

**EXHIBIT 15-A**

**MRWPCA-MPWMD-CAL AM  
GROUNDWATER REPLENISHMENT PROJECT  
PLANNING TERM SHEET AND  
MEMORANDUM OF UNDERSTANDING TO NEGOTIATE IN GOOD FAITH**

This Groundwater Replenishment Project Planning Term Sheet And Memorandum of Understanding To Negotiate In Good Faith ("GWR MOU") is entered into as of \_\_\_\_\_, 2012, by and between the Monterey Regional Water Pollution Control Agency, a joint powers authority ("MRWPCA"), the Monterey Peninsula Water Management District, a California special act district ("MPWMD"), and the California-American Water Company ("Cal Am"), an investor-owned water utility, collectively the "Parties", based upon the following facts, intentions and understandings of the Parties.

**I.**

**BACKGROUND**

A. MRWPCA owns and operates a wastewater collection and treatment system in northern Monterey County, including the Regional Treatment Plant ("RTP") and the associated ocean outfall (Outfall). From the RTP, MRWPCA produces treated wastewater that has the potential for re-use;

B. MPWMD was created by the California Legislature in 1977 for the purposes of "conserving and augmenting the supplies by integrated management of ground and surface water supplies, for control and conservation of storm and wastewater, and for the promotion of the reuse and reclamation of water." The MPWMD's specific functions are "management and regulation of the use, reuse, reclamation, conservation of water and bond financing of public works projects." It is authorized to issue bonds, assess charges for groundwater enhancement facilities, levy assessments on real property and improvements, and "fix, revise, and collect rates and charges for the services, facilities, or water furnished by it";

C. Cal Am is an investor-owned water utility regulated by the California Public Utilities Commission ("CPUC") that serves retail customers in the Monterey Peninsula. Cal Am has been ordered by the State Water Resources Control Board to significantly reduce its diversions from the Carmel River, its largest source of water supply, on a schedule that will result in Cal Am being able to divert only 30 percent of its historical draw from the Carmel River by December 31, 2016, Cal-Am requires additional sources of water to serve Cal Am's Monterey Peninsula customers. CPUC approval for certain aspects of such additional water supplies is required.

D. The CPUC previously approved Cal Am's participation in the "Regional Project," in conjunction with the Monterey County Water Resources Agency and the Marina Coast Water District (Decision 10-12-016, December 2, 2010.) The Regional Project was intended, among other things, to fulfill Cal Am's need for additional water supplies. However, Cal Am has withdrawn from participation in that project, and is seeking alternative approaches to meet its needs.

E. The Seaside groundwater basin (“Seaside Basin”) is in a state of overdraft, and rights to water and pumping thereof have been adjudicated by the Monterey Superior Court. The Seaside Basin is governed by a Watermaster appointed by the Court.

F. MPWMD and Cal Am have an existing aquifer storage and recovery project (ASR) which involves the injection of water into the Seaside Basin, and its recovery for the benefit of Cal Am. This initial phase (ASR Phase 1) uses water diverted from the Carmel River, which is injected and extracted using two existing wells.

G. MRWPCA treats wastewater at the RTP, creating a potential source of water supply.

H. The parties believe that an additional increment of water supply should be generated for the benefit of Cal Am and its customers, many of whom are within the service areas of MPWMD and MRWPCA, by conveying advanced treated wastewater from the MRWPCA to the Seaside Basin, where it could be injected for storage and subsequent recovery by Cal Am (“GWR Project”).

I. There would be substantial public benefits of such a Groundwater Replenishment Project, including but not limited to:

- Drought resistant element of water supply portfolio;
- Seaside groundwater aquifer enhancement;
- Potentially cost-effective water supply
- Re-use of water otherwise discharged to the ocean
- Enhanced quality of the discharge
- Diversification of Cal Am’s water supply portfolio

J. The Parties intend by this GWR MOU to enable planning and environmental evaluation of a groundwater replenishment project by the following:

- to commit themselves to evaluate the ways in which a groundwater replenishment project could be effectively accomplished;
- to commit themselves to negotiate in good faith to reach agreement on such a project, should it be deemed viable;
- for MRWPCA to commit to act as lead agency to achieve CEQA compliance for such a project, should it be deemed viable;
- for MPWMD to assist MRWPCA in providing the necessary financial support for the foregoing planning and CEQA compliance activities, subject to Recital M, below; and
- to identify non-binding preliminary terms of a GWR project agreement, which will assist in focusing the development of a GWR project responsive to the Parties’ capabilities and needs.

K. Except as set forth in Recital J above, the terms set forth in this GWR MOU are the Parties' preliminary concept of terms that may be included in future agreements by and among some or all of the Parties ("GWR Agreements".) They are not intended to be, nor should they be considered as, binding on the Parties.

L. None of the Parties intends by this GWR MOU to commit itself, or the other Parties, to a particular course of action, other than as set forth in Recital J above. The Parties reserve their discretion to evaluate and determine the feasibility or viability of any GWR Project, as well as project impacts, alternatives and mitigation measures, including but not limited to not proceeding with the GWR Project.

M. MPWMD financial support for GWR described in Recital J above is contingent upon successful implementation of a new revenue collection mechanism during the 2012-13 fiscal year.

**II.  
BINDING TERMS REGARDING PROCESS TO EVALUATE  
AND IF FEASIBLE DEVELOP A GROUNDWATER REPLENISHMENT PROJECT**

**1. Background Recitals.**

The above-stated background recitals are incorporated herein by this reference.

**2. MRWPCA**

- A. MRWPCA is anticipated to be the source of the recycled water supply. MRWPCA would apply additional treatment to wastewater from the RTP, convey that water to the Seaside Basin, and inject it into the aquifer, thus making an additional source of water available for use by Cal Am and its customers.
- B. MRWPCA will in good faith commit to evaluate its resources and capabilities with respect to the feasibility of performing the foregoing functions.
- C. In the event that a feasible project is identified, MRWPCA will act as lead agency pursuant to the California Environmental Quality Act ("CEQA"), and will prepare or have prepared an environmental document pursuant to CEQA to evaluate the environmental impacts of such a GWR Project. If MRWPCA chooses to implement a GWR Project, MRWPCA will adopt or certify an environmental document – including any necessary supplements or addenda thereto (collectively "CEQA Documents") – that in its judgment complies with CEQA. MRWPCA will use funding provided by MPWMD, in addition to its own funds, for this effort.
- D. MRWPCA will negotiate in good faith with the other Parties to develop GWR Agreements acceptable to all Parties, which agreements will be consistent with the

CEQA Documents. The Parties' goal is that such agreement will be complete and fully executed in a timeframe which will enable the GWR Project to be operational such that water can be made available to Cal Am on the schedule set forth by the SWRCB.

- E. MRWPCA expressly retains its discretion with respect to whether it will implement a GWR Project or enter into a GWR Agreement, and on what terms. Nothing in this agreement shall be construed as limiting MRWPCA's obligation to consider any and all alternatives, including the "no project" alternative, and any and all mitigation measures, and to make the requisite findings, in the above-referenced CEQA process.

### 3. MPWMD

- A. MPWMD will annually provide matching funding for MRWPCA and MPWMD GWR evaluation, planning, pre-design, and environmental review costs for the GWR derived from its new revenue collection mechanism implemented for the 2012-13 fiscal year. The Parties anticipate that MPWMD will contribute 50% of MRWPCA's GWR related costs, estimated to be \$1,036,550 in FY 2012-13 and \$1,469,200 in FY 2013-14.
- B. If MPWMD determines that a GWR Project is viable, , MPWMD will negotiate in good faith with the other Parties to develop a GWR Agreement acceptable to all Parties, which agreement will be consistent with the above- described environmental document. The Parties' goal is that such agreement will be complete and fully executed in a timeframe which will enable the GWR Project to be operational such that water can be made available to Cal Am on the schedule set forth by the SWRCB.
- C. In the event that GWR Agreements are executed, MPWMD will undertake the permanent financing of GWR with long-term debt, secured by either revenues of MPWMD or payments to be received under a water purchase agreement with Cal Am, or both. Proceeds of the financing, or revenues received from water sales, will be used to reimburse MRWPCA for its past out-of-pocket contributions of MRWPCA for a GWR Project (any unreimbursed costs including the MRWPCA investment before execution of this MOU).
- D. MPWMD expressly retains its discretion with respect to whether it will enter into any GWR Agreement, and on what terms; as well as its discretion to consider the CEQA Documents in a manner fully consistent with its role as a responsible agency under CEQA.

**4. CAL AM**

- A. If each Party independently agrees that a GWR Project is viable, Cal Am will negotiate in good faith with the other Parties to develop a GWR Agreement acceptable to all Parties, which agreement will be consistent with the above-described environmental document. The Parties' goal is that such agreement will be complete and fully executed in a timeframe which will enable the GWR to be operational such that water can be made available to Cal Am on the schedule set forth by the SWRCB. The Parties shall meet with the goal of reaching agreement on the criteria for determining the viability of a GWR Project by June 30, 2012.
- B. Subject to ratemaking treatment approved by the CPUC and terms acceptable to Cal Am, Cal Am will enter into a GWR Agreement with MPWMD, with minimum annual purchase obligations of water at a price sufficient to pay the annual costs of debt and the costs of the GWR Project, including without limitation operations, maintenance, repair, replacement, regulatory compliance and administration costs, associated with the portion of the GWR Project's output purchased by Cal Am.
- C. As the CPUC regulated entity, Cal Am will have the primary role with respect to the CPUC, including but not limited to obtaining the approvals required by that agency.
- D. Cal Am will bear its own costs with respect to all of its efforts in furtherance of realizing a GWR Project.
- E. Cal Am hereby agrees to defend, hold harmless and indemnify MPWMD and MRWPCA for all claims and litigation regarding this MOU and/or the GWR Project (1) asserted by one or more of the Settling Parties, as defined in CPUC Decision 10-12-016 approving the Regional Project; and (2) otherwise arising out of or in connection with the Regional Project.

**5. Good Faith Commitment**

In order to explore the potential public and private benefits of this project, and to ensure that each Party's efforts in furtherance of realizing such a project are well spent, the Parties hereby make a good faith commitment to pursue development of such a GWR, in compliance with all applicable laws.

**6. Term and Termination**

- A. This GWR MOU shall expire upon the earlier of (1) full execution of a GWR Agreement, or (2) upon written agreement of the Parties to terminate.

- B. Upon thirty days advance written notice to all Parties, and upon the withdrawing Party's good faith determination that further participation is not feasible for any reason, any Party may withdraw from this MOU. If two Parties withdraw, this MOU is terminated.
- C. Any obligation to pay survives termination until such payment is made in full.

### **III. NON -BINDING PRELIMINARY TERMS**

The provisions in this Section III set forth the Parties' preliminary understanding that may be included in a final project agreement or agreements ("GWR Agreement".) These provisions are not intended to be, nor should they be considered as, binding on the Parties. Each Party expressly retains discretion with respect to whether it will enter into a GWR Agreement, or on what terms.

1. The GWR Project is intended by the Parties to provide in the range of 2700 to 3300 AF of advanced treated wastewater (Replenishment Water) that can be made available, conveyed to the Seaside Basin and injected therein using new wells, by MRWPCA. MRWPCA will design, construct, own and operate the facilities to convey the water from the RTP and inject it into the Basin.
2. Upon payment by MPMWD to MRWPCA as set forth below, MPWMD shall take title to the Replenishment Water that has been injected into the aquifer. MPMWD will make the Replenishment Water available for purchase by Cal Am for the purpose of serving CalAm's retail water customers in the Monterey Peninsula area.
3. Upon permanent financing, MPWMD will pay to MRWPCA the full amount of MRWPCA's costs to design, construct, obtain regulatory approvals, treat, deliver and inject the Replenishment Water. The commodity cost for the Replenishment Water shall recover at minimum all costs associated with GWR operation, maintenance, repair, replacement and administration, including regulatory compliance.
4. MRWPCA, MPMWD, and Cal Am shall coordinate the scheduling of injection of recycled water, Carmel River water, and any other water.
5. Subject to CPUC ratemaking approval, Cal Am shall enter into a "take or pay" contract to purchase the Replenishment Water from MPWMD. This contract will inter alia promptly reimburse MPWMD for its annual cost of debt service, Replenishment Water payments to MRWPCA for operations and maintenance, reimburse MRWPCA for any of its project development costs not previously reimbursed by MPWMD, as well as for MPWMD's costs.

6. The parties anticipate that terms addressing the following non-exhaustive list of topics will also be needed:

- Litigation; Cooperation in Litigation.
- Brine Disposal
- Coordination with others
- CPUC approvals
- Storage and Recovery Agreement with Seaside Basin Watermaster
- Regulatory Compliance
- Additional Acts.
- Force Majeure.
- No Assignment.
- No Third Party Beneficiaries.
- Representations and Warranties.
- Dispute Resolution
- No Partnership, Joint venture or JPA.
- Default, Cure and Remedies.
- Attorneys Fees.
- Notices.
- Miscellaneous Provisions.

The Parties re-confirm that neither a GWR Agreement, nor any replenishment project, can proceed unless and until the Parties have negotiated, executed and delivered mutually acceptable GWR Agreements, with any public agency action performed in compliance with CEQA and on other public review and hearing processes, and subject to all applicable governmental approvals. The Parties intend by this GWR MOU to inform and focus the work necessary to develop and review a water transfer program, not to pre-determine what that program may be.

**WHEREFORE**, this GWR MOU was executed by the parties on the date first above written.

MRWPCA

MONTEREY REGIONAL WATER POLLUTION  
CONTROL AGENCY,

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date Signed: \_\_\_\_\_

MPWMD

MONTEREY PENINSULA WATER MANAGEMENT  
DISTRICT,

By: \_\_\_\_\_

General Manager

Date Signed: \_\_\_\_\_

APPROVED AS TO FORM:

City Attorney

By: \_\_\_\_\_

Resolution No. \_\_\_\_\_

Date of Resolution: \_\_\_\_\_

CAL AM

CALIFORNIA AMERICAN WATER COMPANY,

By: \_\_\_\_\_

Name: \_\_\_\_\_

Title: \_\_\_\_\_

Date Signed: \_\_\_\_\_