

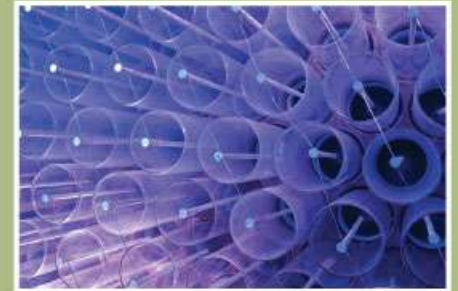


**CALIFORNIA
AMERICAN WATER**

California American Water Monterey District

**Presentation to Monterey Peninsula
Water Management District**

August 15, 2011





California American Water Team

- Kevin Tilden, External Affairs
- Craig Anthony, General Manager
- Catherine Bowie, External Affairs
- Joe Conner, National Eminent Domain Counsel



Our Conversation Today

- History
- Valuation – the legal standards
- Felton case study
- Lessons learned
- Just the facts



California American Water

- ❑ American Water -- parent company
- ❑ 100% common stock on NYSE
- ❑ California American – wholly owned subsidiary
- ❑ American Water sole shareholder
- ❑ 125 years of service

Facts about the California system:

- ❑ 48 communities
- ❑ 170,000 connections
- ❑ 600,000 population
- ❑ 295 employees
- ❑ Monterey – 1882 and 1964



THE LAST CAMPAIGN . . .

NO W

The Carmel River Steelhead Association asks YOU to vote **No** on Measure W. **NO W**



Carmel River Steelhead Trout depend on us. Vote **No** on Measure W.

Monterey Peninsula Water District Board of Directors 10/11/10

WASTED MONEY

The Monterey Peninsula Water Management District spent over \$500,000 of ratepayers' dollars during the course of several studies to determine the water needs of Peninsula residents. This is a 20th century waste of money - the water works.

DO NOT HELP DRIVE THE WATER SHORTAGE. DO NOT FUND A DEGRADATION PLAN. DO NOT PROTECT FISH, OTHER WILDLIFE, AND RIVER HABITAT.

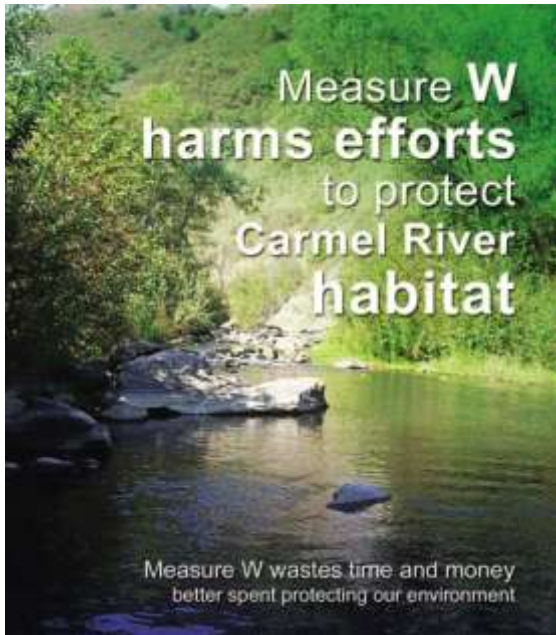
Why spend \$550,000 to study water when the government is going to spend millions more to build a new water treatment plant? Why spend \$550,000 on a study that will cost \$50 million to build a new water treatment plant? Why spend \$550,000 on a study that will cost \$50 million to build a new water treatment plant? Why spend \$550,000 on a study that will cost \$50 million to build a new water treatment plant?

WASTED TIME

Why spend \$550,000 to study water when the government is going to spend millions more to build a new water treatment plant? Why spend \$550,000 on a study that will cost \$50 million to build a new water treatment plant? Why spend \$550,000 on a study that will cost \$50 million to build a new water treatment plant?

WHAT YOU CAN DO:

Vote **No** on Measure W. Visit www.montereywaterfacts.com for more information.



Measure W harms efforts to protect Carmel River habitat

Measure W wastes time and money better spent protecting our environment

Why . . .

Waste money?
Waste time?

Why not fix the real problem?



Measure W Wastes Money and Time

You've already spent millions of dollars on 73 studies; are you ready to pay \$550,000 for another study that raises your Water District's rates by 26%?



Measure W Means Waste

This \$550,000 rate hike could be just the first step in millions more of wasted expense. Peninsula residents know the last thing we can afford is wasted time or money. Learn all you can about Measure W before you vote because the future of your water service is at stake.

Visit www.MontereyWaterFacts.com for additional information.

Water solutions... not more studies.

NO W





**IN 2005, VOTERS REJECTED
GOVERNMENT TAKEOVER – FOR THE 3RD TIME
MEASURE W**

“Shall the Monterey Peninsula Water Management District be directed to investigate the cost and process to publicly acquire the private water utility system presently owned and operated by the Monterey District of California American Water (Cal-Am), and be directed to recover up to \$550,000 for costs of the investigation as a surcharge upon water bills of Cal-Am customers?”

The Voters Have Spoken
Measure W voted down 2:1



The Condemnation Process in California

- Identify or create condemning authority
- LAFCO process
- Prepare appraisal
- Pre-condemnation offer and negotiations
- Resolution authorizing condemnation
- Election on tax increase to fund condemnation (2/3 vote)
- Phase I: Bench trial on "right to take" and public necessity
- Phase II: Jury trial on valuation
- Not a free look: Owner's fees paid upon abandonment**
- Generally a 5-10 year process (with appeals)



THE STANDARD OF VALUE IN CALIFORNIA

The current fair market value of all the company assets as of the date of valuation – not simply what is reflected in Rate Base.

California law says: Fair market value is the **highest price** for the property a willing buyer would pay in cash to a willing seller.

Plus severance damages.



Act 610. Monterey Peninsula Water Management District Law

Section 397. Eminent Domain:

-**In lieu of compensation and damages for the taking or damaging of any public utility facility which must be replaced by the public utility to provide service to the public equivalent to that provided by the facility taken or damaged, the district shall pay to the public utility owning such facility its actual cost incurred to replace in kind the facility so taken or damaged, less proper deductions for depreciation....**



Three approaches typically considered in valuing utility property:

- Market Approach
- Cost Approach
- Income Approach



Market Approach





Cost Approach





WHAT YOU SEE





WHAT YOU DON'T SEE



680 Miles of Underground Pipe in the Monterey System



Income Approach





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FELTON IS NOT MONTEREY

Key Differences

Description	Monterey	Felton	Similar?
Communities Served	16	1	NO
Service Area	53 square miles	1.6 square miles	NO
Connections	39,000	1,320	NO
Water Mains	680 miles	25 miles	NO
Fire Hydrants	3,012	93	NO
Water Source	26 wells and river	1 well, 4 springs/creek	NO
Storage Tanks	101 (33 mg)	5 (.57 mg)	NO
Pump Stations	83	2	NO
Employees	90	5	NO
Number of Dams	2	0	NO
State Restricted Use	Yes	No	NO
Cease and Desist Order	Yes	No	NO
Rate Base	\$107 million+ (2010)	\$3.3 million (2006)	NO
Fair Market Value	?	\$13.4 million	

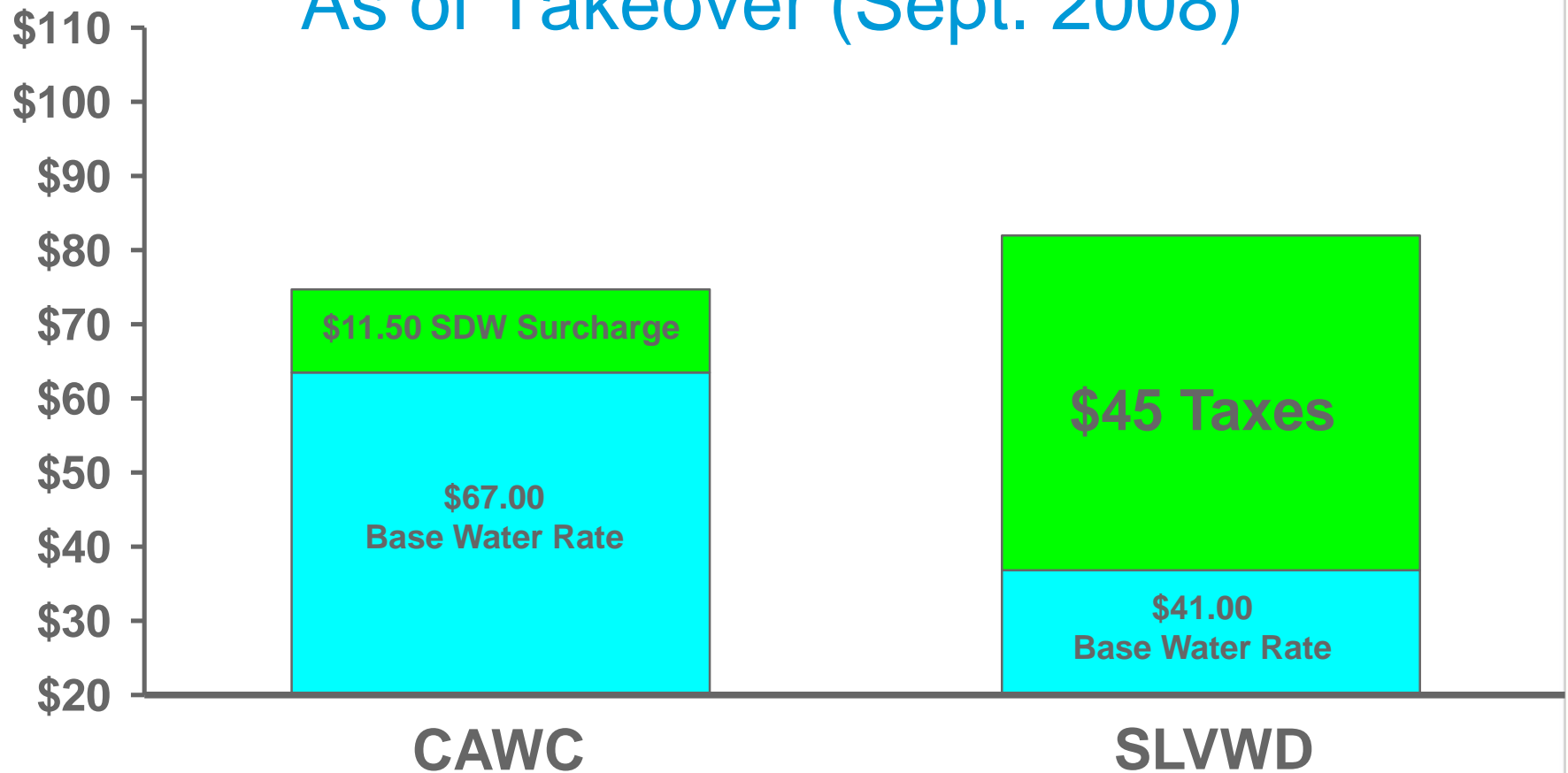


California American Water Felton Timeline and Costs

- ❑ January 2002 – California American acquires Felton system
- ❑ November 2002 – Officials estimated cost of takeover at \$2 million
- ❑ July 2005 -- \$11 million G/O Bonds approved to fund takeover
- ❑ February 2007 – Eminent domain filed
- ❑ May 2008 – SLVWD pays \$13.4 million for system
 - **\$10,100 per customer**
- ❑ Takeover expenses – Over **\$1 million** on studies, legal and expert fees
- ❑ Price was **\$2.4 million more** than the original G/O bond



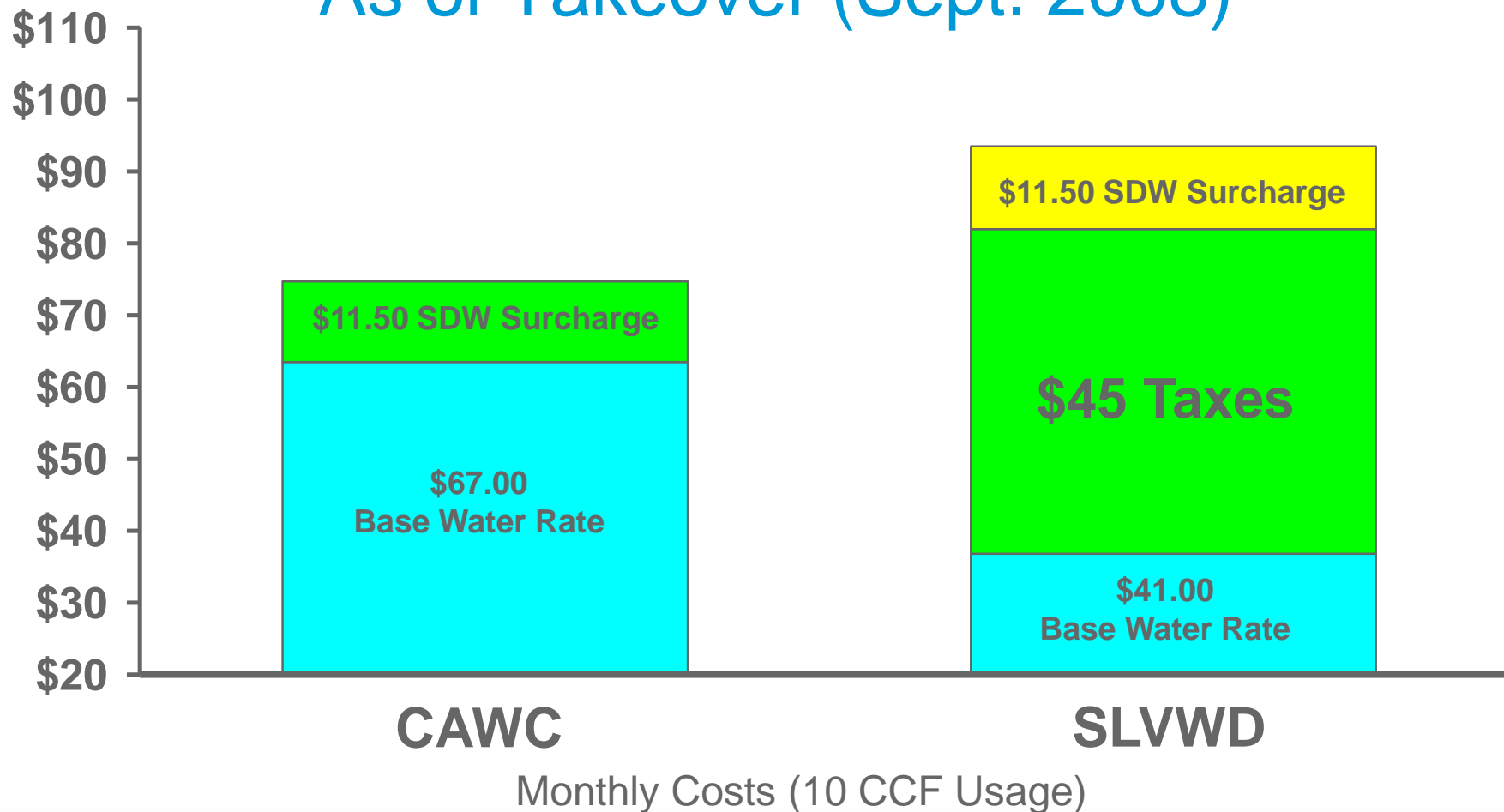
Felton Rate Comparison As of Takeover (Sept. 2008)



Monthly Costs (10 CCF Usage)

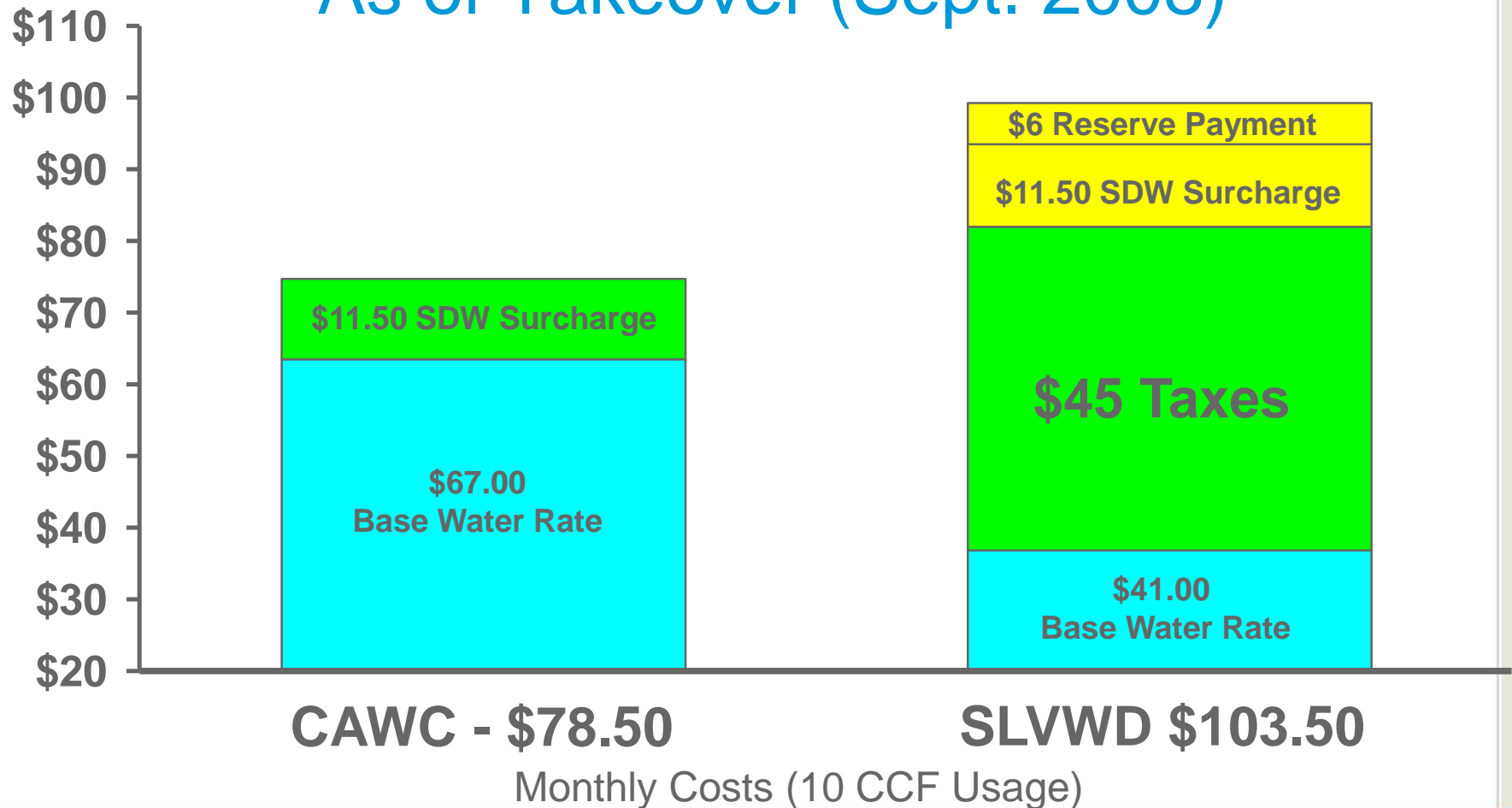


Felton Rate Comparison As of Takeover (Sept. 2008)





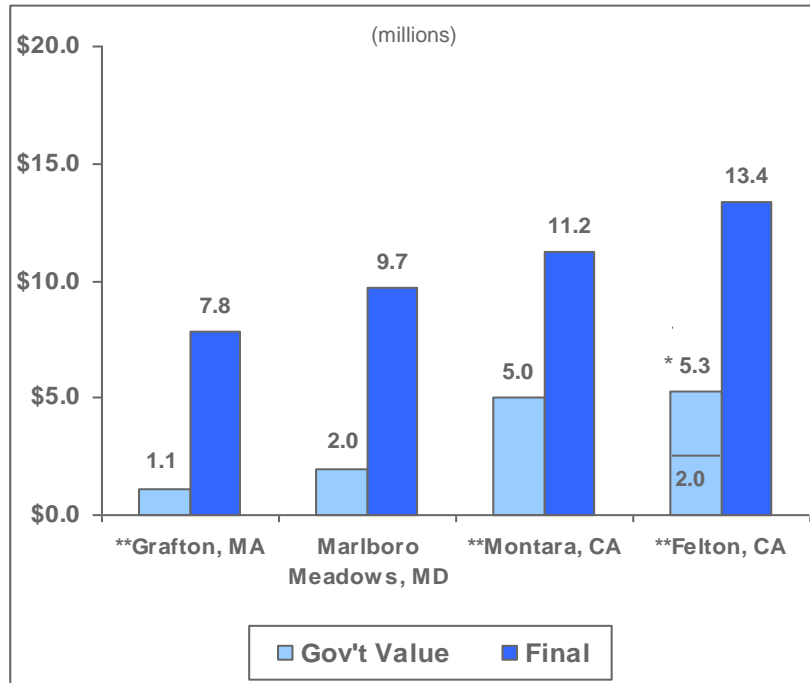
Felton Rate Comparison As of Takeover (Sept. 2008)



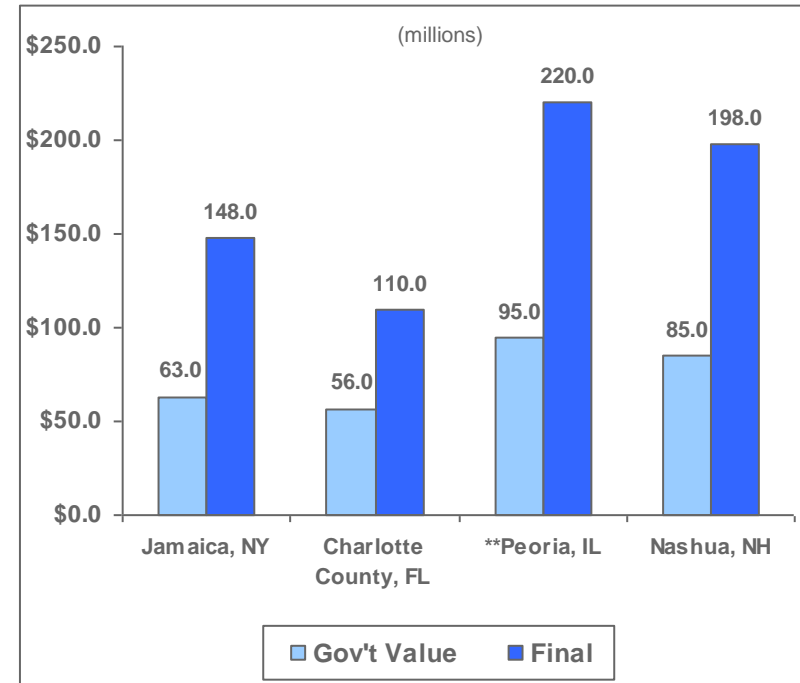


Government Valuation vs. Actual Price

Small System Valuations



Large System Valuations



*operating assets
 **denotes American Water system

City of Peoria, IL decided not to buy the water system.



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Setting the Record Straight



CAUTION

Be careful when reading numbers. Check the facts and the sources.

Cost of San Clemente Dam Removal on the average monthly bill

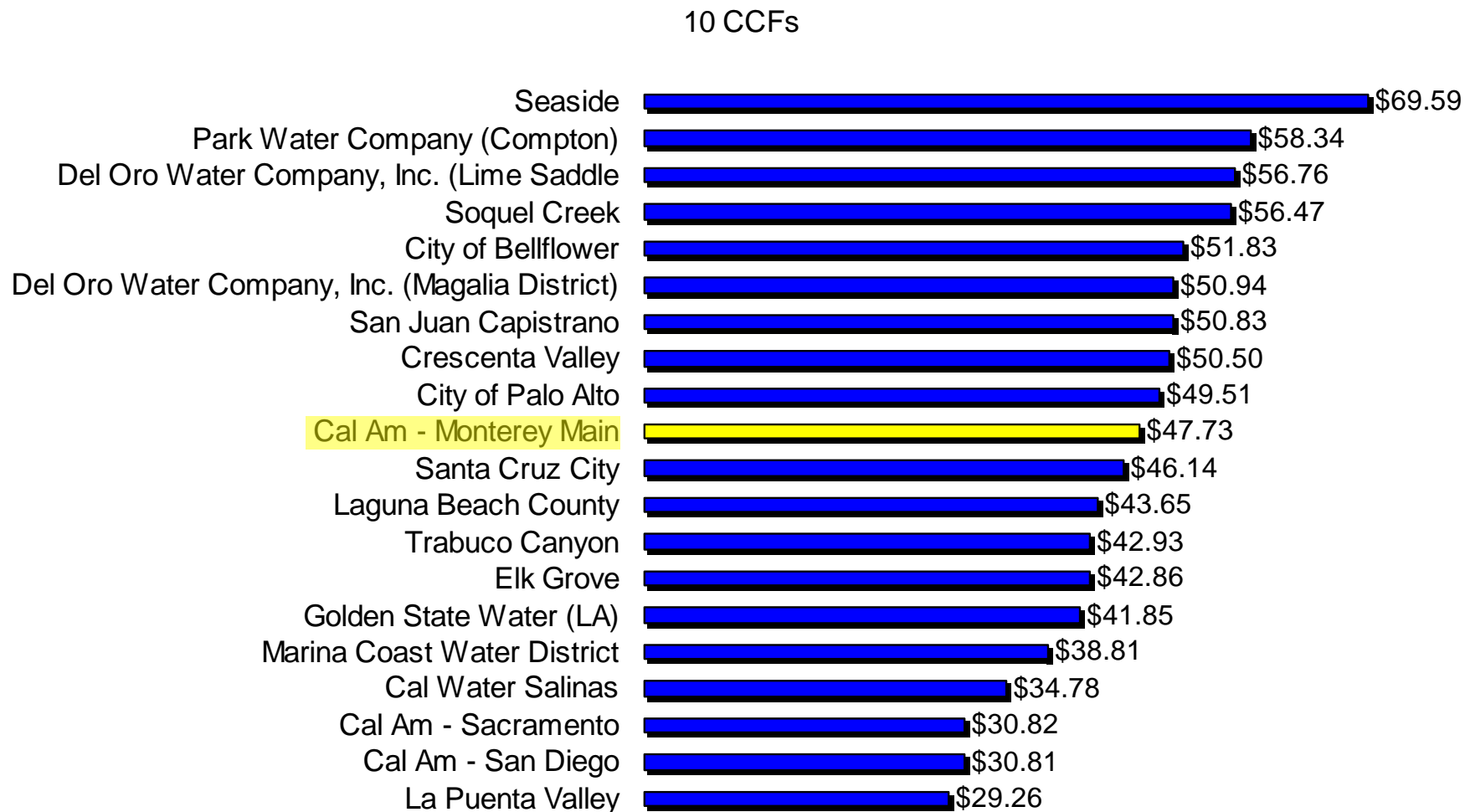
- ❑ WaterPlus says: \$18.37
- ❑ California American Water proposes: \$3.34

All CAW materials, the collaboration agreement and the application to the CPUC make it clear that without gifts or grants, the project would not go forward and that CAW would revert the buttressing project, the lowest cost option. In addition, the CPUC has made it clear they will only support passing costs on to customers equal to the lowest cost option.

Why would someone represent otherwise?



The Water Plus method of calculating an average water bill is incorrect.....





Eminent Domain and the Regional Desalination Project – Diversion of Attention and Resources

- ❑ Any buyer may have to assume all contracts.
- ❑ Any buyer may have to finance a major portion of the project.
- ❑ Any buyer would need bonding capacity for +/- \$400 million.
- ❑ Any buyer would be bound by all current agreements.
- ❑ Any buyer may face compliance with termination clauses and potential litigations resulting from the project.
- ❑ California American has been involved every step of the way and conducted intense engineering and business analysis of the project.
- ❑ California American is prepared to move forward without delay.



Setting the record straight on the Peninsula's water challenges

- ❑ Under public ownership, the Cease and Desist Order **will not** go away.
- ❑ Under public ownership, the order to resolve safety concerns with San Clemente Dam **will not** go away.
- ❑ Under public ownership, the need to invest in our current water infrastructure **will not** go away.
- ❑ Under public ownership, the expense required to comply with the Federal Endangered Species Act **will not** go away.
- ❑ Under public ownership, the need to conserve water and carefully manage our water supply **will not** go away.
- ❑ Under public ownership, regulatory oversight by numerous local, state and federal agencies **will not** go away. The oversight that will disappear is that of the CPUC and DRA, two government agencies tasked with protecting consumer interests and keeping water rates low.



Bottom Line: Beacon Valuation Is Totally Flawed

- Stale Appraisal: Valuation date November 15, 2005
- FLOW not WaterPlus was the client
- Stock valuation of a “closely held corporation” that has never existed.
- Sixty percent of value conclusion based on transactions that are now 11 to 12 years old and are not comparable.
- Rejects the cost approach.
- Stock valuation not equal to asset valuation.
- Relied on August 2005 appraisal by Robert Krieger that was not included in materials.
- Ignores current economic conditions
- Follow WaterPlus Advice – **READ THE PROPOSAL**



In Summary:

We welcome community and customer input and are always open to discussing ways to improve our water service, but The Monterey System is NOT for Sale.



Conclusion and Q&A