

**CAW/MPWMD SETTLEMENT AGREEMENT ADDRESSING
CONSERVATION / RATIONING PLAN**

**A.07-12-010; California American Water Special Conservation and Rationing
Program for the Monterey District**

California American Water (CAW) and the Monterey Peninsula Water Management District (MPWMD or District), collectively referenced as the Parties, have reached a partial settlement relating to the above-captioned Application pending before the California Public Utilities Commission (CPUC).

This Settlement is limited to implementation and management of conservation and rationing programs for the Monterey Peninsula, characterized in Application ("A.") 07-12-010 proceedings as Phase 1 issues. The Settlement does not address rates and costs, or other matters characterized in A.07-12-010 proceedings as Phase 2 issues.

Nothing in this Settlement is intended to negate any provisions in the purchase agreement between CAW and the Carmel Valley Mutual Water Company now known as the Hidden Hills System. However, the conservation / rationing program set forth in this Settlement shall apply to the Hidden Hills System and the other Satellite Systems that operate in the Highway 68 corridor.

CAW shall fully support CPUC approval of the Settlement set forth herein to develop a cooperative conservation / rationing plan in coordination with MPWMD. CAW suspends support of its "Stand Alone" conservation / rationing plan, as described in the testimony of David Stephenson and David Morse in A.07-12-010, unless this Settlement Agreement becomes null and void as defined in paragraph 14 below.

The Parties agree as follows:

1. The Parties will jointly seek CPUC authorization of a conservation / rationing plan that CAW shall implement through a revised Rule 14.1 in coordination with MPWMD as referenced in paragraphs 2 through 14, below.
2. Revised Rule 14.1 shall include the following:
 - a. CAW will provide notice to customers thirty (30) days in advance of any increased customer rates.
 - b. Rule 14.1 will have production triggers consistent with MPWMD Regulation XV.
 - c. Rule 14.1 will include the MPWMD revised definition of Monterey Peninsula Water Resource System (MPWRS) to include the Laguna Seca Subarea of the Seaside Groundwater Basin, including CAW Satellite Systems that operate in the Highway 68 corridor.

d. Rule 14.1 will not impose water waste fees on customers other than for multifamily residential water waste.

e. Fees for installing flow restrictors will be consistent with Standard Practice 40. Flow restrictors will be installed only during normal business hours by CAW.

f. Fees collected by CAW for water waste and flow restrictors will be tracked in an interest bearing balancing account amortized annually.

g. Rule 14.1 will include language that at Stage 3 emergency rates shall be implemented that are authorized by the CPUC.

h. Rule 14.1 shall allow the implementation of water banking to be delayed until (a) CAW completes the installation of its new computer system and completes the programming needed to calculate water banking credits; (b) MPWMD completes computer programming needed to calculate water banking credits, and CAW is authorized to supply data to the District to prepare for, test and implement Regulation XV, or (3) December 31, 2010, whichever event first occurs.

i. Appendix A to the Settlement Agreement reflects the revised Rule 14.1 as it applies to the implementation of water conservation Stages 1, 2 and 3. CAW's revised Rule 14.1 for water conservation Stages 1, 2 and 3 shall become effective after a Commission decision adopting the proposed settlement.

3. MPWMD shall amend Regulation XV to include the following:

a. MPWMD shall amend its Regulation XV to change the definition of the defined term MPWRS to include the Laguna Seca Subarea of the Seaside Groundwater Basin, including CAW Satellite Systems that operate in the Highway 68 corridor. Regulation XV shall be amended to effect the above-described definition change so that the CAW conservation plan can be implemented no later than October 31, 2008.

b. MPWMD shall amend its Regulation XV to clarify that water conservation Stages 2 or 3 or rationing Stages 4, 5, 6 or 7, will be triggered for the MPWRS when CAW exceeds its permitted production levels for the combined MPWRS, which shall take into consideration the legal limitations imposed by the State Water Resources Control Board and the Seaside Groundwater Basin Adjudication; and will only be triggered for the Laguna Seca Subarea of the Seaside Groundwater Basin when CAW exceeds both its permitted production levels for the combined MPWRS, and the production allowed by the Watermaster in the Seaside Basin Adjudication for the Laguna Seca Subarea of the Seaside Groundwater Basin. Regulation XV shall be amended to effect the above-described revisions so that the CAW conservation plan can be implemented no later than October 31, 2008. Regulation XV shall be amended to effect

the above-described trigger so that the CAW conservation plan can be implemented on or before October 31, 2008.

c. Regulation XV will not have any notice requirement that is inconsistent with Rule 14.1.

d. Regulation XV and Rule 14.1 will have consistent production triggers.

e. MPWMD shall amend its Regulation XV to suspend implementation of water banking provisions until (a) CAW completes the installation of its new computer system and completes the programming needed to calculate water banking credits; (b) MPWMD completes computer programming needed to calculate water banking credits, and CAW is authorized to supply data to the District to prepare for, test and implement Regulation XV, or (3) December 31, 2010, whichever event first occurs.

4. MPWMD shall support CAW in amending its Rule 14.1 to make it parallel to Regulation XV.

5. The Parties jointly request the CPUC recognize the regulatory authority of MPWMD as validated in 1987 by Monterey Superior Court Order in *In re Validity of Monterey Water Management District Ordinance No. 28*; Case No. M 18503, and that CAW provide water use data to MPWMD as necessary for MPWMD to prepare for, test and implement its Regulation XV. The Parties shall support all necessary CPUC processes to gain full regulatory approval of necessary data sharing. These data shall be deemed a trade secret, and shall not be available for public review.

6. The Parties agree that Regulation XV water rations shall be based upon either the regulatory limits, as defined in Paragraph 3(b), or carryover storage amounts and CAW survey data. For residential customers, water rations shall be based on a per capita quantity and proven medical needs. No other factors are applicable unless granted by variance. Non-residential customer water rations shall be based on reductions to allotments by user category. MPWMD may grant variances as shown in Regulation XV. Rule 14.1 shall include consistent language with this provision.

7. The Parties agree to review and revise, as needed, commercial water use factors used in relation to Regulation XV. CAW shall provide survey, census and consumption data to MPWMD to facilitate this effort. This effort should be completed as timely as possible, but in no case later than December 31, 2009.

8. The Parties shall review and revise projected conservation and rationing program costs, and shall explore means to reduce these expenditures, including the use of phased program implementation.

9. The Parties agree that as an interim measure to assure that legal water limits are met, Stages 1, 2 and 3 of CAW's current Rule 14.1 shall be amended to effect the above-described revisions so that the conservation plan can be implemented on or before October 31, 2008, to react if more severe legal restrictions are implemented. The Parties agree that Stages 4, 5, 6 and 7 of Rule 14.1 shall be amended to effect the above-described revisions so that the rationing plan can be implemented by the end of 2008.

10. To establish rations, CAW unaccounted for water shall be based upon the most recent actual 12-month rolling average. Unaccounted for water standards shall not be used to delay implementation of any conservation or rationing stage.

11. The Parties acknowledge and agree that the obligations of MPWMD set forth in Paragraphs 3(a) and 3(b) of this Settlement Agreement shall be completed in the following manner:

a. Upon execution of this Settlement Agreement, the General Manager, Chair or other Member of the Board of Directors of MPWMD (individually and collectively, the "Board") shall place adoption of an Ordinance amending Regulation XV as set forth herein (the "Amendments") on the agenda of the next scheduled District Board Meeting, or, no later than September 30, 2008.

b. CAW shall appear at the MPWMD District Board Meeting to provide full support of the Amendments, including an explanation of why such an Ordinance is needed.

12. The Parties acknowledge and agree to develop a revised rationing program by December 31, 2008 so that CAW can implement Stages 4, 5, 6 and 7 of Rule 14.1. Upon a date timely enough to allow the adoption of the Additional Ordinances and Amendments on or before the dates specified in this Settlement Agreement, MPWMD shall amend the applicable provisions of Regulation XV (the "Additional Ordinances and Amendments"), including the obligations of MPWMD set forth in Paragraph 3.

13. Each of the following is a condition precedent to the Parties' obligation to perform any of the obligations and agreements of the Parties set forth herein and may only be waived by MPWMD and CAW:

a. CAW shall have timely performed each and every obligation it is required to perform set forth herein, including without limitation the performance of the obligations set forth above.

b. MPWMD shall have timely performed each and every obligation it is required to perform set forth herein, including without limitation the adoption of the amendments and performance of the obligations set forth above.

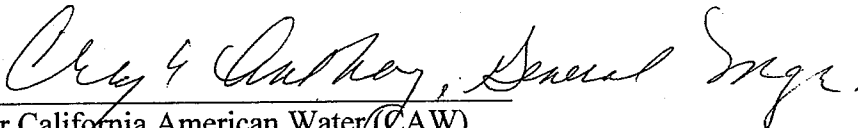
14. The Parties agree that in the event that the Parties shall (i) fail to fully perform their obligations hereunder, (ii) fail to satisfy all of the conditions required to be

satisfied, or (iii) should any of the Amendments or the Additional Ordinances and Amendments be repealed or materially revised or amended subsequent to their adoption by the Board, then this Settlement Agreement shall be null, void and shall be of no further force or effect, and the Parties shall have no obligation to perform the obligations set forth herein.

15. The Parties agree that each may share this document, in draft or final form, with any other party to A.07-12-010.

16. The Parties recognize execution of this Settlement by the General Manager of MPWMD is required by law to be subject to the later ratification of the Board.

Dated: 8/10/2008


for California American Water (CAW)

Dated: 8/11/2008


for Monterey Peninsula Water Management District (MWPMD)

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