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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future Costs in Connection Therewith in Rates.	A.04-09-019 (Filed September 20, 2004; Amended July 14, 2005)

JOINT NOTICE OF THE SETTLING PARTIES OF EX PARTE COMMUNICATIONS AT THE ALL-PARTY MEETING WITH COMMISSIONER BOHN

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Dated: November 29, 2010

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for a Certificate of Public Convenience and Necessity to Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District and to Recover All Present and Future Costs in Connection Therewith in Rates.	A.04-09-019 (Filed September 20, 2004; Amended July 14, 2005)

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Pursuant to Article 8 of the Rules of Practice and Procedure of the California Public Utilities Commission ("Commission"), California-American Water Company ("California American Water") hereby files this notice of ex parte communications on behalf of itself, Marina Coast Water District ("MCWD"), Monterey County Water Resources Agency ("MCWRA"), the Public Trust Alliance, Citizens for Public Water, and the Surfrider Foundation (collectively, "Settling Parties"). The ex parte communications took place on November 22, 2010 at an all-party meeting at the Commission's offices at 505 Van Ness Avenue, San Francisco, CA. The meeting began at 2:00 p.m. and lasted approximately two hours. The meeting was attended by Commissioner John Bohn, his advisor, Amy Yip-Kikugawa, Lester Wong, advisor to Commissioner Peevey, Danilo Sanchez and Cheryl Cox of the Division of Ratepayer Advocates ("DRA") and the individuals listed on the sign-in sheets attached as Appendix A to this notice. The communications by each Settling Party that spoke at the meeting are summarized below.

California American Water

Jeff Linam, Vice President of Finance for California American Water, explained that the settlement in this proceeding was not a run-of-the-mill compromise, but instead a carefully crafted agreement that struck a delicate balance between the interests of the Settling Parties. Mr. Linam explained that under the Settlement Agreement and Water Purchase Agreement, California American Water would be taking on a certain amount of risk, but that the risk was acceptable given the pressing need for an alternative water supply in the Monterey District. Mr. Linam noted, however, that the Proposed Decision ("PD") and Alternate Proposed Decision ("APD") layered on additional risks that jeopardized the Regional Desalination Project and the financial health of California American Water. Mr. Linam discussed California American Water's current financial situation, in particular the affect on the company of tracking millions of dollars in balancing accounts and memorandum accounts. Mr. Linam noted that delayed recovery through the Tier 3 advice letter procedures in the PD and APD would increase the financing costs of the Project and severely hurt California American Water's cash flow during a critical period. Mr. Linam asked that the APD be revised so that the Commission could adopt the Settlement Agreement and Water Purchase Agreement without material modification.

David Stephenson, Director of Rates, noted that the Commission first recognized Monterey's water supply issue in 1972 in Proceeding 9530. He explained the processes that the Settling Parties developed for recovery of purchased water costs and the costs for the California American Water facilities. Purchased water costs would be processed through the existing Modified Cost Balancing Account ("MCBA"), which would track the difference between the amount collected in rates and actual costs. Material changes in purchased water costs would be handled through a Tier 1 advice letter, the same as California American Water's other purchased

water costs. Mr. Stephenson pointed out that there would be more documentation for review of the purchased water costs for the Regional Desalination Project. For the California American Water facilities, Mr. Stephenson explained that the company would file twice-yearly Tier 2 advice letters with 45-day process periods. Rates would go into effect on day 45. If the review was not completed at that time, the rates would be subject to true up and refund. Similarly, if any party protested the advice letter, it would become a Tier 3 advice letter, but rates would still go into effect on day 45, subject to true up. Mr. Stephenson explained that this process protects customers from paying imprudent costs and unnecessary carrying costs and would provide for rate increases on a regular basis. Mr. Stephenson noted that the Regional Desalination Project is the most environmentally sound, economically suited and broadly supported solution to the Monterey water supply issue.

Lori Anne Dolqueist, outside counsel for California American Water, explained that because of the Commission's continued jurisdiction over the company, it would have a strong incentive to take advantage of the arbitration provisions in the Water Purchase Agreement so that the Commission would not disallow any purchased water costs.

Citizens for Public Water

George Riley of Citizens for Public Water discussed the expected impact of the Regional Desalination Project on customer bills, noting that a bill of $120 a month, which is possible, compares similarly to the cost of other utilities.

Marina Coast Water District

Jim Heitzman, the General Manager of MCWD, introduced himself and noted that Ken Nishi, the President of the Board of Directors of MCWD, was present and able to answer questions if desired. Mr. Heitzman explained the history of how MCWD got involved in

and participated in the Commission process, at great cost to the agency. Mr. Heitzman described the organization, governance, and processes of MCWD, and explained some of the checks and balances keeping costs low and protecting ratepayers in the Water Purchase Agreement. Mr. Heitzman explained how public agencies normally undertake projects. Mr. Heitzman referenced the constitutional and statutory responsibility of MCWD to keep its rates and charges to customers just and reasonable, and explained that MCWD had that duty under the Water Purchase Agreement and under the law. Mr. Heitzman noted that there is no feasible alternative to the Regional Project, but that the issuance of an APD that seeks to modify the agreements reached in the Settlement Agreement and Water Purchase Agreement would be unacceptable to MCWD and would cause the project to fail. Derrick Hansen, one of outside counsel for MCWD, further explained the workings of some of the specific provisions of the Water Purchase Agreement. Mr. Heitzman described a study commissioned from UFI by the City of Monterey that concluded that giving the Cities or other parties a voting or Party role on the Advisory Committee would render the project unbondable and unbuildable. The memorandum to which Mr. Heitzman referred, a public document, is attached to this notice as Appendix B. Mr. Heitzman explained MCWD's position on project governance and how the owner/operators need decisional authority with respect to their respective components of the project. Mark Fogelman, lead outside counsel for MCWD, stated that in reply comments being filed the same day as the all-party meeting, MCWD, MCWRA, and California American Water state that if the Cities represented by the Municipal Advisor wished to add the City of Monterey to their ranks, MCWD, MCWRA and California American Water would not object. However, the three Water Purchase Agreement parties still found the addition of the MPWMD to the Advisory Committee or Municipal Advisor to be unacceptable. In response to questions, Mr. Fogelman also explained

the nature and source of the constitutional and statutory duties of MCWD to keep rates and charges just and reasonable, and the many remedies that would be available if they somehow failed to do so.

Monterey County Water Resources Agency

Dan L. Carroll, special counsel for MCWRA, referenced Sections 6.5(h) and 6.6 of the water purchase agreement as applicable to annual project O&M costs and the applicable procedure if the three parties to Water Purchase Agreement cannot agree on annual O&M costs. Stephen Collins, member of the Board of Directors of MCWRA, explained that the Water Purchase Agreement and settlement were truly historic in having brought together disparate elements of Monterey County. The Salinas Valley and agricultural interests there will not receive desalinated water yet support the settlement. But events in Monterey County in the last twelve months have led to agricultural interests' dissatisfaction, over the new general plan and agricultural exemptions under the jurisdiction of the State Water Resources Control Board. Material modifications to the Water Purchase Agreement would require taking the agreement back to the MCWRA Board of Supervisors, which could open up a whole new debate in which agricultural interests might no longer support the project. The issue is not whether the MCWRA Board of Supervisors supports the project; it does. It is whether material changes would require debate over the project to be opened up all over again, with the possibility that agricultural interests might have changed their views on the project. If there are no changes to the Water Purchase Agreement, all MCWRA's Board of Supervisors has to do is handle it on the consent agenda for CEQA purposes.

Mr. Collins explained that MCWRA has a Board of Directors of nine members, five of which are appointed by Monterey County Supervisors and four of which are appointed by

other constituencies. MCWRA also has a board of supervisors, which has the same members as the Monterey County Board of Supervisors. The budget for MCWRA is approved twice, once at its Board of Directors and once at its Board of Supervisors, and there is public involvement both times. Additionally, Mr. Collins explained that DRA was wrong in thinking the North Marina project could be developed and described it as "dead on arrival," in part because MCWRA would no longer be a project proponent but instead a project adversary.

Curtis Weeks, General Manager of MCWRA, noted that the Water Purchase Agreement involves new infrastructure needed to obtain a new water supply. But with water in California, we have to come to grips with "reasonable" cost being a changing concept. Other counties in California are also looking at desalination, but desalinated water will be expensive.

Mr. Weeks noted that MCWRA has been involved in this process since 2004 and believes the Water Purchase Agreement is a reasonable approach with cost controls in place. The Water Purchase Agreement has checks and balances in it to hold down costs. Not having a new water supply is more expensive, and poses economic issues, health and safety issues, and fines for California American Water if it keeps taking water from the Carmel River. Mr. Weeks also explained how Section 8 of the Water Purchase Agreement addresses issues related to salinity of the source water and California American Water's receipt of its full allocation.

Public Trust Alliance

Michael Warburton of the Public Trust Alliance discussed the public trust doctrine and its applicability to water allocation, the Regional Desalination Project, and collaborative, public interest decisionmaking. Mr. Warburton discussed the adverse environmental effects of continued diversions from the Carmel River and the dire need for a long-term, regional water supply solution. Mr. Warburton concluded that there are adequate cost

control incentives in the Water Purchase Agreement and applicable law and urged the Commission to adopt the Settlement Agreement and Water Purchase Agreement without modifications so that the Regional Project could be implemented in a timely manner.

Surfrider Foundation

Sarah Damron, Central California Regional Manager for the Surfrider Foundation, stated that the Commission cannot dictate what actions the public agencies shall take. Public agency accountability is memorialized by the commitments made in the established Settlement Agreement and Water Purchase agreement, which outline what actions the public agencies have committed themselves to. Therefore, the Commission should accept or reject the actions committed to by the public agencies, considering, on the whole, the fairness and reasonableness of the settlement. Surfrider agrees with the settlement and APD that the appropriate role for the Municipal Advisor is to advise, not to have full voting status. Steve Kasower, speaking on behalf of Surfrider, also discussed the economic evaluation performed by Berkeley Economic Consultants that estimated the impact of the loss of water to the Monterey Peninsula based on the Cease and Desist Order to be over $1 billion annually of lost economic value.

Dated: November 29, 2010

Respectfully submitted,

By: *\/s/ Lori Anne Dolqueist*
Lori Anne Dolqueist

Attorneys for Applicant
California-American Water Company

300181061.1

PROOF OF SERVICE

I, Linda Allen, declare as follows:

I am employed in the City and County of San Francisco, California. I am over the age of eighteen years and not a party to this action. My business address is MANATT, PHELPS & PHILLIPS, LLP, One Embarcadero Center, 30th Floor, San Francisco, California 94111-3719. On November 29, 2010, I served the within:

Joint Notice of the Settling Parties of Ex Parte Communications at the All-Party Meeting with Commissioner Bohn

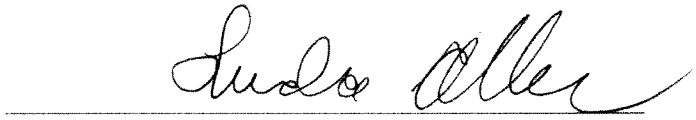
on the interested parties in this action addressed as follows:

See attached service list

☒ **(BY CPUC E-MAIL SERVICE)** By transmitting such document electronically from Manatt, Phelps & Phillips, LLP, San Francisco, California, to the electronic mail addresses listed above. I am readily familiar with the practice of Manatt, Phelps & Phillips, LLP for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing. Said practice also complies with Rule 2.3(b) of the Public Utilities Commission of the State of California and all protocols described therein.

☒ **(BY MAIL)** By placing such document(s) in a sealed envelope, with postage thereon fully prepaid for first class mail, for collection and mailing at Manatt, Phelps & Phillips, LLP, San Francisco, California following ordinary business practice. I am readily familiar with the practice at Manatt, Phelps & Phillips, LLP for collection and processing of correspondence for mailing with the United States Postal Service, said practice being that in the ordinary course of business, correspondence is deposited in the United States Postal Service the same day as it is placed for collection.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct and that this declaration was executed on November 29, 2010, at San Francisco, California.



Linda Allen

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A.04-09-019
(Updated November 18, 2010)

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A.04-09-019
(Updated November 18, 2010)

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ATTACHMENT A

Commissioner Bohn's All Party Meeting

A.04-09-019- Coastal Water Project
Monday, November 22, 2010
2:00 pm – 4:00 pm
Courtyard Room

SIGN-IN SHEET

Name: Sarah Damron
Representing: Surfrider Foundation
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Name: Sue McCloud
Representing: Mayor of Carmel
Telephone:

Name: Ralph Rubio
Representing: Mayor of Seaside
Telephone:

Name: ~~Dang.~~ David Meyerson
Representing: Blakeslee
Telephone:

Name: George Riley
Representing: Citizens for Public Water
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Name:
Representing:
Telephone:

Name:
Representing:
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All-party sign-in cont'd

Name: Mark Schubert Manager- Capital Assets & Planning
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Name: JOYCE STEINGASS
Representing: DRA
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Name: LYNN MARCK
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Name: Stephen St. Marie
Representing: CPUC Staff
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Name: KENNETH K. NISHI
Representing: WCWD
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Name: [illegible]
Representing: [illegible]
Telephone: [illegible]

Name:
Representing:
Telephone:

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Representing:
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All-party sign-in cont'd

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Name: Pat Nelson
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Representing: Monterey Peninsula Water Management District
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Name: Derrick Hansen
Representing: Freeman Dawes & Springwater LLP
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Name: MARK FOGELMAN
Representing: FDZS, MCWD
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Name: Rich Svindland
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Representing: EA
Telephone: [illegible]

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Representing:
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ATTACHMENT B

UFI URBAN FUTURES | Incorporated

To: **Fred Meurer**
City Manager
City of Monterey

From: **Michael Busch**
President
Urban Futures, Inc.

Date: **October 21, 2010**

Subject: **Water Purchase Agreement Analysis**

SUMMARY

In October 2010, the City of Monterey retained Urban Futures, Inc. (UFI) to conduct an analysis of the Water Purchase Agreement (WPA) between the Marina Coast Water District (MCWD), the Monterey County Water Resources Agency (MCWRA), and California American Water Company (CalAm). The WPA provides for the development, construction, and operation of a regional desalination plant to provide a long-term water supply solution for the Monterey Peninsula.

Specifically, UFI was asked to review the WPA and ascertain if it would be possible to amend portions of the document related to governance structure without delaying the overall project. In addition, the City was interested in understanding if financing options for the desalination plant would be limited or hampered should the proposed governance structure be modified.

To assist Monterey, our team read and analyzed the WPA, in addition to other associated documents filed with the California Public Utilities Commission (PUC). Furthermore, we researched the history of the regional desalination project by reviewing documents produced by the PUC's Division of Ratepayer Advocates, legal briefings, City staff reports, and newspaper articles. This memorandum summarizes the results of our work.

BACKGROUND

The Monterey Peninsula does not import water from the Sacramento Delta or the Colorado River, rather, the community is completely dependent on local rainfall for its water supply. Given that situation, the Carmel River has served as the main source of water for the entire peninsula since the first dam was built in the late 1890's.

CalAm is the main water supplier for the Monterey Peninsula (and serves all of the City of Monterey) and has traditionally supplied its customers with water from wells located near the river in the Carmel Valley Aquifer. Historically, the water supplied was considered to be groundwater, which is not subject to State Water Resources Control Board (SWRCB) jurisdiction.

However, in 1995, the SWRCB ruled that CalAm's wells were diverting from the underflow of the Carmel River, thereby making the diversion subject to its jurisdiction. Order 95-10 was adopted by the SWRCB which held that CalAm had no valid permits for nearly 70% of the Monterey Peninsula's water supply. To exacerbate the situation, supply restrictions increased in 2006 when additional cutbacks were ordered in the Seaside Groundwater Basin, Monterey Peninsula's only other water source.

Since Order 95-10 was issued, aggressive water conservation efforts have resulted in a decrease in consumption of more than 20%. Today, the typical Monterey Peninsula resident uses about 70 gallons of water per day, which is around half of the State average.

However, even with the reduction in water use, a stable and reliable long-term water supply solution for the Monterey Peninsula is still needed. The WPA outlines the framework for that solution, which consists of the three primary elements. First, the MCWRA will drill, operate, and maintain wells through which brackish water will be extracted and transported to the proposed desalination plant. Next, the MCWD will construct and operate the desalination plant which will produce consumable water. Finally, CalAm will distribute the desalinated water to its customer base. The overall project has been estimated to cost around $300 million.

Ultimately, when the desalination plant is constructed and fully operational, it will be able to process 10 million gallons of seawater per day, which will equate to around 10,000 acre-feet of drinking water each year.

ANALYSIS

After conducting a thorough review of the WPA and analyzing the issues surrounding the construction and operation of the proposed desalination plant, UFI has reached several conclusions that are described below to assist the City of Monterey with its decision making process.

Conclusion 1

- *It does not appear feasible for the City of Monterey to gain agreement on amending the WPA to include a revised governance structure without significantly delaying the proposed regional water project.*

In order for the WPA to be amended with a revised governance structure without significantly delaying the proposed regional water project, agreement would have to be gained between all of the agencies involved with this initiative. This means that the MCWD, the MCWRA, CalAm, and the six Monterey Peninsula cities (Carmel-by-the-Sea, Del Rey Oaks, Pacific Grove, Sand City, Seaside, and Monterey) would all have to agree on a new or amended governance structure for the construction and operation of the desalination plan.

Given the current context of the regional water project, whereby the Administrative Law Judge assigned to oversee these proceedings is expected to deliver a proposed decision on the project in October 2010 and with the PUC considering the overall proposal beginning in November 2010, it is highly unlikely that the City will be able to amend the WPA without significantly delaying the proposed project.

While it is admirable that Monterey has taken such a proactive stand in defense of water ratepayers, it is difficult to imagine a scenario whereby all of the agencies involved could agree on a new recommended governance structure in time for consideration by the full PUC. In fact, even if a rewrite were possible, and agreement on a new governance structure was reached between all of the participants in this venture, there is no guarantee that the PUC would accept the revised agreement without instituting further review of the new proposal. Such an action could result in significant delays to the project, a factor which is magnified when considering that Commissioner Dian Greuneich and Commissioner John Bohn (two of the five commissioners on the PUC) have their terms ending in January and May of 2011, respectively, when new commissioners will be seated.

When analyzing these considerations as a whole, it seems highly unlikely that the City of Monterey would be able to both amend the WPA with a new governance structure while also not delaying the overall regional water project.

Conclusion 2

- *Changing only the governance structure portion of the WPA to give the Municipal Advisor the right to call for binding arbitration would adversely impact the marketability of the bonds needed to finance construction of the regional water project, to the point where the overall project as currently structured would be rendered unworkable.*

The construction and operation of the proposed desalination plant is necessarily complex given the magnitude of the regional water project. However, each additional layer of intricacy added to the initiative will impact the amount of risk any financial backers will bear. Granting the Municipal Advisor the right to call for binding arbitration within the context of the existing WPA would add such a layer of complexity and inconsistency (especially given the existing governance structure) that financing would most likely be impossible to obtain.

Given our review of the WPA and using our experience as a financial advisor to local government agencies, UFI simply does not see a financially feasible way of indemnifying the potential losses and cost increases that the MCWD, the MCWRA, and CalAm could bear as a result of granting the Municipal Advisor the right to call for arbitration. Short of changing the entire governance structure for the desalination plant to give the Peninsula municipalities both an operational and financial stake in the project (such as through the formation of a joint powers authority), there is no workable alternative that UFI can envision for rewriting the indemnification section of the current WPA to include the additional liability that will be incurred should the Municipal Advisor be given the right to call for binding arbitration.

Ultimately, we have concluded that giving the Municipal Advisor the right to call for binding arbitration within the context of the existing agreement would render the WPA impracticable. Such an action would seem to be in conflict with the City of Monterey's stated goal of supporting the overall regional water project.

Conclusion 3

- *Any bonds issued to pay for the construction of the planned desalination plant should be reviewed by an independent financial advisor to ensure that the structure, price, and yield of the bond transaction is coordinated to serve the public's best interest.*

For public agencies, it is a recommended Government Finance Officer Association (GFOA) best practice to have an independent financial advisory firm assist with the issuance of bonds for capital projects. Given that the MCWD is tasked with the responsibility of building the desalination plant, one feasible alternative for obtaining greater oversight of the regional water project (which would not cause the initiative to be further delayed) is having an independent financial advisor work within the context of the WPA to assist with any needed bond financing.

Under normal circumstances, a financial advisor would technically be retained by and report to the agency issuing the bonds. However, given the existing governance framework as spelled out by the WPA, it seems feasible that a cooperative arrangement could be worked out so that the advisor would report to the Advisory Committee.

An independent financial advisor would be tasked with analyzing and reviewing the revenue assumptions that are provided to the bond underwriter for construction of the desalination plant. In addition, the financial advisor would prepare financial tables for the Official Statement, perform a feasibility analysis to determine the most cost-effective financing plan, and serve as the overall transaction manager for the financing of the regional water project.

While having an independent financial advisor would not provide a new governance structure for the desalination plant, it would allow for greater oversight of the financial transaction needed to build the water facility.

Conclusion 4

- *The best way for the City of Monterey to not delay the proposed regional water project while also obtaining the ability to influence decisions that are made would be through participation on the Advisory Committee as a Municipal Advisor as described in Section 6 of the current WPA.*

When reviewing the regional water project and considering all of the issues involved, it appears that the best way for Monterey to simultaneously be a participant in the initiative while also not delaying the project would be to participate on the Advisory Committee as a Municipal Advisor.

While such an arrangement is not the ideal result given the City's position as an advocate for Peninsula water ratepayers, it is a better alternative at this juncture of the overall project than being excluded from having any involvement at all. By being included on the Advisory Committee now, the City of Monterey will be better positioned to both advocate and negotiate for any potential changes to the governance structure when the project goes before the PUC for consideration.

Ultimately, with the PUC set to consider the proposal in November 2010, it would be more advantageous for the City to be characterized as an agency which supports the overall framework of the agreement. That way, if the PUC should indicate that the settling parties need to address governance concerns regarding the desalination plant, the City of Monterey will already have a seat at the negotiating table.

Conclusion 5

- *The individual or individuals that are selected to represent the Municipal Advisor on the Advisory Committee should be professionals that have a background consistent with that of the representatives from the MCWD, the MCWRA, and CalAm.*

Based on our conversations with City staff, UFI understands that the MCWD, the MCWRA, and CalAm will be represented on the Advisory Committee by executives from their respective organizations. If that is the case, then it would be appropriate and recommended that the Municipal Advisor on the Advisory Committee be represented by two Peninsula city mayors as currently proposed in the WPA. Of course, the two Peninsula city mayors should be supported by technical experts (such as a registered engineer) who could provide the information needed to make fully informed decisions.

However, if the MCWD, the MCWRA, and CalAm send technical staff to serve as their representatives on the Advisory Committee, then it would be appropriate for the Municipal Advisor to be represented by individuals who have a background commensurate with those from the other organizations.

Ultimately, in order to give the ratepayers the most amount of influence on the Advisory Committee, UFI recommends that any individual or individuals selected to serve as the Municipal Advisor have a background that corresponds to the expertise of the representatives from the MCWD, the MCWRA, and CalAm.

Conclusion 6

- *If a new governance structure could be achieved, the most feasible option would be pursuing the formation of a joint powers authority (JPA) to manage the construction and eventual operation of the desalination plant.*

Should a new governance structure be achieved, the City of Monterey should advocate for the formation of a JPA that will manage the construction and operation of the future desalination plant. As currently structured, the MCWD will run the water production facility without being accountable to the majority of ratepayers who will be funding the project.

Whether through agreement from the settling parties, direction from the Administrative Law Judge, or decree by the PUC, should the decision be made to change the governance structure for the regional water project, UFI believes that the best scenario would be to form a JPA with representation from all Monterey Peninsula cities to govern the construction and operation of the desalination plant. Additionally, it would be advisable to include the MCWD and the MCWRA as members of the new governing body. Consideration should also be given to including the Monterey Peninsula Water Management District in any proposed JPA.

Should the decision be made to form a JPA to manage the construction and operation of the desalination plant, additional research and review would be needed to determine the exact role that this new governing body would play in the production and delivery of water to Peninsula residents. In general terms, however, there are two options for consideration.

One option would be for the newly formed JPA to become a water distributer. Under this plan, the water produced by the JPA's desalination plant would be sold to retailers, such as CalAm and the MCWD. Those entities would in turn sell the water they purchase from the JPA to their Monterey Peninsula customers.

Another option that could be considered is for the JPA to serve as both the producer and retail provider of water for the entire region. This alternative would require the initiation of condemnation proceedings that would result in CalAm being legally compelled to sell its Monterey Division Service Area operation to the JPA.

There are a number of different considerations that need to be taken into account should a JPA be formed to govern the construction and operation of the water desalination plant. Given the context of the overall regional water project and the urgent need to find a long-term water solution, it would be in the Peninsula's best interest to avoid condemnation proceedings in favor of building a partnership with CalAm.

There are multiple levels of complexity involved with forming a JPA of this magnitude and before any decision is made on how the new water authority should operate, additional research on the matter needs to be conducted with all of the stakeholders involved in the regional water project being consulted.

CONCLUSION

The efforts of Monterey to maximize water ratepayer protection is laudable, however, given the current context of the overall project, it would be in the City's best interest to join the motion for the Peninsula cities in approving the existing WPA (which envisions two Mayors as Municipal Advisors to the Advisory Committee).

Based on our review of the agreement and other related documents, participating in the project as a Municipal Advisor will not impact either the City of Monterey or the water ratepayers in a negative way. Ultimately, the cost of water delivered by CalAm will be regulated by the PUC irrespective of Monterey's decision to either approve or disapprove of the WPA.

However, by not joining the other Peninsula cities as a participant on the Advisory Committee, Monterey could potentially be excluded from important decisions that need to be made regarding the construction and operation of the proposed desalination plant. It would therefore be advantageous for the City to participate now, especially since there is the possibility that the governance structure may be modified in the future. Should that occur, Monterey will want to be at the negotiating table and the chances of that occurring will be greater if the City chooses to participate today.