

EXHIBIT 17-A



**DRA**

*Division of Ratepayer Advocates  
California Public Utilities Commission*

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**Dana S. Appling, Director**

TO: Monterey Peninsula Water Supply Interests

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California Public Utilities Commission

DATE: December 19, 2006

SUBJECT: An Opportunity to Assure a Reliable Water Supply for the Monterey Peninsula

The Division of Ratepayer Advocates (DRA) of the California Public Utilities (CPUC) extends an invitation to interested water supply and management agencies and municipal interests to participate in a unique project planning opportunity. As you are aware, the California-American Water Company (Cal Am) serves a large portion of the water demands on the Monterey Peninsula including the cities of Seaside, Sand City, Monterey, Del Rey Oaks, Pacific Grove, and Carmel-by-the-Sea, Monterey Airport District, and areas of unincorporated Monterey County. Cal Am's water supply sources are local and entirely dependent on local rainfall. The Monterey Peninsula region is vulnerable to drought and as such experiences unreliable water supplies.

Exacerbating the climatological uncertainties, Cal Am's current source of water from the Carmel River Aquifer was found to be untenable by the State Water Resources Control Board (SWRCB). In 1995, the SWRCB adopted Order 95-10 which found that Cal Am was diverting approximately 10,730 acre-feet per year (AF/Y) more water from the Carmel River Aquifer than the amount to which it is legally entitled (3,376 AF/Y). In 1995, 10,730 AF/Y represented 69 percent of Cal Am's water supply for the entire Monterey District. The order required Cal Am to find a new source of water to replace diversions over and above 3,376 AF/Y. In addition, Cal Am was ordered by the SWRCB to reduce pumping from the Carmel River by 20% from historic levels.

In 1998, the California Legislature approved Assembly Bill (AB) 1182 requiring the CPUC to develop a long-term water supply contingency plan to meet the water needs of Monterey Peninsula residents. The plan developed by the CPUC included seawater desalination and an aquifer storage and recovery component. The CPUC published this plan in July 2002 ("Plan B").

In 2003, Cal Am adopted the plan concept and formally applied to the CPUC to undertake the project, which came to be known as the Coastal Water Project (CWP).

As Cal Am pursues the CWP, the DRA believes that there are potentially greater benefits for Cal Am's ratepayers if a regional approach to water supply management and supply development were taken. The regional project would need to satisfy Cal Am's regulatory requirements and leave the company better off than they might have been implementing the CWP on their own while increasing the direct benefits to Cal Am's ratepayers. Possibly the most compelling benefit to the Monterey Peninsula as a whole would be the provision of reliable water supplies and water management programs that go beyond the regulatory requirements of SWRCB Order 95-10 to best meet the long-term needs of the Monterey community.

To best accomplish this goal, the DRA has engaged Steve Kasower and the Urban and Regional Water Research (URWR) Team from the University of California, Santa Cruz to assist DRA in representing the Cal Am ratepayers by facilitating a reliable water supply project planning dialogue designed to identify a viable phased project and management strategy that has a better chance of successful implementation than the CWP and also has higher ratepayer and community-wide benefits.

If there is genuine interest in pursuing such a dialogue that leads to a project plan and commitment to that plan by regional participants, then DRA urges agencies to begin the process as soon as practicable. Cal Am cannot afford to slow or stop the CWP process due to the regulatory imperative. However, if we can identify a better project within a short period of time and commit to its implementation, it is possible that Cal Am will switch to that regional plan. A coalition of regional interests stands a good chance of satisfying all the regulatory concerns for timely resolution of Order 95-10 and selected water supply augmentation projects. This is, of course, possible only if the project plan appears to have real support from regional interests and Cal Am; exhibits higher benefits than the CWP; and results in a project that has a high probability of successful completion.

The DRA/URWR Team will facilitate the regional dialogue and assist local agencies with analytical issues associated with the regional project and management plans. DRA proposes that local-agency participants provide some of their technical staff time to assist in the analytical work and allow the DRA/URWR Team to direct any studies that are needed. Additionally, DRA requests that participating agencies review and edit the timeline goals and principles of regional cooperation that will be provided by the URWR Team prior to the first meeting. Lastly, DRA requests that the first meeting be held early in the New Year, preferably during the month of January.