



## **EXHIBIT 11-D**

### **FINAL MINUTES**

### **Water Supply Planning Committee of the Monterey Peninsula Water Management District *September 11, 2012***

#### **Call to Order**

The meeting was called to order at 2:00 pm in the MPWMD conference room.

Committee members present: Bob Brower, Chair  
Jeanne Byrne  
David Pendergrass

Staff members present: David Stoldt, General Manager  
Joe Oliver, Water Resources Division Manager  
Larry Hampson, Acting Planning & Engineering Division Manager  
Rachel Martinez, Community Relations Liaison  
Arlene Tavani, Executive Assistant

District Counsel present: David Laredo

#### **Action Items**

- 1. Adopt minutes of August 15, 2012 Committee Meeting**  
On a motion of Director Byrne and second by Director Pendergrass, the minutes were approved unanimously on a vote of 3 – 0.
  
- 2. Discuss and Recommend District Position on Cal-Am Application 12-04-019 Re: Governance, Ownership and Finance**  
Stoldt distributed a document titled Draft Potential Responsibilities for Governance Committee (on file at the District office and can be reviewed on the MPWMD website) that was prepared by he and Jason Burnett, Mayor of Carmel-by-the Sea. The Water Supply Planning Committee (WSP Com.) considered this document in conjunction with its review of Discussion Items A – O presented in the staff report, and listed below.
  - A. What are the key areas that governance should address? (e.g. transparency, budget and rate impacts, operation planning, integrated management of ground and surface water, regulating future supply, etc.)  
The WSP Com. was in agreement with the proposal for governance outlined in Draft Potential Responsibilities for Governance Committee.
  
  - B. What are the differences between an Operating Committee, an Advisory Committee, and an Oversight Committee such as the Water Quality and Operations Committee of the Salinas Valley Reclamation Plant?  
The WSP Com. was in agreement with formation of a “Governance Committee” or “Project Partnership Committee” with a scope of responsibilities as outlined in the Draft Potential Responsibilities for Governance Committee. In addition, the WSP Com. proposed formation of a separate “Operations Committee” comprised of

California American Water (Cal-Am), the District, Monterey Regional Water Pollution Control Agency (MRWPCA), and the Seaside Basin Watermaster to coordinate planning and operation of the various water supply projects, especially as they relate to the use of the Seaside Groundwater Basin for storage and recovery of water.

- C. Is there a governance structure that might be acceptable to Cal-Am and the Cities that the District wants to pursue?

Stoldt explained that mayors within the District boundaries have reviewed the Governance Committee proposal, as has Cal-Am. The goal is to ensure that the MPWMD filing to the California Public Utilities Commission (CPUC) is consistent with the Monterey Peninsula Regional Water Authority (MPRWA) filing. The WSP Com. recommended that if Cal-Am does not support the Governance Committee proposal, the District should proceed to request that the CPUC require that it be formed.

- D. Shall the District demand public ownership or simply offer to be the public owner should a public owner be desired by all parties?

Should a public owner become necessary or desirable, the District stands ready, able, and willing to serve in that role and provide the leadership to procure, build, and operate a facility and sell water to Cal-Am through a wholesale water purchase agreement. The District would use the water purchase agreement, bolstered by a backstop of its municipal credit, to secure public financing for such a project.

- E. Should the District offer to be the Public “Partner” for financial issues?

The District will offer to be the Public “Partner” for financial issues. This means that the District will make the following commitments and request that the CPUC final order direct Cal-Am to consider these financing alternatives before Cal-Am seeks to return to “business as usual.”

This includes six basic requests:

- 1) If available, State Revolving Fund (SRF) loans should be maximized and considered for up to 100% of the project funding to reduce costs to Peninsula ratepayers;
- 2) If SRF loans are not available for the entire project, then require Cal-Am to examine tax-exempt “private activity” debt as a funding source for both the debt component, but preferably additionally in lieu of equity.
- 3) Consider a public agency (i.e. MPWMD) contribution in lieu of Cal-Am debt or equity to reduce costs to Peninsula ratepayers. The contribution would be made via public debt and the source of repayment either a surcharge on the Cal-Am bill or direct fees and charges to property owners in the District established with a Proposition 218 process;
- 4) Even in the event of a Cal-Am borrowing, the District should offer and the CPUC should accept the District’s potential public credit “backstop” to enhance the Cal-Am borrowing credit rating and reduce costs to Peninsula ratepayers. The District offers to substitute its public credit as a backstop to Cal-Am’s creditworthiness in order to reduce the cost of Cal-Am’s debt. It is anticipated that Cal-Am’s parent obligation carries a credit rating of Baa2, but the District

could raise that to perhaps A1. This might require the use of a “stand-by water purchase agreement,” a “rate covenant,” and other standing commitments;

- 5) In all cases, the CPUC should require – at that point in the future when permanent financing is considered – that the then-current market conditions be considered and, if warranted, the public participation in financing as outlined above be required.
  - 6) If it turns out that State Revolving Funds require a public partner, as it normally would in most cases, the District offers to serve in that role.
- F. If State Revolving Funds require a public partner, will the District serve in that role?  
If use of State Revolving Funds requires a public partner, as it normally would in most cases, the District will offer to serve in that role. Refer to items E.1 and E.2 above for more details.
- G. Would the District offer to substitute its public credit as a backstop to Cal-Am’s creditworthiness in order to reduce the cost of Cal-Am’s debt? This might require the use of a “stand-by water purchase agreement,” a “rate covenant,” and other standing commitments.  
Even in the event of a Cal-Am borrowing, the District should offer and the CPUC should accept the District’s potential public credit “backstop” to enhance the Cal-Am borrowing credit rating and reduce costs to Peninsula ratepayers. See additional detail above in item E.4.
- H. Would the District consider a debt issuance of its own, secured by Prop 218 water supply charges, to make a “contribution” to the project in order to reduce Cal-Am equity and rate base?  
Yes. See item E.3 above for more detail.
- I. Would the District consider a debt issuance of its own, secured by a surcharge on Cal-Am bills, to make a “contribution” to the project in order to reduce Cal-Am equity and rate base?  
Yes. See item E.3 above for more detail.
- J. Does the District have an opinion on Surcharge 2 “pay-as-you-go” financing for a portion of the project?  
The WSP Com. referred this question to the full Board. Surcharge 2 has been developed by Cal-Am to provide \$99 million of “pay-as-you-go” funding to the project. It means that current residents will pay up to almost half of the overall project cost during the next 4 years. While it is a sensible method to reduce the overall costs to ratepayers, it does however increase the funding requirements on current ratepayers – i.e. those who live here now and will pay for the next 4 years. The Board should consider whether this burden is acceptable to the community or whether such “pay-as-you-go” funding should represent public investment in the project that should be recognized with an ownership interest.
- K. Does the District have an opinion on the sizing of the Project? (Overall projected sizing of proposed Monterey Peninsula Water Supply Project is 15,250 acre-feet)  
There was no recommendation from the WSP Com. on this issue. A recommendation will be developed for future filings scheduled for February 2012. During WSP Com. discussion, concerns were expressed about plans to operate the Monterey Regional

Water Supply Project desalination plant at 90% capacity. It was also noted that the project should be sized to accommodate community water needs after the local economy has recovered from the current recession.

- L. Does the District have an opinion on stranded costs for the Regional Desalination Project? The WSP Com. recommends that stranded costs of the Regional Desalination Project and potential future costs of slant well replacement should be included in the CPUC filing such that the “true cost” of desalination is reflected, especially as it relates to a cost comparison with Groundwater Replenishment.
- M. Does the District have an opinion on the future capital costs of source well replacement? Potential future costs of slant well replacement should be included in the CPUC filing such that the “true cost” of desalination is reflected, especially as it relates to a cost comparison with Groundwater Replenishment.
- N. What, if anything, does the District wish to say about the capacity of grey water or cisterns by 12/31/16 – an issue raised during the workshops? There was no recommendation from the WSP Com. on this issue. A recommendation will be developed for future filings scheduled for February 2012.
- O. What, if anything, does the District wish to say about the capacity of additional conservation by 12/31/16 – an issue raised during the workshops? There was no recommendation from the WSP Com. on this issue. A recommendation will be developed for future filings scheduled for February 2012. Concerns were expressed by WSP Com. members that significant conservation savings have been accomplished by water users in the District and that only minimal additional savings might be achieved.

The following comments were directed to the WSP Com. during the public comment period. (1) **Dale Hekhuis** stated that to advise and consult is not governance. He recommended that decision points outlined in the staff report be prioritized. He cautioned that it was premature to assume that the Monterey Peninsula Water Supply Project will go forward, considering that two other desalination projects have been proposed and the MPRWA JPA analysis of water supply alternatives has not been completed. (2) **Doug Wilhelm** asked if staff could provide examples of a similar “governance committee” structure for an existing project. He also recommended that the \$99.1 million that Cal-Am is asking the rate payers to pay in advance should be treated as equity. (3) **George Riley** urged the committee to take a strong position for public ownership of a water supply project, and advocate for the District’s participation in project financing which would be beneficial to the ratepayers.

### Discussion Items

- 3. **Update on Groundwater Replenishment Project**  
Stoldt reported that the MRWPCA has asked the District for assistance with a cost/benefit analysis of the project .
- 4. **Update on Status of Reimbursement Agreement for Water Project 2**  
Stoldt reported that the agreement was signed on September 10, 2012.
- 5. **Discuss Studies Necessary for Water Rights**  
Hampson explained that there is a need for preparation of an Instream Flow Incremental Methodology (IFIM) study, as the results could affect water rights for Phase 1 and 2 Aquifer Storage and Recovery in addition to Cal-Am’s Table 13 water rights. The estimated cost for an

IFIM study is \$400,000 and it could be funded jointly by the District and Cal-Am. An IFIM study would be critical to water supply planning and would therefore be paid from funds identified for that purpose.

**6. Contingency Planning for Desalination Project Alternatives**

Deferred for discussion to the next Water Supply Planning Committee meeting.

**Suggestions from the Public on Water Supply Project Alternatives**

No comments.

**Set Next Meeting Date**

The committee agreed to meet again on Tuesday, October 16, 2012, at 10 am in the District conference room.

**Adjournment**

The meeting was adjourned at 3:40 pm.

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