



CALIFORNIA
AMERICAN WATER

VIA ELECTRONIC DELIVERY

July 31, 2013

Hon. Chuck Della Sala
President
Monterey Peninsula Regional Water Authority
580 Pacific Street
Monterey, CA 93940

Robert MacLean
California American Water
1033 B Avenue, Suite 200
Coronado, CA 92118
www.calamwater.com

P 619-522-6361
F 619-522-6391

President Della Sala:

Now that the various settlements entered into by California American Water, the Monterey Peninsula Regional Water Authority (MPRWA) and various other parties have been submitted to the CPUC for approval, I thought it appropriate that we should review the status of the Monterey Peninsula Water Supply Project (MPWSP) against the Authority's eight conditions, as outlined in their Policy Position Statement. For each of the eight conditions, I have included a brief update on the status below:

1. Cal Am must accept a significant contribution of public funds consistent with the parameters set forth within the Authority's direct testimony submitted to the PUC on February 22, 2013. Without the interest rate advantages afforded by such approach, the costs of water from the Cal Am Project will be materially higher, and likely substantially in excess of the cost of water from the alternative projects. A significant contribution of public funds will avoid such an unwarranted expense to Cal Am's rate payers. At the May 23, 2013 meeting, the Authority approved the refinement of the previously adopted position to define "significant contribution of public funds" to mean that Cal Am must accept the contribution of public funds of approximately 50% of the cost of the project to include both surcharge two and the rate reduction bonds to count toward the public contribution of 50%. Cal Am's traditional financing entails a blend of 53% equity and 47% debt. A significant public contribution (combined with Surcharge 2) should be of sufficient size to reduce Cal Am's equity to approximately half that much (26 to 27%).

This item has been agreed to by Cal-Am as a condition of the settlement agreement.

2. Cal Am must diligently seek to secure lower electricity rates for the project (e.g., \$0.08-\$0.09 cents/kWh as most recently estimated by Cal Am) including

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agreement to purchasing power through a municipal electrical utility, generation of on-site power if necessary, other public entity or other source of low-cost power.

Efforts to secure alternate power are already underway, as outlined in the Category A section of the Governance Agreement.

3. Cal Am must agree to limit the use of revenue from Cal Am's Surcharge 2 to reduce risk to Cal Am ratepayers in the event the Cal Am project does not move forward. For example, Cal Am could agree only to use Surcharge 2 to fund lower risk parts and phases of the project (such as only the construction phase after the issuance of a Coastal Development Permit from the Coastal Commission) or could provide other mechanisms of reducing the risk to Cal Am ratepayers.

This item was agreed to as part of our settlement agreement. Cal-Am agreed to reduce the amount of Surcharge 2 from its proposed level of approximately \$103 million to \$71.5 million. In addition, the first \$35 million of funds collected under Surcharge 2 will be applied to the lower risk pipeline components of the MPWSP. The remaining \$36.5 million to be applied to the desalination facilities will only be collected after permits to construct the facility have been obtained.

4. Cal Am must show something in writing from the State demonstrating its ability to secure SRF financing. Absent such a document, the Authority will work with the Water Management District to secure SRF financing as public agencies. Cal Am must accept a public agency partner for SRF purposes if necessary, even if doing so results in a reduction in Cal Am's equity position.

As previously noted, the SWRCB cannot issue a final determination as to the eligibility of Cal-Am's request for State Revolving Fund loans for the MPWSP until such time there is a certified EIR. The CPUC is scheduled to publish the Final EIR for the MPWSP on June 17, 2014. On April 4, 2013, Cal-Am submitted a Clean Water State Revolving Fund Application with the SWRCB. Subsequent to our application (NO. C-06-7844-110), the SWRCB has requested some follow-up information from Cal-Am in order to determine eligibility for financial assistance. Finally, Cal-Am agreed as a condition of the settlement agreement that in the unlikely event it is not deemed eligible for SRF funding on its own, it would agree to work with a public agency to seek SRF funding.

5. Cal Am must agree, upon mutually-acceptable terms, to form a Governance Committee to provide publicly-accountable oversight of the project.

This item was agreed to in the Governance Agreement executed by Cal-Am on March 8, 2013. To date, the Governance Committee has provided meaningful input into decision making.

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6. To promptly address concerns pertaining to Cal Am's proposed intake wells, Cal Am must:
 - i. Address or cause to be addressed all issues raised in the December 2012 Tim Durbin testimony;
 - ii. Proceed with the planned test wells and any other advanced geotechnical work to support the proposed intake wells as soon as practically feasible;
 - iii. Collaborate with local public agencies to advance permitting efforts with other responsible agencies, including the California Coastal Commission;
 - iv. Seek to clarify whether the installation of Cal Am's intake wells will require approval from any federal agency, which would, in turn, require NEPA compliance.

The source water intake design and its potential impacts are a subject of the settlement agreement. Cal-Am has agreed to address Mr. Durbin's concerns through a science based technical working group. In addition, Cal-Am has agreed to conduct additional investigative soil borings at various primary and secondary sites. In regard to the request to coordinate test well permitting with various regulators, several productive coordination meetings were held and Cal-Am is of the opinion this requirement has been met. There will likely need to be additional coordination meetings as the project progresses. Cal-Am is proceeding with the planned test wells as quickly as possible. Based on discussions with the agencies involved, it is believed that specific NEPA review may be required for the source water wells. We understand the CPUC CEQA team is in discussions with the federal permitting entities on how to best accomplish this task, if need. Cal-Am will continue to provide information and assist as needed to facilitate this effort.

7. Continue to explore and advance alternative intake strategies as a contingency if Cal Am's proposed intake wells prove legally or technically infeasible.
 - i. Cal Am must fully develop a contingency plan or plans and implement that plan or those plans for source water that do not involve wells in the Salinas Basin. This must be done concurrently along with Cal Am planning and testing of slant wells.

Pursuant to Condition 7, Cal-Am will reassess the existing geo-technical studies that were completed for the MPWMD and determine general feasibility (cost and technical) of a sub-surface intake system in the Seaside Groundwater Basin. Specifically, Cal-Am will review the intake configuration that was proposed for the 7.5 MGD Sand City Desalination Plant that was a part of MPWMD's Feb. 2008 study titled Final Report: Evaluation of Seawater Desalination Projects Proposed for the Monterey Peninsula prepared by GEI/Bookman Edmiston, SPI and Malcolm-Pirnie. Additionally, Cal-Am will review MPWMD's August 2008 study titled 95-10 Project Constraints Analysis prepared by ICF Jones & Stokes and CDM in regards to sub-surface intake options in the Seaside / Fort Ord area and

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finally CAW will review MPWMD's November 2009 study titled 95-10 Desalination Project Hydrostratigraphic Investigation prepared by Martin B. Feeney and Pueblo Water Resources to determine the general feasibility of a subsurface intake in the Seaside / Fort Ord area.

8. Cal Am must address questions about sea level rise and coastal erosion with respect to the placement and longevity of their proposed slant wells. Coastal sands are also prone to liquefaction in seismic events and coastal facilities are susceptible to damage from tsunami events as well.

This item has been addressed in the Environmental Factors section of the primary settlement agreement.

In closing, I believe that Cal-Am has worked diligently to meet all eight of the Authority's conditions and I look forward to continuing to work with you and members of the Authority in the development of the peninsula's water supply.

Sincerely,



Robert G. MacLean
President