



PEBBLE BEACH
COMPANY

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MPWMD

July 27, 2007

Mr. David A. Berger, General Manager
Monterey Peninsula Water Management District
5 Harris Court - Building G
P.O. Box 85
Monterey, CA 93942-0085

Re: Pebble Beach Company - Sale of Water Entitlement

Dear Mr. Berger:

With the adoption of Ordinance No. 109 on May 27, 2004 ("Ordinance 109"), the Monterey Peninsula Water Management District ("MPWMD") authorized Pebble Beach Company ("PBC") to sell up to 175 acre-feet per year ("AF") of PBC's Water Entitlement (the "Water Entitlement") granted to PBC by MPWMD in connection with the financing of the CAWD-PBCSD Recycled Water Project (the "Project"). The sales were authorized to finance the costs of important improvements to the Project, consisting of additional recycled water storage at the Forest Lake Reservoir in Del Monte Forest (the "Forest Lake Component") and advanced treatment facilities at the CAWD treatment plant (the "Advanced Treatment Component") in the unincorporated Carmel area (collectively referred to as the "Project Expansion"). The Project Expansion is well underway, with the Forest Lake Component having been completed and become operational in 2006, and with the commencement of construction of the Advanced Treatment Component at the CAWD plant in 2006 with anticipated completion in 2008. PBC has sold portions of its Water Entitlement and the proceeds of those sales have been devoted to the costs of the Project Expansion, all in accordance with Ordinance 109.

Under Ordinance 109, sales of PBC's Water Entitlement have been limited to owners of lots in Del Monte Forest, and only for residential use. PBC has completed sales of the Water Entitlement to Del Monte Forest lot owners, presently totaling approximately 114 AF, and raising approximately \$23 million for the Project Expansion. This level of sales at the projected (and as it turns out, actual) market prices was deemed sufficient to cover the costs of construction of the Project Expansion as estimated in 2004 (\$22 million as recited in Ordinance 109). However, for a variety of reasons (primarily related to the design features of the Advanced Treatment Component), the costs of construction of the Project Expansion will substantially exceed the 2004 estimates. The presently estimated costs of the Project Expansion are \$34 million. Thus, an expanded market for the sale of the Water Entitlement is required to meet the purpose and intent of Ordinance 109 to

LEGAL AFFAIRS

Mr. David A. Berger, General Manager
Monterey Peninsula Water Management District
July 27, 2007
Page 2

finance the Project Expansion. It is PBC's judgment that the market in Del Monte Forest has largely been exhausted, with perhaps only another 15 AF of demand; yet covering the increased costs of the Project Expansion will likely require another 45 AF of sales at current market prices.

PBC therefore requests that Ordinance 109 be amended to permit sales of the Water Entitlement at any location within the California American Water ("Cal-Am") service area (which would include portions of unincorporated Monterey County and the incorporated cities of Carmel, Pacific Grove, Monterey, Seaside, Del Rey Oaks, and Sand City). This request would involve only simple, limited amendments to Ordinance 109 to expand the area in which the Water Entitlement may be sold; PBC does not propose to modify the other stipulations of Ordinance 109 which require that the Water Entitlement be sold only to owners of existing lots and used only for Residential Use (as defined in the MPWMD Rules and Regulations) and the sale proceeds devoted exclusively to the costs of the Project.

MPWMD's approval of PBC's request will continue to promote the public benefits of the Project and the Project Expansion (many of which are recited in Ordinance 109). The Project has been *the* major new water supply project on the Monterey Peninsula sponsored by MPWMD, reflecting conversion of large irrigation areas to recycled water with the resulting savings of potable water use and reduction of withdrawals from potable water supply sources. To date, the Project has saved the community 8,286 AF (or 2.7 billion gallons) of potable water (averaging 690 AF annually, or 225 million gallons annually). The Project Expansion has and will only enhance these benefits; the purpose and intent of Ordinance 109 was to provide the financing vehicle by which these enhanced benefits could be realized without cost to the public.

The expanded water sales area is necessary to achieve the purpose and intent of Ordinance 109. Initially, the Water Entitlement sales area was limited to Del Monte Forest because that is the area (i.e., the golf courses using recycled water) from which the potable water savings supporting the Water Entitlement were located, with the anticipated ability to generate sufficient funds from sales to cover the costs of the Project Expansion. With additional sales outside of Del Monte Forest to cover the costs of the Project Expansion, the benefit of water for owners of undeveloped residential lots of record is more widely available, for those who may wish to acquire it. This is a considerable benefit to those residential lot owners who may have been waiting many years for water to realize their plans.

With respect to review of PBC's request under the California Environmental Quality Act ("CEQA"), our legal counsel has looked at this question carefully, and we believe compliance with CEQA can be achieved without the necessity of a supplemental or subsequent Environmental Impact Report ("EIR"). As you know, MPWMD approved

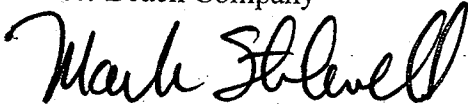
Mr. David A. Berger, General Manager
Monterey Peninsula Water Management District
July 27, 2007
Page 3

Ordinance 109 with detailed findings that a supplemental or subsequent EIR was not required under section 21162 of the CEQA Guidelines, based on the EIR originally certified by CAWD and MPWMD for the Project. Ordinance 109 authorized the change in location of use of the Water Entitlement but did not increase the amount of the Water Entitlement or the authorized use (primarily residential). We believe the same analysis applies to PBC's current request for an amendment to Ordinance 109. While the request involves a "change" to the "project" approved by MPWMD as to its financing mechanism,¹ the "change" involves only a change in the location of use of an established and vested Water Entitlement. With the limitations on the use of the Water Entitlement for Residential Use, PBC does not believe that any of the conditions requiring preparation of a supplemental or subsequent EIR under section 21162 of the CEQA Guidelines exist. This is supported by the fact that, as to ultimate buildout, each of the General Plans in effect for the affected jurisdictions account for buildout of lots of record; each of those General Plans were otherwise adopted with a certified EIR or were in compliance with CEQA; and reliance may be placed on those General Plan EIRs under CEQA as to general environmental, growth-inducing, and cumulative impacts of development of legal lots within their jurisdiction.

Thank you for your consideration of our request. I look forward to your response.

Sincerely,

Pebble Beach Company



Mark Stilwell
Executive Vice President
and General Counsel

cc: David Laredo/MPWMD
Ray von Dohren/CAWD
Craig Anthony/PBCSD

¹ MPWMD's responsibility and jurisdiction, as noted in the Ordinance 109 findings, is limited to the financing of the Project and Project Expansion. It is noted that the Forest Lake Component is within the responsibility and jurisdiction of PBCSD and was approved by PBCSD by Negative Declaration adopted 7/27/01 (Resolution No. 01-21) and Combined Development Permit approved 8/08/01 by Monterey County; and the Advanced Treatment Component is within the responsibility and jurisdiction of CAWD and was approved by CAWD by Negative Declaration adopted 1/26/06, and Coastal Development Permit No. 3-82-199-A7 approved by the California Coastal Commission 3/29/06. CEQA compliance and the necessary approvals for the Project Expansion are therefore not at issue in PBC's request; they have already been obtained.