated December 22, 2003, the Board was provided the District comment letter dated April 8, 2004, as well as your response letter and accompanying report errata sheets (letter dated May 14, 2004 from Questa Engineering Corporation [Questa]). At the meeting, the Board directed staff to request additional information regarding specific items in the report. Accordingly, based on comments received from Directors and additional review by District staff, we are providing the following listed items requesting additional clarification on specific issues. The comments below focus primarily on representation of data that are readily available in the WY 2003 report in a format that is simple and easy to follow.

1. **Breakdown of Monthly Well Production**. Some confusion was expressed regarding interpretation of the monthly well production data presented in Table R-1 of the Questa May 14, 2004 letter. This confusion centered on representation of these data in units of equivalent *gallons per day* (gpd) of well production. We recognize the purpose for showing production in equivalent gpd units is for comparison with the well production capacity data, which were originally developed and reported in gpd units. However, as a means to make the production data easier to visualize and interpret, we have prepared a graphical plot (**Enclosure 1**) showing the breakdown of monthly production in terms of potable and sub-potable uses. This plot uses the data from Table R-2 of the Questa May 14, 2004 letter, which includes essentially the same monthly production data as Table R-1, except represented in units of total acre-feet per month. As shown on the plot, the sub-potable uses are broken down into two categories: (a) "Sub-Potable (Well M1)", and (b) "Other Sub-Potable". Note that we changed the label title for "Other Sub-Potable" from its title of "Non-metered Sub-Potable" in Table R-2 to avoid the potential misinterpretation that some production from the wells is not metered. It is our understanding that Well M1 is dedicated to construction watering and roadside irrigation use. "Other Sub-Potable" is therefore the remainder when "Potable"

and "Sub-Potable (Well M1)" are subtracted from production. Accordingly, this means that the "Other Sub-Potable" values would also include any losses that might be occurring in that part of the distribution system. As discussed on page 12 of the WY 2003 report and in response to Comment 13 in the Questa May 14, 2004 letter, it is our understanding that the "Other Sub-Potable" use category should become smaller in the future as the reporting of additional uses such as golf course irrigation becomes available, due to recent flow meter installations. We recommend that a plot similar to **Enclosure 1** be included in future annual reports as a means to more easily assimilate the monthly use data. Please comment.

2. Summary of Annual Well Production, Reverse Osmosis (RO) Plant Production and Sub-Potable Use. Similar to the comment above, the plot shown as **Enclosure 2** was prepared to show pertinent annual production and use data in a format that enables easier visualization of trends over time. The "Total Well Production" and "RO Plant Production" values are from Table 1 of the WY 2003 report. The "Sub-Potable Use" values are the remainder when "RO Plant Production" is subtracted from "Total Well Production", and accordingly would include any losses that might be occurring in the sub-potable part of the distribution system. This plot allows, at a glance, how changes have occurred in water that is produced and used within the MRMWC system over time. We recommend that a plot similar to **Enclosure 2** be included in future annual reports as a means to more easily assimilate the annual production and use data. Please comment.

3. Summary of Annual Residential Water Use. The plot shown as **Enclosure 3** was prepared to summarize annual water use for the two existing residential unit types (i.e., Inclusionary and Market-Rate Homes). The data used to compile this plot is from Table 1 of the WY 2003 report. This plot facilitates assessment of changes in annual water use rates over time. We recommend that a plot similar to **Enclosure 3** be included in future annual reports as a means to more easily assimilate the annual water use data. Please comment.

4. Summary of Buildout Status. To facilitate understanding of the current status of buildout of residential units within the MRMWC, we have prepared the plot shown as **Enclosure 4**. This plot shows the percentage of buildout for the three residential connection types (i.e., Inclusionary, Market-Rate and Ranch Lots), based on the data in Table 12 of the WY 2003 report. Note the term "Market-Rate" is used here in place of "Single-Family Units" in Table 12, to be consistent with the text (page 16) and other tables (Tables 1, 8 and 13) in the WY 2003 report. We recommend that a plot similar to **Enclosure 4** be included in future annual reports as a means to more easily assimilate the current status of residential buildout data. Please comment.

5. Well Production Capacity. District staff acknowledges your commitment to provide results from pumping tests of individual wells as new pumping test data are developed and become available (as described on page 4 of the May 14, 2004 Questa letter). However, we continue to assert that the intent of Condition 15 of the MRMWC WDS permit is to provide an *annual* updated determination of system production capacity. As stated on page 2 of the District's April 8, 2004 letter, this does not mean that formal pumping tests need to be performed annually for each well in the system. Rather, there are several options for providing updated capacity that are acceptable,

without performance of annual pumping tests. The current pumping capacities as determined for wells in the California American Water system are provided in **Enclosure 5** as an acceptable example. These capacities are based on recording actual operating rates during peak production periods. We strongly encourage and welcome a technical discussion on this issue prior to submittal of the WY 2004 annual report. Please inform us of your intention to meet and discuss this matter as part of your response to this letter.

6. Table 2 Revisions. Upon further review of the WY 2003 report and subsequently submitted materials, the revisions to Table 2, *Rainfall Data and Estimated Recharge by Reporting/Water Year*, are confusing and should be clarified. Based on the response provided in the May 14, 2004 Questa letter, it is our understanding that all of the data presented in the table, i.e., rainfall, actual ET, runoff and recharge, should be grouped by Water Year. In this context, the title for the first column should read "Water Year" and the first cell below should read "1997 (Oct. 1996 – Sept. 1997)". The next cell below should read "1998 (Oct. 1997 – Sept.1998)" and continue to the last cell that should read "2003 (Oct. 2002 – Sept. 2003)". Further, the data in the cells should be checked to confirm that the total of the monthly values for each water year, i.e., October 1 through September 30, match the totals shown in the table or, if computed as a function of rainfall, are computed based on the correct monthly values for each water year. Lastly, the average values shown at the bottom of the columns should also be checked for accuracy. For example, the average shown for rainfall is 18.83 inches, but the true average for the values listed is 19.14 inches. Please comment.

7. Miscellaneous Discrepancies. Upon further review of the WY 2003 report and subsequently submitted materials, we are bringing several noted minor data discrepancies to your attention to facilitate accurate data preparation for future annual reports. These are listed below.

(a) In Table 1, the WY 2003 delivery/connection rate for "Residential – market-rate homes" is shown as 0.83 acre-feet per year (afy)/connection, whereas it is shown as 0.77 afy/connection in Tables 8 and 13.
(b) In Table 1, the RY 2000 delivery/connection rate for "Irrigation" is shown as 0.05 afy/connection, whereas it is shown as 0.08 afy/connection in Table 10.
(c) In Table 1, the WY 2003 delivery/connection rate for "Construction - temporary" is shown as 0.20 afy/connection, whereas it is shown as 0.18 afy/connection in Table 11.
(d) In Table 1, the WY 2003 delivery/connection rate for "Golf course clubhouse" is shown as 4.12 afy/connection, whereas it is shown as 3.95 afy/connection in Table 7.
(e) In Table 1, the WY 2003 "Total metered consumption" is shown as 34.01 af, whereas the WY 2003 "Potable Water Use" is shown as 33.36 af in Table R-2 of the May 14, 2004 Questa letter. In theory, these two values should be the same.
(f) On page 10, the water level *maximum* should be **128.09 feet above mean sea level (April 1996)**, based on the data shown in Table A-1.

At the June 21, 2004 Board meeting, review of the WY 2003 annual report was deferred and subsequently scheduled to be reviewed again at the August 16, 2004 Board meeting. Accordingly,

we request that your response be provided by **Monday, August 2, 2004.** Should you have any questions, please contact Joe Oliver (technical contact) at 658-5640. Thank you for your prompt attention to this matter.

Sincerely,

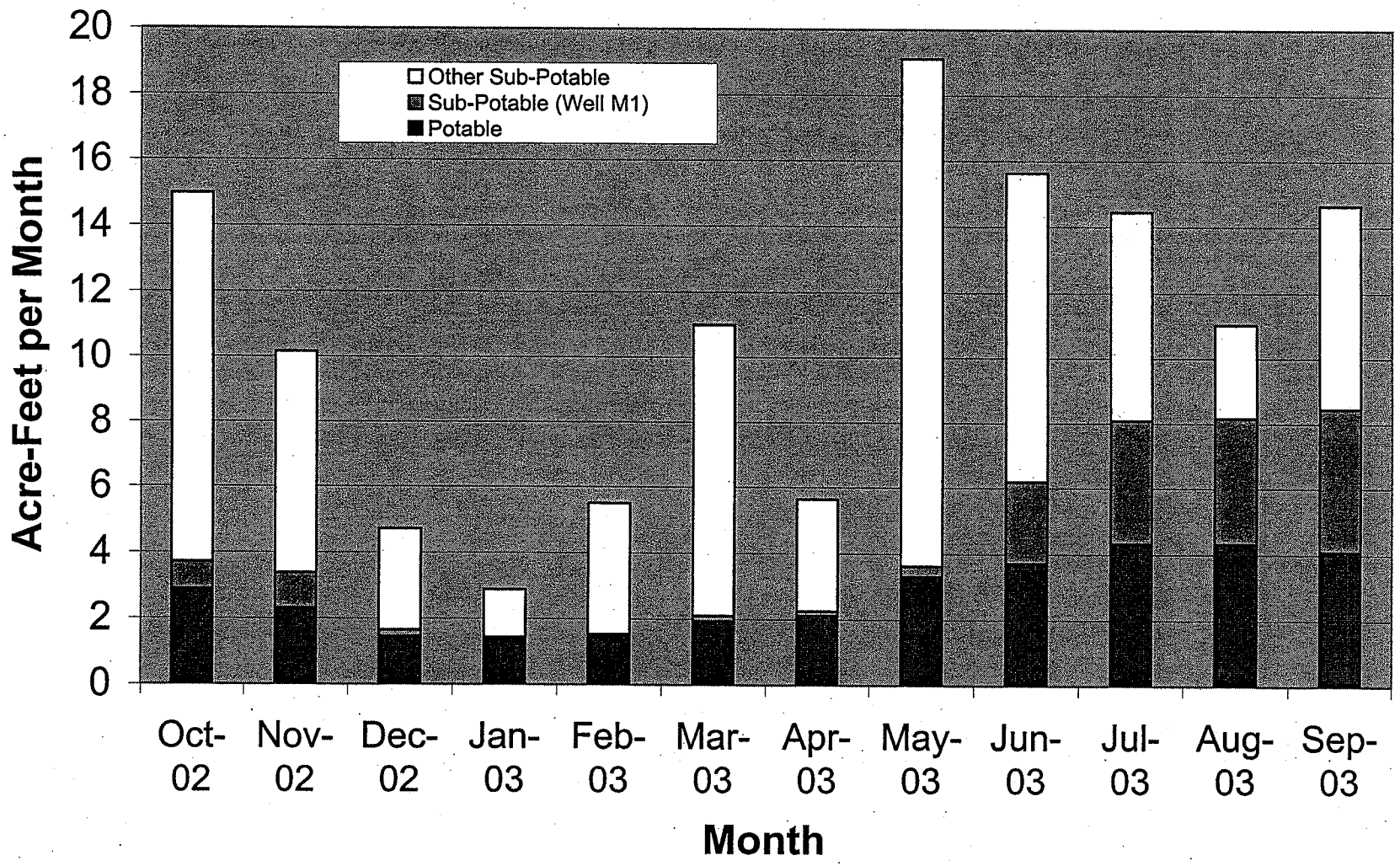
Rick Dickhaut
Acting General Manager

cc: Joe Oliver, Andy Bell, Darby Fuerst, MPWMD
David Laredo, District Counsel

U:\Joe\wp\mont\2004\annrpt03suppl_8jul04.doc

Monterra Ranch Mutual Water Company

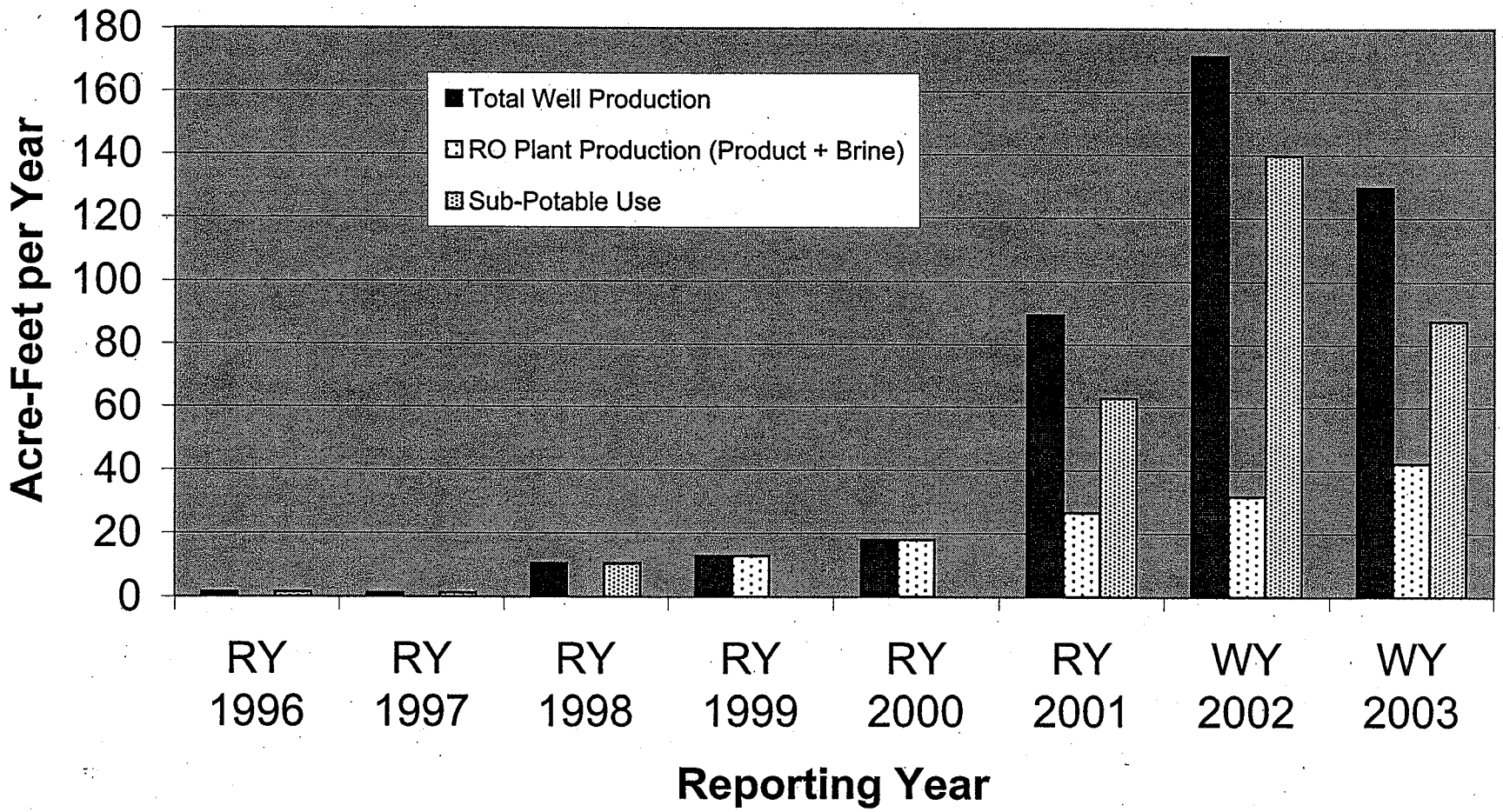
Water Year 2003 Potable and Sub-Potable Uses



ENCLOSURE 1

u:\joe\xcel\wds\2004\monterra2003sum.xls

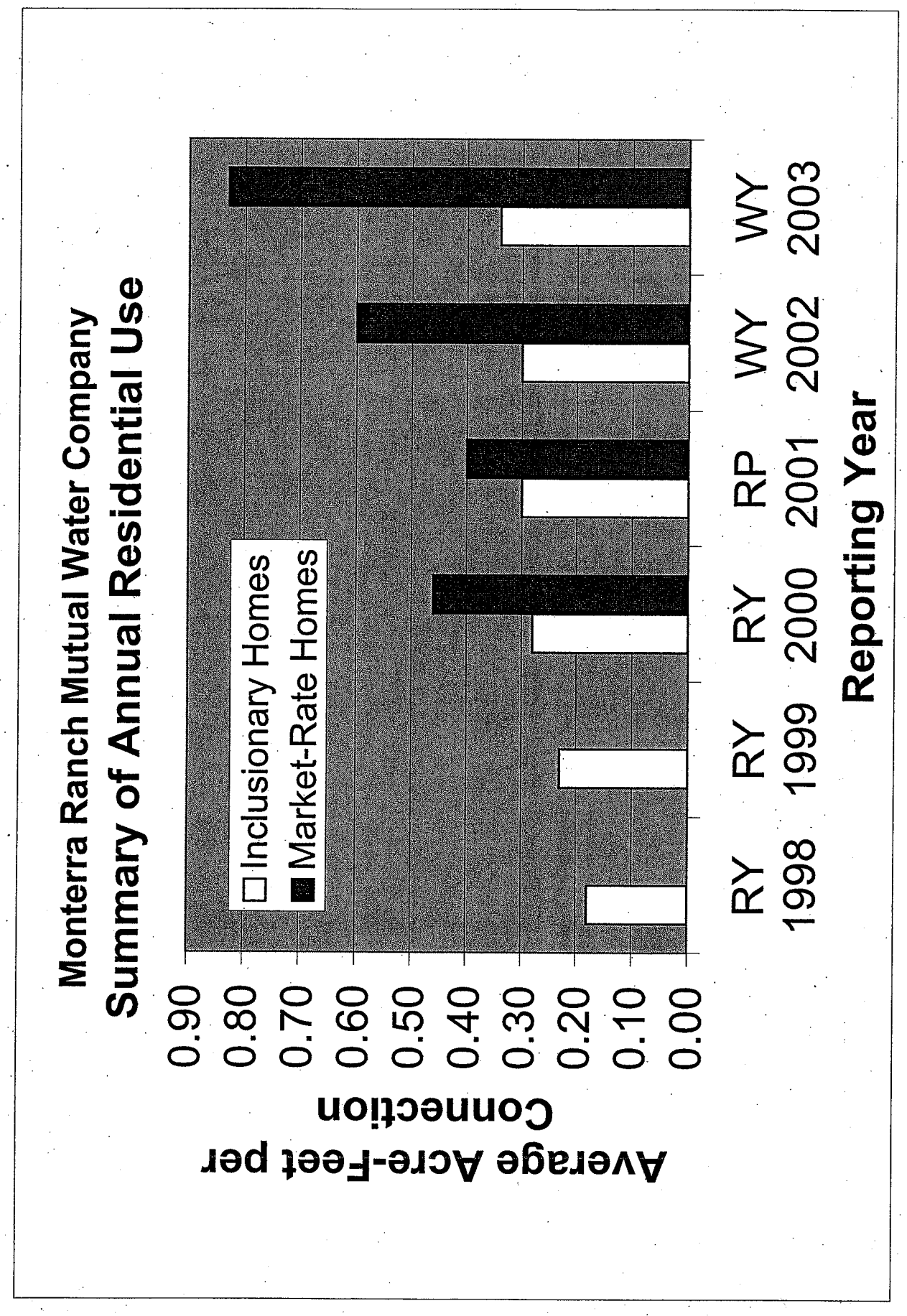
Monterra Ranch Mutual Water Company
Summary of Annual Well Production, RO Plant Production and Sub-Potable Use



ENCLOSURE 2

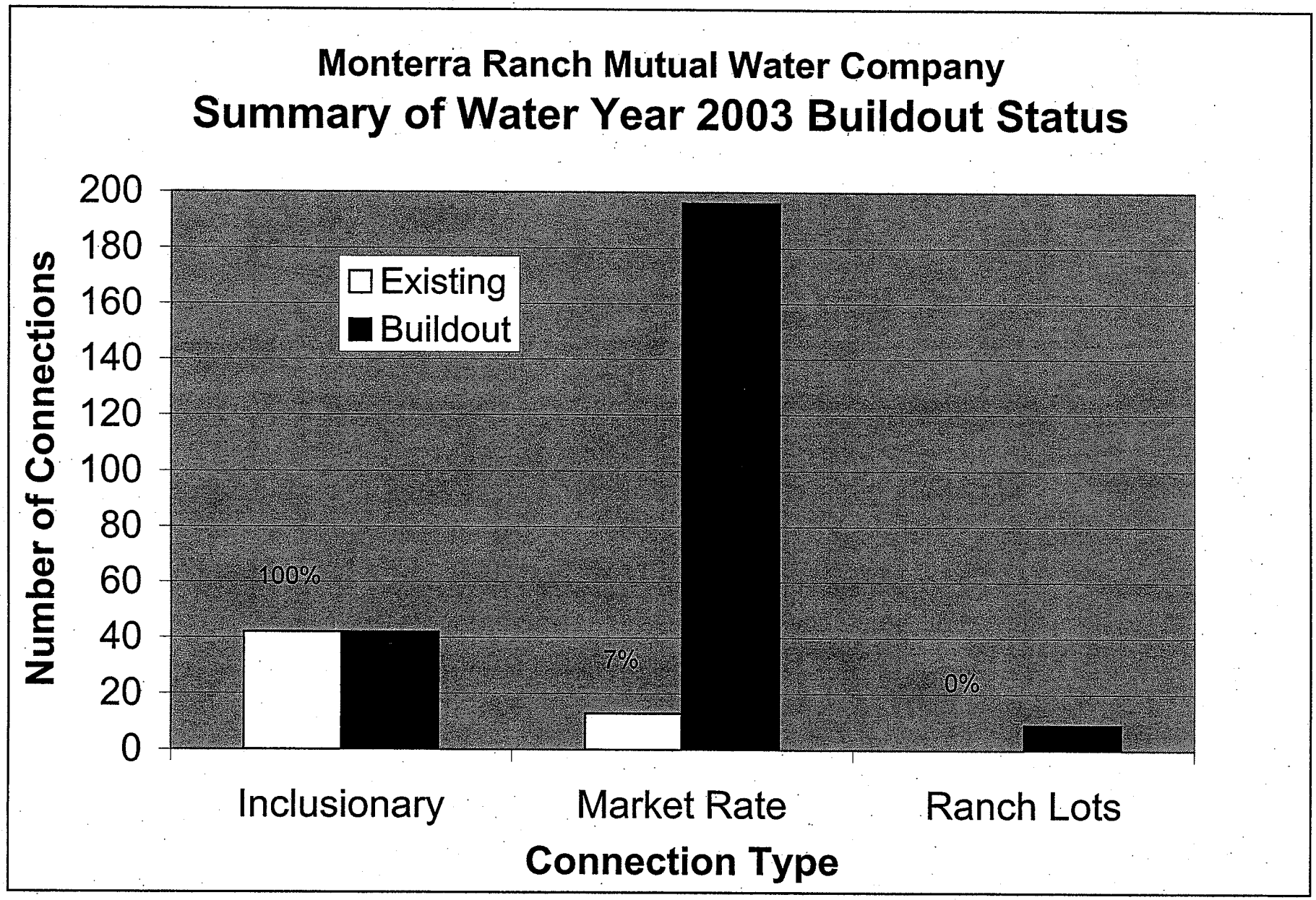
u:\joe\xcel\wds\2004\monterasumallyears.xls

ENCLOSURE 3



Monterey Peninsula Water Management District

u:\joe\xcel\wds\2004\monterrahomessumallyears.xls



ENCLOSURE 4

u:\joe\xcel\wds\2004\monterra2003buildoutstatus.xls

ENCLOSURE 5

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

CALIFORNIA-AMERICAN WATER COMPANY
PRODUCTION WELLS AND PUMPING CAPACITIES
AUGUST 2003

CARMEL VALLEY ALLUVIAL AQUIFER SOURCE/WELL	GPM	CFS	AFD
Subunit 1			
Russell #2	280	0.62	1.24
Russell #4	138	0.31	0.61
Subtotal	418	0.93	1.85
Subunit 2			
Robles #3	463	1.03	2.05
Panetta #1	269	0.60	1.19
Panetta #2	300	0.67	1.33
Garzas #3	268	0.60	1.18
Garzas #4	219	0.49	0.97
Los Laureles #6	454	1.01	2.01
Los Laureles #5	252	0.56	1.11
Subtotal	2,225	4.96	9.83
Subunit 3			
Scarlett #8	1,343	2.99	5.93
Berwick #8	653	1.45	2.89
Begonia #2	1,634	3.64	7.22
Manor #2	269	0.60	1.19
Schulte	1,405	3.13	6.21
Pearce	2,168	4.83	9.58
Cypress	1,361	3.03	6.01
Subtotal	8,833	19.68	39.03
Subunit 4			
Canada	2,400	5.35	10.60
Subtotal	2,400	5.35	10.60
Carmel Valley Total	13,876	30.92	61.31

SEASIDE GROUNDWATER BASIN SOURCE/WELL	GPM	CFS	AFD
Northern Coastal Subarea			
Darwin	91	0.20	0.40
Lasalle #2	125	0.28	0.55
Luzern	477	1.06	2.11
Military	74	0.16	0.33
Ord Grove #2	1,402	3.12	6.19
Playa #3	279	0.62	1.23
Paralta	1,678	3.74	7.41
Subtotal	4,126	9.19	18.23
Southern Coastal Subarea			
Plumas #4	248	0.55	1.10
Subtotal	248	0.55	1.10
Seaside Total	4,374	9.75	19.33
GRAND TOTAL	**18,250**	**40.66**	**80.64**

Notes:
1. GPM refers to gallons per minute; CFS to cubic feet per second, and AFD to acre-feet per day.
2. Capacities shown were estimated in August 2002 using Panametrics Transit-Time Ultrasonic Flowmeter, unless noted otherwise. Capacity for Schulte well is based on SCADA value on August 11, 2003. Capacity for Manor #2 is based on Panametrics estimate made in August 2003. Capacity for Canada well is based on Quarterly Monitoring Report for Increased Pumping Rate at Lower Carmel Valley (Feeney, July 30, 2003).

Source: California-American Water Company, August 11, 2003.