

December 11, 2019

David C. Laredo  
District Council  
Monterey Peninsula Water Management District  
606 Forest Avenue  
Pacific Grove, CA 93950

Subject:

Scope of Services and Budget for Formal Valuation and Rate Study

Dear Mr. Laredo:

Raftelis is pleased to submit this Scope of Services and Budget to the Monterey Peninsula Water Management District (District) for completing a formal appraisal of the Monterey Water System, currently owned and operated by California-American Water Company (CAW), and a water rate study for this system. Our proposed scope of services and cost estimate for this effort are provided below.

### **Task 1 - Formal Valuation**

This task consists of further developing and formalizing the preliminary valuation analysis that was completed for the District as part of the Preliminary Valuation and Cost of Service Report. Specifically, this task will entail the following:

- a. *Information Gathering and Review.* Raftelis will gather, review, and evaluate relevant additional information associated with the Monterey Water System that is made available by CAW or the California Public Utilities Commission (CPUC), or through other publicly available sources. As part of information gathering and review effort, we will prepare formal information requests, as appropriate, and work with the District to obtain access to the Monterey Water System facilities in order to complete a visual system inspection.
- b. *Valuation Assessment Update.* Based on the additional information gathered and reviewed, Raftelis will update the preliminary valuation analysis that was recently completed by Raftelis for the District. The analysis will include completing refinements to the preliminary valuation analysis, further analyzing the value of the system, and completing a more detailed evaluation of asset value additions, as warranted. We have assumed that the District will separately hire a real estate appraiser to assess the value of real estate associated with the Monterey Water System. We will incorporate the real estate appraiser's valuation results into our analysis.

- c. *Appraisal Report.* Raftelis will prepare an appraisal report consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) and other industry guidelines.
- a. *Meetings.* Raftelis will participate in meetings with the District and the District's deal team. We have assumed participating in two meetings in Monterey, one associated with the system facilities inspection, and another to discuss the appraisal report and the bona fide offer. We have assumed other meetings will be held via teleconference on an as-needed basis.
- d. *Bona Fide Offer Assistance.* Raftelis will assist the District in preparing a bona fide offer for the Monterey Water System, including consideration of which regulatory assets and asset additions should be included in the offer.

### **Task 2 – Water Rate Study**

This task consists of completing a water rate study to (1) identify and evaluate water rate alternatives that would be allowed under California Proposition 218, and (2) forecast water rates under the alternatives for comparison with CAW's existing water rates. Specifically, this task will entail the following:

- b. *Information Gathering and Review:* Raftelis will prepare a data request to gather additional water consumption and cost data that may be available from the CPUC as part of the ongoing rate case. Upon receipt of this additional information, we will review, analyze and incorporate it into the water rate projections, as described below.
- c. *Financial Plan:* Raftelis will validate the preliminary cost of service work that was recently completed for the District, reconfirm the inputs and assumptions based on any additional information that is made available, and then identify the yearly revenue needs to cover O&M, capital, reserves and debt service payments for the Monterey Water System that will be used in the rate calculations.
- d. *Cost of Service Analysis:* We will complete a preliminary customer class level cost of service analysis, which will provide the cost-rate nexus needed to meet Proposition 218 requirements, especially with tiered rates. Given the limited data availability, we may need to use typical industry customer peaking factors to complete a conceptual-level customer class cost of service analysis. The results of this analysis will be incorporated into a rate study report, as described below.
- e. *Rate Design:* We will prepare water rate structure alternatives that meet Proposition 218 requirements for District review. Based on input from the District and data availability, we will complete a rate analysis for approximately two rate structure alternatives. Note, the factors that differentiate tiered rates are normally water supply costs, peaking costs, and potentially conservation costs. The redesign of tiered rates will require estimation of customer class peaking factors. We will use monthly consumption data by account and customer class, if available. If we cannot obtain monthly data, our ability to precisely differentiate rates between tiers may be limited. In the case of limited customer

consumption data, we will rely upon typical industry customer peaking factors for completing the preliminary rate design.

- f. Residential Water Bill Comparisons. We will compare the proposed water rate structure options to current water rates under CAW ownership if CAW leaves the steep tiers in place, or if CAW implements the proposed tiered rate structure. We will also prepare a rate comparison of the current CAW rates and proposed District rates with the rates of nearby water agencies.
- g. Low Income Customer Assistance. We will review the District's proposal for low-income rate assistance and validate the District's calculation of potential non-rate revenue sources eligible for low income assistance.
- h. Rate Study Report. We will prepare a draft and final rate study report that summarizes rate study results.
- i. Meetings. We have assumed two meeting under this task. Once we have all or most of the data and have reviewed it, we will schedule a meeting with the District to discuss the financial plan assumptions, potential rate structures, and data gaps. This meeting will be held in parallel with a system facility inspection. The second meeting will be held to discuss the draft rate study results held with the District once the financial plan and rate structure is substantially complete. The purpose of this meeting is to review the financial plan and draft rates with the District. We have assumed other meetings will be held via teleconference on an as-needed basis.

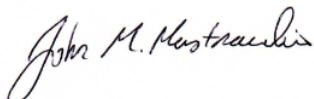
**Budget and Schedule**

Raftelis proposes to complete this scope of services on a time-and-expense basis for a not-to-exceed amount of \$200,000 in accordance with our standard 2020 billing rates. We anticipate completing this scope of services on or above June 30, 2020.

Thank you for the opportunity to continue to provide support to the District regarding this important effort. If you have any questions or need any additional information, please do not hesitate to contact me at (518) 391-8944 or [jmastracchio@raftelis.com](mailto:jmastracchio@raftelis.com).

Very truly yours,

**RAFTELIS FINANCIAL CONSULTANTS, INC.**



**John M. Mastracchio, CFA**  
Vice President