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EXHIBIT A

EXECUTION COPY

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates	Application No. 12-04-019 (Filed April 23, 2012)

SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER

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BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates	Application No. 12-04-019 (Filed April 23, 2012)

SETTLEMENT AGREEMENT ON

MPWSP DESALINATION PLANT RETURN WATER

Pursuant to Article 12 of the Rules of Practice and Procedure of the California Public Utilities Commission ("CPUC"), California-American Water Company ("Cal Am"), Coalition of Peninsula Businesses ("CPB"), Landwatch Monterey County ("Landwatch"), the Monterey County Farm Bureau ("MCFB"), the Monterey County Water Resources Agency ("Agency"), the Monterey Peninsula Regional Water Authority ("Authority"), Monterey Peninsula Water Management District ("MPWMD"), Monterey Regional Water Pollution Control Agency ("MRWPCA"), Planning and Conservation League Foundation ("PCL"), and the Salinas Valley Water Coalition ("SVWC") (collectively, the "Parties") agree on the terms of this Settlement Agreement, which they now submit for review, consideration, and approval by the CPUC.

RECITALS

A. Cal Am is seeking permits and approvals for the Monterey Peninsula Water Supply Project ("Project"), including a certificate of public convenience and necessity from the CPUC.

B. The Project includes a desalination plant that will provide a potable water supply for Cal Am's Monterey Peninsula service area. Rather than using an open-ocean intake that would produce only seawater as source water for the desalination plant, the Project desalination plant will produce its source water from subterranean slant wells drilled adjacent to the ocean, which will draw water from strata underlying the ocean. The location of the wells overlies the western portion of the Salinas River Groundwater Basin ("SRGB").

C. Cal Am characterizes its Project as proposing to develop seawater and brackish groundwater originating from the SRGB to produce source water that would be desalinated to provide a potable water supply for Cal Am's Monterey Peninsula service area.

D. The SVWC, MCFB and Landwatch contend that—rather than proposing to use an open-ocean intake that would produce only seawater—Cal Am's Project proposes to use wells developed in the SRGB to produce source water for desalination to provide Cal Am's Monterey Peninsula service area with a new source of water supply.

E. The ratio of seawater to brackish SRGB groundwater in the Project source water is anticipated to change over time, with more seawater and less SRGB groundwater anticipated later in the Project's life.

F. Cal Am contends that source water production by the Project is unlikely to cause significant adverse environmental effects with respect to SRGB groundwater resources and is unlikely to cause injury to prior groundwater rights in the SRGB but submits that the Monterey County Water Resources Agency Act ("Agency Act") authorizes the Agency to obtain an injunction prohibiting the export and use of SRGB groundwater outside of the SRGB and certain areas of Fort Ord.

G. The Agency, SVWC, MCFB and Landwatch submit that the Agency Act directly prohibits the export and use of SRGB groundwater outside of the SRGB and certain areas of Fort Ord without the need for the Agency to obtain an injunction.

H. The Project's slant intake wells are designed to produce source water for treatment by the selected desalination plant ("Project Source Water Production"). To meet applicable requirements of the Agency Act, Cal Am has proposed as part of the Project to make available for delivery to groundwater users overlying the SRGB a volume of water ("Return Water") equal to the percentage of SRGB groundwater in the total Project Source Water Production, as calculated on a water year basis and determined by the Agency.

I. The SVWC, MCFB and Landwatch contend there is no surplus SRGB groundwater available for Cal Am's use in providing public water service within or outside of the SRGB and that the law of California groundwater rights requires that any production and use of SRGB groundwater by the Project must be returned for use within the SRGB in lieu of existing groundwater pumping.

J. For Project planning and engineering purposes, Cal Am submits that the Project source water wells have been designed so that approximately 4% of the source water produced by the Project will originate as brackish groundwater from the SRGB.

K. For planning purposes, Cal Am has assumed that the Return Water volume for the large desalination plant will be 1,080 acre feet annually ("afa") and, for the small desalination plant, 690 afa.

L. The CPUC is conducting environmental review of the Project under the California Environmental Quality Act ("CEQA"), and the Monterey Bay National Marine Sanctuary is conducting environmental review of the Project under the National Environmental Policy Act ("NEPA").

M. The modeling used in the CPUC's April 2015 CalAm Monterey Peninsula Water Supply Project Draft Environmental Impact Report ("DEIR") estimates that the volume of SRGB groundwater produced as source water for the large-scale (9.6 million gallons per day) Project would be approximately 7 percent, or 1,889 afa, under existing land-use conditions and would be approximately 4 percent, or 1,080 afa, under projected future 2060 land-use conditions, and would average approximately 5.5 percent, or 1,485 afa, over the life of the Project. (DEIR at 4.4-67.)

N. Note C to the CPUC's DEIR Table 2-5 states that "groundwater modeling indicates that as much as 1,080 afa may need to be returned to the Salinas Valley Groundwater Basin (based on 4 percent of total source water intake being drawn from the Salinas Valley Groundwater Basin)" and states that "Project supply would be sufficient to provide this larger quantity of return water."

O. The CPUC is preparing a revised DEIR/Environmental Impact Statement (RDEIR/DEIS) for the Project that will assess the significance of effects to SRGB groundwater resources, and the modeling in the revised RDEIR/DEIS will be updated and calibrated to include test well production data obtained to date (over 100 days of pumping). Cal Am also is working to gather additional (up to two years) test well production data to inform analysis of those effects. The full data set is not expected to be available before the CPUC's completion of CEQA/NEPA review and its decision whether to approve a certificate of convenience and necessity for the Project.

P. The Parties and the State Water Resources Control Board are in agreement, and the DEIR concludes, that delivering Return Water by injecting desalinated water from the Project into the SRGB is less desirable than delivering Return Water for beneficial use in in the SRGB.

Q. The Castroville Seawater Intrusion Project ("CSIP") is an Agency project that provides recycled water and diverted Salinas River water for use in lieu of groundwater pumping for irrigated agricultural use in the Castroville area of the SRGB.

R. It has been proposed that Cal Am Return Water obligations be fulfilled, in part, by delivery of Return Water to CSIP. Prior environmental analyses reveal that there may be limitations in the capacity of CSIP to accommodate all of the Project Return Water under some conditions. (DEIR, p. 2-45, 6-4, 6-114; Pure Water Monterey, GWR DEIR, Appendix Q, Table B-3).

S. The SVWC, MCFB and Landwatch contend that the Project's well production may cause injury to the SRGB and senior groundwater rights holders in the SRGB under California groundwater law, even if the RDEIR/DEIS concludes that the well production would not cause a significant adverse effect under CEQA.

T. MCFB, SVWC and Landwatch oppose any scenario where Return Water would be used outside the SRGB, rather than for use in lieu of existing groundwater pumping in the SRGB.

U. In the July 31, 2013 Settlement Agreement among 16 parties to Proceeding A.12-04-019, MCFB, SVWC, Landwatch, the Agency, and Citizens for Public Water reserved all rights to challenge production of water from the SRGB by Cal Am in any appropriate forum based on their concerns for potential harm to the SRGB and users thereof.

V. MCFB and SVWC have stated they may litigate these issues if they are not resolved through agreement.

W. Cal Am and the Authority maintain that any obligation to return SRGB groundwater to the SRGB arises only as a requirement of the Agency Act, except to the extent that Return

Water is necessary as part of a physical solution to avoid harm to the SRGB and senior groundwater rights holders in the SRGB under California groundwater law or to mitigate significant adverse effects to the SRGB or particular groundwater users pursuant to CEQA.

X. Cal Am, with the encouragement of the Authority, also desires to maximize revenue for Return Water to offset water costs and water rates for Cal Am customers on the Monterey Peninsula.

Y. Cal Am must obtain CPUC approval to deliver or sell any Return Water for use outside of Cal Am's service area.

Z. A controversy has now arisen as to Cal Am's obligation to deliver Return Water to the SRGB, and as to the responsibility for the costs of producing the Return Water, and the Parties to this Settlement Agreement seek to resolve these issues through this Settlement Agreement.

AA. Pursuant to the terms of this Settlement Agreement, the Parties propose that Cal Am deliver Return Water to the Castroville Community Services District ("CCSD") and to the CSIP to satisfy Return Water requirements that may arise out of the Agency Act, CEQA, or California groundwater law, in accordance with terms and conditions and general principles contained in this Settlement Agreement and separate Return Water Purchase Agreements between Cal Am as seller and CCSD and the Agency, respectively, as purchasers of Return Water.

BB. To facilitate planning and review, the Parties and CCSD executed a Return Water Planning Term Sheet ("Planning Term Sheet") on January 22, 2016 (Appendix A). At a regular meeting called and held on January 19, 2016, the Board of Directors of CCSD adopted Resolution No. 16-2 (Appendix B) approving execution of the Planning Term Sheet. The form of the Planning Term Sheet approved by Resolution 16-2 is consistent with the Planning Term Sheet executed by the Parties and CCSD on January 22, 2016. CCSD and the Parties have met and conferred since January 22, 2016 concerning the terms for a Return Water Purchase Agreement between CCSD and Cal Am ("CCSD RWPA") consistent with the Planning Term Sheet. The Board of Directors of CCSD reviewed the draft CCSD RWPA at a regular meeting on April 19, 2016 and adopted Resolution 16-4 (Appendix B) approving the draft CCSD RWPA in concept for submission to the CPUC for planning purposes and review. CCSD submits that CCSD would sign a CCSD RWPA after expiration of the statute of limitations for challenging a decision by the CPUC certifying the Project environmental impact report and approving this Settlement Agreement.

CC. In the Planning Term Sheet, CCSD submits that it provides municipal and domestic water service to the Town of Castroville, which overlies the SRGB in an area north of the City of Marina and west of the City of Salinas.

DD. In the Planning Term Sheet, CCSD submits that it currently relies on groundwater from the SRGB to meet Castroville's water demands, which use averages approximately 780 afa.

EE. In the Planning Term Sheet, CCSD submits that it increasingly has experienced water

supply challenges due to water quality degradation of its water supplies, primarily from increased salinity.

FF. In the Planning Term Sheet, CCSD submits that poor water quality, including elevated sodium levels in CCSD's groundwater supplies, can contribute to health risks of individuals susceptible to high sodium.

GG. In the Planning Term Sheet, CCSD submits that it has been identified as a disadvantaged community (Greater Monterey County IRWM Regional Water Management Group Disadvantaged Community Outreach Plan, Prepared for the Environmental Justice Coalition for Water by Nilsen & Associates, Approved April 18, 2012), and was an active participant in the Regional Plenary Oversight Group process established by the Office of Ratepayer Advocates to determine whether the Regional Desalination Project, a predecessor project to the Project, would be a source of supply for Castroville.

HH. In the Planning Term Sheet, CCSD submits that many of CCSD's customers contribute significantly to agricultural and hospitality industries in the Salinas Valley and on the Monterey Peninsula.

II. In the Planning Term Sheet, CCSD submits that it is actively pursuing alternative water supplies and has applied to the State for funding to develop deeper groundwater wells and other projects to serve its customer demands.

JJ. In the Planning Term Sheet, CCSD submits that it is interested in taking delivery of a Return Water supply from the Project to replace all or part of CCSD's current reliance on groundwater from the SRGB.

KK. Cal Am contemplated two separate pipelines delivering Return Water from the Project desalination plant, one to CSIP ponds and one to CCSD's wellsite #3 ("CCSD Wellsite"). Through negotiations and discussions, the Parties determined the cost of new infrastructure could be decreased by connecting with existing CSIP infrastructure. That connection allows a single pipeline, rather than two pipelines, to be constructed from the desalination plant to the CCSD Wellsite that will connect with an existing CSIP pipeline ("CSIP Connection"). The elimination of a separate pipeline to the CSIP ponds avoids certain pipeline and pump station costs and results in an estimated cost savings to Cal Am of approximately $1,300,000. A preliminary cost estimate for a pipeline and ancillary facilities necessary to convey water from the Project desalination plant to the CCSD Wellsite ("Delivery Pipeline") is approximately $6,500,000. Cal Am believes that if the Delivery Pipeline is constructed by Cal Am there will economies of scale achieved which may reduce the cost of the Delivery Pipeline to approximately $4,400,000, assuming that Cal Am will secure contracts for construction of the pipeline and that environmental review and permitting will be performed in conjunction with the Project. CCSD estimates its cost to construct a new deep well with treatment facilities would cost approximately $2,800,000. Thus, CCSD submits that it may not be able to prudently fund the Delivery Pipeline for more than $2,800,000, and that capital obligations for the Delivery Pipeline would necessitate long-term commitments by CCSD and certainty of source water supply for CCSD.

LL. The SVWC, MCFB, and Landwatch support Cal Am's delivering Return Water to CCSD and to CSIP for use in lieu of existing groundwater pumping in the SRGB.

MM. The Parties submit that Cal Am's delivery of Return Water to CCSD and CSIP pursuant to the terms of this Settlement Agreement is a fair and equitable resolution of the disputed matters described above, and is consistent with the law and policy controlling the CPUC's approval of the Project, and therefore desire to settle the differences between and among them discussed in the preceding Recitals by entry into this Settlement Agreement.

AGREEMENT

NOW, THEREFORE, as a COMPROMISE and SETTLEMENT of the above-stated dispute, and to provide for an efficient and effective resolution of this dispute, the Parties do hereby AGREE to the following terms:

1. The recitals are hereby incorporated in this Settlement Agreement as if fully set forth herein.

2. Cal Am will deliver Return Water to the SRGB for use in lieu of existing groundwater production as follows:

    a. Subject to Cal Am's Return Water obligations under this Settlement Agreement, Cal Am anticipates delivering Return Water pursuant to two Return Water Purchase Agreements, attached hereto in draft form as Appendix C, and Cal Am, CCSD and the Agency intend to enter into the Return Water Purchase Agreements.[1]

    b. In order to ensure Cal Am's compliance with the Agency Act, the Parties agree that upon start-up of the Project, the first 175 acre-feet of Return Water delivered by Cal Am pursuant to this Settlement Agreement ("Reserve Water") shall be delivered to CSIP.

    c. Cal Am shall have annual Return Water requirements ("Annual Return Water Obligation") that shall be calculated based on the percentage of SRGB groundwater in the total Project Source Water Production. Cal Am's Annual Return Water Obligation under this Settlement Agreement shall not begin until the day after the full

[1] Cal Am is in discussions with the Monterey Regional Waste Management District ("MRWMD") regarding the potential for potable water supply delivery by Cal Am to MRWMD's landfill site that is contiguous to the desalination plant facilities in an amount not to exceed MRWMD's historical average pumping amount estimated at 6 afa. The landfill site cannot use its existing wells for human consumption due to nitrate contamination and, currently, potable water is trucked-in to provide service. In addition, Cal Am is also in discussions with MRWPCA regarding the potential for potable water supply delivery by Cal Am to MRWPCA's site located near the desalination plant facilities in an amount not to exceed MRWPCA's historical averaging pumping amount estimated at 11.9 afa. MRWPCA is currently pumping SRGB groundwater for use at its site and any such potable water supply provided by Cal Am would directly reduce the corresponding amount of groundwater pumping by MRWPCA. The Parties agree that if Cal Am delivers potable water supply to MRWMD's landfill site and/or MRWPCA's site, such water (a) will be counted toward Cal Am satisfying its return water obligations under the Agency Act and this Settlement Agreement, (b) will be subject to Cal Am's applicable commercial customer tariff for its Monterey District, (c) will be included in Cal Am's reporting of Return Water delivered by Cal Am as contemplated by Section 2.h. of this Settlement Agreement, and (d) will be in lieu of existing groundwater pumping from the SRGB.

amount of Reserve Water has been delivered to CSIP (the "Obligation Start Date").

i. During the first three months after the Obligation Start Date, the Annual Return Water Obligation shall be 7% of total Project Source Water Production during that period. For the remainder of the water year after the first three months have passed, the Annual Return Water Obligation shall be the percentage of SRGB groundwater in the total Project Source Water Production calculated during the first three months after the Obligation Start Date.

ii. Beginning in the first full water year after the time period set forth in subsection i. above expires, the Annual Return Water Obligation in any given year shall be the sum of (a) the Base Return Water Obligation for that year, as determined pursuant to subsection iii. below, plus (b) any Return Water Shortfall for the prior year, as determined pursuant to subsection iv. below, minus (c) any Return Water Surplus for the prior year, as determined pursuant to subsection v. below.

iii. The volume of the Base Return Water Obligation shall be initially calculated each year by Cal Am based on the methodology set forth in Appendix D and Cal Am shall notify the other Parties, in writing, of the result of such calculation by December 1 of each year. Such notification shall include all calculations leading to such result. Within 14 days following receipt of such notification, the Agency shall notify the other Parties, in writing, of its determination regarding the accuracy of Cal Am's calculation of the volume of the Base Return Water Obligation. If the Agency determines the result is not accurate, its notification shall explain the reason for such determination. Within 21 days after any written notification by the Agency that it has determined that Cal Am's calculation is not accurate, the Parties shall meet to seek to reach agreement regarding the volume of the Base Return Water Obligation for that year. If the Parties do not reach agreement within 30 days after the initial meeting, any Party may on or after the 31st day, but no later than the 91st day, invoke the provisions of Section 9.

iv. The volume of any Return Water Shortfall for a given year shall be determined by subtracting the amount of Return Water made available by Cal Am in that year from the amount of the Annual Return Water Obligation for that year. If the amount of Return Water made available by Cal Am in that year equals or exceeds the Annual Return Water Obligation, the Return Water Shortfall for that year shall be equal to zero.

v. The volume of any Return Water Surplus for a given year shall be determined by subtracting the amount of the Annual Return Water Obligation for that year from the amount of Return Water provided by Cal Am to CCSD and the Agency in that year. If the amount of Annual Return Water Obligation in that year equals or exceeds the amount of Return Water provided by Cal Am to CCSD and the Agency, the Return Water Surplus for that year shall be equal to zero.

d. Subject to Section 8, Cal Am's obligation to make Return Water available for use in lieu of existing groundwater pumping in the SRGB to meet its Annual Return Water Obligation shall survive for a period of 30 years following start-up of the Project even if the Return Water Purchase Agreements are not executed, do not become effective, or are otherwise amended or terminated.

e. Cal Am shall make available for delivery to CCSD 690 afa of Return Water ("CCSD Delivery Volume").

f. If the Annual Return Water Obligation is less than the CCSD Delivery Volume, Cal Am shall make available for delivery potable water in an amount equal to the difference between the Annual Return Water Obligation for that year and the CCSD Delivery Volume ("Excess Water").

g. Cal Am shall make available for delivery to CSIP any Annual Return Water Obligation in excess of the CCSD Delivery Volume, according to procedures agreed to in the Return Water Purchase Agreement by and between the Agency and Cal Am.

h. For the first two years that Cal Am is delivering Return Water pursuant to this Settlement Agreement, Cal Am will report to the Parties on a quarterly basis the quantity of Return Water delivered to each recipient under this Settlement Agreement. Such reports shall be issued by Cal Am on or about December 1 (for the quarter July 1 to September 30), March 1 (for the quarter October 1 to December 31), June 1 (for the quarter January 1 to March 31), and September 1 (for the quarter April 1 to June 30) of each year. For the following three years that Cal Am is delivering Return Water pursuant to this Settlement Agreement, Cal Am will report to the Parties on a semi-annual basis (on or about December 1 for the period April 1 to September 30, and on or about June 1 for the period October 1 to March 31) the quantity of Return Water delivered to each recipient under this Settlement Agreement. Thereafter, Cal Am will report to the Parties on an annual basis (on or about December 1 for the period October 1 the previous year to September 30 the current year) the quantity of Return Water delivered to each recipient under this Settlement Agreement.

i. All references in this Settlement Agreement to a "year" shall mean a "water year," and all references to a "water year" shall mean the 12-month period beginning on October 1 of a given year and ending on September 30 of the following year. All calculations herein based on the period of a year shall be prorated to account for any time frame that is less than a 12-month period.

3. Cal Am shall comply with the Agency Act. Notwithstanding any other provisions of this Settlement Agreement, the Agency will retain all rights, discretion and authority conferred on the Agency under the Agency Act to ensure that the pumping, production, desalination, and distribution of project source water from the SRGB for the selected desalination plant complies with the Agency Act, and to protect the long-term viability of the SRGB as a water supply for water for agricultural, domestic and municipal use. Neither this Section 3 nor any other provision of this Settlement Agreement shall be interpreted: (a) to affect, diminish, or enhance the Agency's regulatory authority under the Agency Act; (b) to affect, diminish, excuse, or forgive Cal Am's obligation to comply with the Agency Act; or (c) to preclude any argument by any Party to this Settlement Agreement that there is no violation of the Agency Act.

4. The Parties acknowledge that Cal Am could be legally required by a regulatory agency, including the CPUC in this proceeding, or by a court, to make water deliveries to other locations in the SRGB to the extent necessary to mitigate any groundwater impacts from the Project that were demonstrated in relation to a specific location overlying the SRGB ("Other Return Water Obligation"). Such Other Return Water Obligation could also serve to satisfy Cal Am's obligations to return water to the SRGB under the Act, CEQA, or common-law water law principles. Under such circumstances, the Parties agree that it would be inequitable to Cal Am and its ratepayers to fund both the Other Return Water Obligation and the Return Water obligations specified herein as this would result in a duplicative liability to Cal Am and its ratepayers. Cal Am's obligation to make available the CCSD Delivery Volume shall be reduced in the event and to the extent that a regulatory agency or court has required Cal Am to deliver Return Water in a manner or to a location different than as specified in the Settlement Agreement. CCSD shall not be obliged to purchase Return Water if it determines that the reduced amount of Return Water would not be sufficient to justify a Water Purchase Agreement as contemplated herein. In the event that CCSD determines that its water purchase is not justified due to an Other Return Water Obligation, the Parties to this Settlement Agreement will meet and confer in good faith to effect other arrangements to make the remaining Return Water, net of the Other Return Water Obligation, available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that Cal Am will meet its Annual Return Water Obligation under this Settlement Agreement.

   The Parties further acknowledge that the CCSD must be assured of a specific volume of Return Water to justify investment in the capital facilities necessary to convey the Return Water from the Project to the CCSD (the "CCSD Facilities"), and therefore Cal Am's obligation to the CCSD Delivery Volume specified herein cannot be terminated during the term of the anticipated Return Water Purchase Agreements after such time as CCSD has obligated itself to finance such capital facilities. To afford the best foresight in relation to potentially competing Return Water obligations, while also facilitating the certainty relating to Return Water deliveries required by CCSD, Cal Am's obligation to make available the CCSD Delivery Volume under the terms of the CCSD Return Water Purchase Agreement shall become unconditional on the date that is the latest of the following dates:

a. the date on which the CPUC has issued a CPCN for the Project and the period to challenge the legality of the CPUC's issuance of the CPCN (based on CEQA compliance or otherwise) has expired and no challenge has been brought;

b. the date on which any challenge against the CPUC's issuance of the CPCN is resolved with finality following all available appeals and petitions; or

c. 60 days following the date on which the CCSD provides notification to Cal Am that it has secured financing, acceptable to CCSD, to acquire the CCSD Facilities.

In the event of any challenge against the CPUC's issuance of the CPCN, the Parties to this Settlement Agreement shall meet and confer in good faith to effect other arrangements to make the total amount of the Return Water, as adjusted by any Other Return Water Obligation, available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that Cal Am will meet its Annual Return Water Obligation under this Settlement Agreement during the pendency of that litigation.

After the above dates, Cal Am may not terminate its obligation to deliver the CCSD Delivery Volume in the event Cal Am is subsequently required to meet Other Return Water Obligations. Cal Am and CCSD shall meet and confer as necessary within a reasonable amount of time before or after any of the above dates if it appears that Cal Am's obligation to make available the CCSD Delivery Volume may not become unconditional. Due to the urgent nature of the Project and other regulatory pressures to implement the Project, Cal Am and CCSD may mutually agree at any time to amend and move forward with the CCSD Water Purchase Agreement, notwithstanding Other Return Water Obligations, provided all other required approvals have been attained and provided that Cal Am will meet its Annual Return Water Obligation under this Settlement Agreement through some combination of some or all of the CCSD Water Purchase Agreement, the CSIP Water Purchase Agreement, Other Return Water Obligations, or arrangements made pursuant to Section 7 of the Settlement Agreement.

5. Return Water and Excess Water pricing shall be as follows:

a. CCSD**:** For each acre-foot of Return Water or Excess Water made available for delivery to CCSD:

i. CCSD shall pay a rate intended to represent its avoided cost to produce groundwater to meet customer demand, currently estimated to be $110 per acre-foot, which will be the rate as of the Obligation Start Date, for Return Water made available for delivery to meet the Annual Return Water Obligation. CCSD plans to continue operation of its existing wells so they may be available in emergency circumstances. This continuing operation will enable CCSD to provide future updates to the avoided cost of pumping. If CCSD is unable to provide such updated avoided costs of pumping, then the percentage increase of PG&E's A-6 tariff for off-peak summer distribution

rate (with a base of $0.07311 / kWh as of the tariff existing on March 24, 2016) will be used as the escalation factor for the increase in avoided cost of pumping in the future. After the Obligation Start Date, the rate will be reviewed annually and updated, if necessary, via Tier 2 advice letter filing with the CPUC.

ii. CCSD shall pay a rate intended to represent the marginal operation and maintenance costs for the Project to produce one acre-foot of potable water, currently estimated to be $580 per acre-foot, which will be the rate as of the Obligation Start Date, for any Excess Water calculated as set forth in Appendix F. After the Obligation Start Date, the rate will be reviewed annually and updated, if necessary, via Tier 2 advice letter filing with the CPUC.

b. CSIP: Subject to rights to terminate established in Section 10 of the Return Water Purchase Agreement between the Agency and Cal Am, for each acre-foot of Return Water delivered by Cal Am, the Agency shall pay a rate intended to represent the CSIP customers' marginal avoided cost for groundwater produced for use by the CSIP customers, currently estimated to be $102 per acre-foot which will be the rate as of the Obligation Start Date. After the Obligation Start Date, the rate will be reviewed annually and updated, if necessary, via Tier 2 advice letter filing with the CPUC.

6. The Parties support Cal Am negotiating and entering into Return Water Purchase Agreements substantially in the form attached in Appendix C to this Settlement Agreement. To the extent any conflict is noted or alleged to exist between the terms of this Settlement Agreement and the terms of either Return Water Purchase Agreement, the Parties agree to meet and confer to seek to arrive at a mutually-agreeable reconciliation of the terms of the three agreements.

a. The Return Water Purchase Agreements shall have an initial term of at least 30 years.

b. Prior to the expiration of the Return Water Purchase Agreements contemplated herein, CCSD and CSIP shall have a right of first refusal to enter into new water purchase agreements on terms to be negotiated at the time.

7. If the Return Water Purchase Agreements are not executed, do not become effective, or are otherwise amended or terminated, the Parties to this Settlement Agreement shall meet and confer in good faith to effect other arrangements to make the total amount of the Return Water reduced by any Other Return Water Obligation available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that Cal-Am will meet its Annual Return Water Obligation under this Settlement Agreement. Regardless of whether the Return Water Purchase Agreements are not executed, do not become effective, or are otherwise amended or terminated, Cal Am shall not be excused from meeting its Annual Return Water Obligation under this Settlement Agreement.

8. Upon termination, expiration or non-renewal of the Return Water Purchase Agreements,

Cal Am shall continue to make Return Water available for delivery to the SRGB for use in lieu of existing groundwater production, unless Cal Am demonstrates that Return Water is not needed to prevent legal injury to prior groundwater rights holders in the SRGB or to avoid significant adverse effects to SRGB groundwater resources. If Cal Am desires to make such a showing, it shall initially do so by providing a demonstration in writing to all Parties to this Settlement Agreement using the notice provisions of Section 24. Within 21 days thereafter, the Parties shall meet to seek to reach agreement regarding whether Cal Am has made the requisite demonstration. If the Parties do not reach agreement within 30 days after the initial meeting, any Party may on or after the 31st day, but no later than the 91st day, invoke the provisions of Section 9. For the avoidance of doubt, nothing in this section 8 in any way affects the provisions, scope and application of Section 3.

9. If a dispute arises concerning any controversy or claim arising out of or relating to this Settlement Agreement or the breach thereof, or relating to its application or interpretation, such dispute shall be resolved as follows:

   a. Disputes. The aggrieved Party will notify the other Parties of the dispute in writing within twenty (20) days after such dispute arises. If the Parties fail to resolve the dispute within sixty (60) days after delivery of such notice, each Party will promptly nominate a senior officer of its organization to meet at any mutually-agreed time and location to resolve the dispute. The Parties shall use their best efforts to reach a just and equitable solution satisfactory to all Parties. If the Parties are unable to resolve the dispute to their satisfaction within sixty (60) days thereafter, the dispute will be subject to mediation, as described below in Section 9.b. The time periods set forth in this section are subject to extension if agreed to by the Parties.

   b. Mandatory Non-binding Mediation. If a dispute is not resolved pursuant to Section 9.a., the Parties agree to first endeavor to settle the dispute in an amicable manner, using mandatory non-binding mediation initiated and conducted under the applicable rules of the American Arbitration Association in effect as of the Effective Date or other rules agreed to in writing by the Parties, before having recourse in a court of law or equity. Each Party shall bear its own legal expenses, and the expenses of witnesses for either side shall be paid by the Party producing such witnesses. All expenses of the mediator, including required travel, and the cost of any proofs or expert advice produced at the direct request of the mediator, shall be borne equally by the Parties, unless they agree otherwise. Any resultant agreements from mediation shall be documented in writing. All mediation proceedings, results, and documentation, including without limitation any materials prepared or submitted or any positions taken by or on behalf of any Party, shall be confidential and inadmissible for any purpose in any legal proceeding (pursuant to California Evidence Codes sections 1115 through 1128), unless such admission is otherwise agreed upon in writing by the Parties. Mediators shall not be subject to any subpoena or liability, and their actions shall not be subject to discovery. The mediation shall be completed within sixty (60) days after selection of the mediator, unless the Parties agree to extend the mediation period.

c. Judicial Relief. If mediation pursuant to Section 9.b. does not resolve a dispute, any Party may seek relief in a court of competent jurisdiction.

d. Limitations on Damages. No Party shall be entitled to consequential damages, incidental damages, or punitive or exemplary damages from any other Party in any action or proceeding in connection with this Settlement Agreement.

e. Attorneys' Fees and Costs. In any action or proceeding to enforce a term or condition of this Settlement Agreement, in any disputes relating to this Settlement Agreement, and in any actions for breaches, defaults, or misrepresentations in connection with the Settlement Agreement, a prevailing Party (as determined by a court of competent jurisdiction) shall be entitled to recover its reasonable costs and expenses, including without limitation reasonable attorneys' fees and costs.

10. The Parties agree that Cal Am's certificated service area for the Monterey County District shall be extended to include: (1) a delivery point near the intersection of Nashua Road and Monte Road (located between Cal Am's desalination plant facilities and the CCSD service area) that is necessary for Cal Am to serve CCSD and the Agency at the delivery point set forth in the anticipated Return Water Purchase Agreements; (2) the territory contiguous to the desalination plant facilities that is necessary for Cal Am to deliver water to Monterey Regional Waste Management District ("MRWMD"); and (3) to MRWPCA's wastewater treatment plant site which is located next to the MRWMD site, and that Cal Am shall update its service area map accordingly through a Tier 2 advice letter filing to describe the territory served on the utility's tariffs. The Parties further agree to support Cal Am's ability to implement and update its tariffs accordingly through a Tier 2 advice letter.

11. The Parties agree that the proposed tariff set forth in Appendix E, which may be modified from time to time with CPUC approval to reflect adjustments to the terms of service as set forth herein, shall govern the rates and provision of service to CCSD and the Agency, subject, however, to rights to terminate established in Section 10 of the Return Water Purchase Agreements between Cal Am and each of CCSD and the Agency.

12. Pursuant to the Return Water Purchase Agreements, Cal Am would collect revenue from CCSD and the Agency. All revenue collected under the Return Water Purchase Agreements would be through an approved tariff with the CPUC and would be used to offset the operations and maintenance costs of the Project to customers in the Monterey District in accordance with Section 8.3 of the document known as the "Large Settlement Agreement." Revenues collected from MRWMD would be under an existing General Metered Non-Residential tariff that is subject to regulation by the CPUC.

13. Cal Am shall provide notice of advice letters filed pursuant to this Settlement Agreement to the Parties and to CCSD upon their filing and in accordance with applicable CPUC requirements.

14. This Settlement Agreement reflects a settlement and compromise of putative claims and remedies of the Parties hereto.

15. If the Return Water settlement described in this Settlement Agreement is not approved by

the CPUC and implemented by Cal Am, the Agency, SVWC, MCFB and Landwatch reserve their rights to challenge Cal Am's production of water from the SRGB in any appropriate forum.

16. The Parties agree to expeditiously, substantively and in good faith support this Settlement Agreement and cooperate with Cal Am in any administrative or judicial proceeding challenging this Settlement Agreement and/or Cal Am's obligations and responsibilities with respect to Return Water.

17. Among other things, this Settlement Agreement helps to define a stable and finite project description that will facilitate the CPUC's completion of CEQA review for the Project. The legal effectiveness of this Settlement Agreement is contingent on the completion of CEQA review and this Settlement Agreement does not irretrievably commit the Parties to carrying out any physical activities that would be required for Cal Am to meet the Annual Return Water Obligation or would otherwise be required for the Parties to comply with the terms of this Settlement Agreement, including through the anticipated Return Water Purchase Agreements whose future approval will be conditioned upon the completion of CEQA review by the CPUC as lead agency for the Project and by those Parties playing the role of a responsible agency with respect to the anticipated Water Supply Agreements. The Parties acknowledge and intend that the lead agency and responsible agencies will retain full discretion with respect to deciding whether to approve the Return Water Supply Agreements or any other commitments necessary or convenient for Cal Am to meet the Annual Return Water Obligation, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects (i) from Return Water activities that are within their jurisdiction, and (ii) from the Parties' compliance with other terms of this Settlement Agreement.

18. If the CPUC approves the Settlement Agreement with modifications, the Parties request the CPUC to provide a reasonable period for the Parties to consider and respond to such modification.

19. If the CPUC approves the Settlement Agreement with modifications, each Party shall determine no later than two business days before the deadline imposed by the CPUC for acceptance of the modification whether it will accept the modification and shall notify the other Parties of its determination.

20. If any Party declines to accept the CPUC's modification, the other Parties may still accept the modification and request the CPUC to approve the revised Settlement Agreement in the absence of the agreement of the Party or Parties who decline to accept the CPUC's modification; provided, however, that Parties who accept the modification and request approval of a revised Settlement Agreement may not accept the modification and request the CPUC to approve the revised Settlement Agreement if the applicant Cal Am is among the Parties who decline to accept the CPUC's modification. If the CPUC's proposed modification of this Settlement Agreement is not consented to by Cal Am, the Settlement Agreement shall be void and the CPUC will establish a procedural schedule to address the disputed issues.

21. This Settlement Agreement does not currently impact the terms of section 3.1(b) of the document known as the Large Settlement Agreement. To the extent later binding agreements may specifically do so, they will not impact the Agency's authority and responsibilities under or Cal Am's obligation to comply with the Agency Act.

22. This Agreement shall be binding upon, and shall inure to the benefit of and be enforceable by, the Parties hereto and their respective successors and assigns permitted hereunder.

23. Nothing in this Settlement Agreement is intended, either expressly or by implication, to confer any rights or remedies under or by reason of this Settlement Agreement on any persons other than the Parties hereto; nothing in this Agreement is intended, either expressly or by implication, to relieve or discharge the obligation or liability of any third person to any Party; and nothing in this Settlement Agreement creates, either expressly or by implication, any duty, liability or standard of care to any person who is not a Party.

24. All notifications, notices, demands, requests and other communications herein provided for or made pursuant hereto shall be in writing and shall be sent by: (i) registered or certified mail, return receipt requested, and the giving of such communication shall be deemed complete on the third (3rd) business day after the same is deposited in a United States Post Office with postage charges prepaid; or (ii) reputable overnight delivery service, and the giving of such communication shall be deemed complete on the immediately succeeding business day after the same is deposited with such delivery service; and (iii) so long as a Party has notified the other Party by means of a method described in clauses (i) or (ii) above of such Party's email address for notification purposes, email transmission of notices to such Party are also permitted provided an original is also sent via one of the other permitted means and the giving of such communication shall be complete when such email is received if such email is received on a business day before 3:00 pm Pacific Time; otherwise, such communication shall be deemed complete the next business day. The date on which notifications, notices, demands, requests and other communications are deemed complete shall be the earliest date arising under subsections (i), (ii) or (iii) of this Section 24. All notifications, notices, demands, requests and other communications shall be sent to the Parties as follows:

To Agency:

David E. Chardavoyne
General Manager
Monterey County Water Resources Agency
893 Blanco Circle
Salinas, CA 93901

To Authority:

Bill Kampe
Acting President
Monterey Peninsula Regional Water Authority

580 Pacific Street, Room 6
Monterey, CA 93940

To Cal Am:

Eric J. Sabolsice
Director, Operations
Coastal Division
California-American Water Company
511 Forest Lodge Road, Suite 100
Pacific Grove, CA 93950

To CPB:

Bob McKenzie
Water Issues Consultant
Coalition of Peninsula Businesses
P.O. Box 223542
Carmel, CA 93922

To Landwatch:

Chris Fitz
LandWatch Monterey County
P.O. Box 1876
Salinas, CA 93902-1876

To MCFB:

Norman C. Groot
Monterey County Farm Bureau
P.O. Box 1449
1140 Abbott Street, Suite C
Salinas, CA 93902-1449

To MPWMD:

David J. Stoldt
General Manager

Monterey Peninsula Water Management District
PO Box 85
Monterey, CA 93942

To MRWPCA:

Paul Sciuto
General Manager
Monterey Regional Water Pollution Control Agency
5 Harris Court, Bldg D
Monterey, CA 3940

To PCL:

Jonas Minton
Planning and Conservation League Foundation
1107 – 9th Street, Suite 901
Sacramento, CA 95814

To SVWC:

Nancy Isakson
President
Salinas Valley Water Coalition
3203 Playa Court
Marina, CA 93933

A Party may change the person and/or address for provision of notice by delivering written notice to the other Parties.

25. Each Party to this Settlement Agreement represents and warrants that it has the capability and authority to carry out the rights and obligations of this Settlement Agreement. Each person whose signature appears hereon represents and warrants that he/she has been duly authorized and has full authority to execute this Settlement Agreement on behalf of the Party on whose behalf this Settlement Agreement is executed.

26. This Settlement Agreement may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.

Respectfully submitted,

Dated: 6/13/16

CALIFORNIA-AMERICAN WATER COMPANY

By _____ for Robert MacLean
Robert MacLean,
President

Dated:

COALITION OF PENINSULA BUSINESSES

By _____
Bob McKenzie,
Water Issues Consultant

Dated:

LANDWATCH MONTEREY COUNTY

By _____
Chris Fitz,

Dated:

MONTEREY COUNTY FARM BUREAU

By _____
Norman C. Groot,
Executive Director

Dated:

MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
David Chardavoyne,
General Manager

Respectfully submitted,

Dated: CALIFORNIA-AMERICAN WATER COMPANY

By _____
Robert MacLean,
President

Dated: June 14, 2016 COALITION OF PENINSULA BUSINESSES

By _____
Bob McKenzie,
Water Issues Consultant

Dated: LANDWATCH MONTEREY COUNTY

By _____
Chris Fitz,

Dated: MONTEREY COUNTY FARM BUREAU

By _____
Norman C. Groot,
Executive Director

Dated: MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
David Chardavoyne,
General Manager

Respectfully submitted,

Dated: CALIFORNIA-AMERICAN WATER COMPANY

By _____
Robert MacLean,
President

Dated: COALITION OF PENINSULA BUSINESSES

By _____
Bob McKenzie,
Water Issues Consultant

Dated: 6/13/16 LANDWATCH MONTEREY COUNTY

By _____
Chris Fitz,

Dated: MONTEREY COUNTY FARM BUREAU

By _____
Norman C. Groot,
Executive Director

Dated: MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
David Chardavoyne,
General Manager

Respectfully submitted,

Dated: CALIFORNIA-AMERICAN WATER COMPANY

By _____
Robert MacLean,
President

Dated: COALITION OF PENINSULA BUSINESSES

By _____
Bob McKenzie,
Water Issues Consultant

Dated: LANDWATCH MONTEREY COUNTY

By _____
Chris Fitz,

Dated: June 14, 2016 MONTEREY COUNTY FARM BUREAU

By _____
Norman C. Groot,
Executive Director

Dated: MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
David Chardavoyne,
General Manager

Respectfully submitted,

Dated: CALIFORNIA-AMERICAN WATER COMPANY

By _____
Robert MacLean,
President

Dated: COALITION OF PENINSULA BUSINESSES

By _____
Bob McKenzie,
Water Issues Consultant

Dated: LANDWATCH MONTEREY COUNTY

By _____
Chris Fitz,

Dated: MONTEREY COUNTY FARM BUREAU

By _____
Norman C. Groot,
Executive Director

Dated: MONTEREY COUNTY WATER RESOURCES AGENCY

10 June 2016

By David E. Chardavoyne
David Chardavoyne,
General Manager

Dated: 6/11/16 MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By Bill Kampe
Bill Kampe,
Acting President

Dated: MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

By _____
David J. Stoldt,
General Manager

Dated: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

By _____
Paul Sciuto,
General Manager

Dated: PLANNING AND CONSERVATION LEAGUE FOUNDATION

By _____
Jonas Minton,
Water Policy Adviser

Dated: SALINAS VALLEY WATER COALITION

By _____
Nancy Isakson,
President

Dated: MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By _____
Bill Kampe,
Acting President

Dated: July 1, 2016 MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

By _____
David J. Stoldt,
General Manager

Dated: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

By _____
Paul Sciuto,
General Manager

Dated: PLANNING AND CONSERVATION LEAGUE FOUNDATION

By _____
Jonas Minton,
Water Policy Adviser

Dated: SALINAS VALLEY WATER COALITION

By _____
Nancy Isakson,
President

Dated:

MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By _____
Bill Kampe,
Acting President

Dated:

MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

By _____
David J. Stoldt,
General Manager

Dated: July 28, 2016

MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

By _____
Paul Sciuto,
General Manager

Dated:

PLANNING AND CONSERVATION LEAGUE FOUNDATION

By _____
Jonas Minton,
Water Policy Adviser

Dated:

SALINAS VALLEY WATER COALITION

By _____
Nancy Isakson,
President

Dated: MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By _____
Bill Kampe,
Acting President

Dated: MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

By _____
David J. Stoldt,
General Manager

Dated: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

By _____
Paul Sciuto,
General Manager

Dated: June 14, 2016 PLANNING AND CONSERVATION LEAGUE FOUNDATION

By _____
Jonas Minton,
Water Policy Adviser

Dated: SALINAS VALLEY WATER COALITION

By _____
Nancy Isakson,
President

Dated: MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By _____
Bill Kampe,
Acting President

Dated: MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

By _____
David J. Stoldt,
General Manager

Dated: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY

By _____
Paul Sciuto,
General Manager

Dated: PLANNING AND CONSERVATION LEAGUE FOUNDATION

By _____
Jonas Minton,
Water Policy Adviser

Dated: June 14, 2016 SALINAS VALLEY WATER COALITION

By Nancy Isakson
Nancy Isakson,
President

SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER

APPENDIX A

PLANNING TERM SHEET

RETURN WATER PLANNING TERM SHEET

This PLANNING TERM SHEET (the "Term Sheet") is made as of January 22nd, 2016, by and among CALIFORNIA-AMERICAN WATER COMPANY ("CAW"), the SALINAS VALLEY WATER COALITION ("SVWC"), the MONTEREY COUNTY FARM BUREAU ("MCFB"), the MONTEREY PENINSULA REGIONAL WATER AUTHORITY ("Authority"), LANDWATCH MONTEREY COUNTY, the CASTROVILLE COMMUNITY SERVICES DISTRICT ("CCSD"), and the MONTEREY COUNTY WATER RESOURCES AGENCY ("Agency") (individually, "Party"; collectively, "Parties").

RECITALS

A. CAW is seeking permits and approvals for the Monterey Peninsula Water Supply Project ("MPWSP"), including a certificate of public convenience and necessity from the California Public Utilities Commission ("CPUC");

B. The MPWSP includes a desalination plant that will provide a potable water supply for CAW's Monterey Peninsula service area. Rather than using an open-ocean intake that would produce only seawater as source water for the desalination plant, the MPWSP desalination plant will produce its source water from subterranean slant wells drilled adjacent to the ocean, which will draw water from strata underlying the ocean. The location of the wells overlies the western portion of the Salinas River Groundwater Basin ("SRGB").

C. CAW characterizes its MPWSP as proposing to develop seawater and brackish groundwater originating from the SRGB to produce source water that would be desalinated to provide a potable water supply for CAW's Monterey Peninsula service area.

D. The SVWC, MCFB and Landwatch contend that—rather than proposing to use an open-ocean intake that would produce only seawater—CAW's MPWSP proposes to use wells developed in the SRGB to produce source water for desalination to provide CAW's Monterey Peninsula service area with a new source of water supply.

E. The ratio of seawater to brackish SRGB groundwater in the MPWSP source water is anticipated to change over time, with more seawater and less SRGB groundwater anticipated later in the MPWSP's life;

F. CAW contends that source water production by the MPWSP is unlikely to cause significant adverse environmental effects with respect to SRGB groundwater resources and is unlikely to cause injury to prior groundwater rights in the SRGB but submits that the Monterey County Water Resources Agency Act ("Agency Act") authorizes the Monterey County Water Resources Agency ("Agency") to obtain an injunction prohibiting the export and use of SRGB groundwater outside of the SRGB and certain areas of Fort Ord;

G. The SVWC, MCFB and Landwatch submit that the Agency Act directly prohibits the export and use of SRGB groundwater outside of the SRGB and certain areas of Fort Ord without the need for the Agency to obtain an injunction;

H. To meet applicable requirements of the Agency Act, CAW has proposed as part of the MPWSP to make available for delivery to groundwater users overlying the SRGB a volume of water equal to the percentage of SRGB groundwater in the total MPWSP source water production, as determined by the Agency ("Return Water");

I. The SVWC, MCFB and Landwatch contend there is no surplus SRGB groundwater available for CAW's use in providing public water service within or outside of the SRGB and that the law of California groundwater rights requires that any production and use of SRGB groundwater by the MPWSP must be returned for use within the SRGB in lieu of existing groundwater pumping;

J. For MPWSP planning and engineering purposes, CAW submits that the MPWSP source water wells have been designed so that approximately 4% of the source water produced by the MPWSP will originate as brackish groundwater from the SRGB;

K. For planning purposes, CAW has assumed that the Return Water volume for the large desalination plant will be 1,080 afa, and for the small plant 690 afa;

L. The CPUC is conducting environmental review of the MPWSP under the California Environmental Quality Act ("CEQA"), and the Monterey Bay National Marine Sanctuary is conducting environmental review of the MPWSP under the National Environmental Policy Act ("NEPA");

M. The modeling used in the CPUC's April 2015 CalAm Monterey Peninsula Water Supply Project Draft Environmental Impact Report ("DEIR") estimates that the volume of SRGB groundwater produced as source water for the large-scale (9.6 million gallons per day) MPWSP would be approximately 7 percent, or 1,889 afa, under existing land-use conditions and would be approximately 4 percent, or 1,080 afa, under projected future 2060 land-use conditions, and would average approximately 5.5 percent, or 1,485 afa, over the life of the MPWSP. (DEIR at 4.4-67.)

N. Note C to the CPUC's DEIR Table 2-5 states that "groundwater modeling indicates that as much as 1,080 afa may need to be returned to the Salinas Valley Groundwater Basin (based on 4 percent of total source water intake being drawn from the Salinas Valley Groundwater Basin[]))" and states that "MPWSP supply would be sufficient to provide this larger quantity of return water."

O. The CPUC is preparing a revised DEIR/Environmental Impact Statement (RDEIR/DEIS) for the MPWSP that will assess the significance of effects to SRGB groundwater resources, and the modeling in the revised RDEIR/DEIS will be updated and calibrated to include test well production data obtained to date (over 100 days of pumping). CAW also is working to gather additional (up to two years) test well production data to inform analysis of those effects. The full data set is not expected to be available before the CPUC's completion of CEQA/NEPA review and its decision whether to approve a certificate of convenience and necessity for the MPWSP;

P. The Parties and the State Water Resources Control Board are in agreement, and the DEIR

concludes, that injecting desalinated water from the MPWSP into the SRGB is less desirable than delivering the Return Water for beneficial use in in the SRGB;

Q. Prior environmental analyses reveal that there may be limitations in the capacity of the Castroville Seawater Intrusion Project ("CSIP") to accommodate all of the MPWSP Return Water under some conditions. (DEIR, p. 2-45, 6-4, 6-114; Pure Water Monterey, GWR DEIR, Appendix Q, Table B-3);

R. CSIP is an Agency project that provides recycled water and diverted Salinas River water for use in lieu of groundwater pumping for irrigated agricultural use in the Castroville area of the SRGB;

S. The CPUC Administrative Law Judge has requested additional testimony from the Joint Settling Parties regarding Return Water options, and that testimony must be submitted to the CPUC by January 22, 2016;

T. The SVWC, MCFB and Landwatch contend that the MPWSP's well production may cause injury to the SRGB and senior groundwater rights holders in the SRGB under California groundwater law, even if the RDEIR/DEIS concludes that the well production would not cause a significant adverse effect under CEQA.

U. MCFB, SVWC and Landwatch oppose any scenario where Return Water would be used outside the SRGB, rather than for use in lieu of existing groundwater pumping in the SRGB;

V. In the July 31, 2013 Settlement Agreement among 16 parties to Proceeding A1204019, MCFB, SVWC, Landwatch, the Agency, and Citizens for Public Water reserved all rights to challenge production of water from the SRGB by CAW in any appropriate forum based on their concerns for potential harm to the SRGB and users thereof;

W. MCFB and SVWC have stated they will litigate these issues if they are not resolved through agreement;

X. CAW and the Authority maintain that any obligation to return SRGB groundwater to the SRGB arises only as a requirement of the Agency Act, except to the extent that Return Water is necessary as part of a physical solution to avoid harm to the SRGB and senior groundwater rights holders in the SRGB under California groundwater law or to mitigate significant adverse effects to the SRGB or particular groundwater users pursuant to CEQA;

Y. CAW, with the encouragement of the Authority, also desires to maximize revenue for Return Water to offset water costs and water rates for CAW customers on the Monterey Peninsula;

Z. CAW must obtain CPUC approval to deliver or sell any Return Water for use outside of CAW's service area;

AA. A controversy has now arisen as to CAW's obligation to deliver Return Water to the SRGB, and as to the responsibility for the costs of producing the Return Water, and the Parties to this Term Sheet desire to resolve these issues and to reach agreement on a framework to satisfy Return Water requirements;

BB. Pursuant to the terms of this Term Sheet, the Parties propose that CAW deliver Return Water to the CCSD and to the CSIP to satisfy Return Water requirements that may arise out of the Agency Act, CEQA, or California groundwater law, in accordance with terms and conditions to be agreed upon based on the general principles contained in this Term Sheet;

CC. CCSD submits that it provides municipal and domestic water service to the Town of Castroville, which overlies the SRGB in an area north of the City of Marina and west of the City of Salinas;

DD. CCSD submits that it currently relies on groundwater from the SRGB to meet Castroville's water demands, which average approximately 800 afa;

EE. CCSD submits that it increasingly has experienced water supply challenges due to water quality degradation of its water supplies, primarily from increased salinity;

FF. CCSD submits that poor water quality, including elevated sodium levels extant in CCSD's groundwater supplies, can contribute to health risks of individuals susceptible to high sodium;

GG. CCSD submits that it has been identified as a disadvantaged community (Greater Monterey County IRWM Regional Water Management Group Disadvantaged Community Outreach Plan, Prepared for the Environmental Justice Coalition for Water by Nilsen & Associates, Approved April 18, 2012), and was an active participant in the Regional Plenary Oversight Group process established by the Office of Ratepayer Advocates to determine whether the Regional Desalination Project, a predecessor project to the MPWSP, would be a source of supply for Castroville;

HH. CCSD submits that many of CCSD's customers contribute significantly to agricultural and hospitality industries in the Salinas Valley and on the Monterey Peninsula;

II. CCSD submits that it is actively pursuing alterative water supplies and has applied to the State for funding to develop deeper groundwater wells and other projects to serve its customer demands;

JJ. CCSD submits that it is interested in taking delivery of a Return Water supply from the MPWSP to replace or supplement CCSD's current reliance on groundwater from the SRGB;

KK. Preliminary cost estimates for a pipeline to convey water from the MPWSP plant to CCSD are approximately $6,500,000, which may be reduced to approximately $4,400,000, assuming that CAW will secure contracts for construction of the pipeline and that environmental review and permitting will be performed in conjunction with the MPWSP. CCSD submits that it may not be able to prudently fund a pipeline for more than $2,800,000, and that capital obligations for the pipeline would necessitate long-term commitments by CCSD and certainty of source water supply for CCSD;

LL. The SVWC, MCFB, and Landwatch support CAW's delivering Return Water to CCSD and to CSIP for use in lieu of existing groundwater pumping in the SRGB; and

MM. CAW's delivery of Return Water to CCSD pursuant to the terms of this Term Sheet is a fair and equitable resolution of the disputed matters described above, and is consistent with the law and policy controlling the CPUC's approval of the MPWSP.

NN. The foregoing Recitals are included to provide background regarding this Term Sheet but are neither part of nor incorporated into its terms.

NOW, THEREFORE, as a COMPROMISE and SETTLEMENT of the above-stated dispute, and to provide for an efficient and effective resolution of this dispute, the Parties do hereby AGREE to negotiate appropriate binding agreements on the following terms:

1. Notwithstanding any other provision of this Term Sheet, this Term Sheet sets forth agreements in principle concerning its subject matter, but does not at this time constitute binding covenants or conditions with respect to the issue of Return Water.

2. It is anticipated that certain Parties to this terms sheet will negotiate and enter into water purchase agreements under which CAW will deliver Return Water to the SRGB during the term of the anticipated water purchase agreements for use in lieu of existing groundwater production as follows:

    a. CAW shall have annual Return Water requirements that shall be calculated based on the percentage of SRGB groundwater in the total MPWSP source water production for the prior calendar year ("Annual Return Water Obligation").

        i. During the first three months after start-up of the MPWSP, the Annual Return Water Obligation shall be 7% of total source water production during that period, and for the remainder of that year shall be the percentage of SRGB groundwater in the total MPWSP source water production calculated during the first three months in which the MPWSP started up and then operated.

        ii. Thereafter, CAW shall make available for delivery to the SRGB for beneficial use each year the Annual Return Water Obligation.

        iii. The volume of the Annual Return Water Obligation shall be determined by the Agency based on the methodology set forth in Exhibit A [parties analyzing], which may include annual averaging and other operational parameters appropriate to the circumstances.

    b. CAW shall make available for delivery to CCSD 800 afa of Return Water if the large desalination plant is constructed or 690 afa if the smaller desalination plant is constructed ("CCSD Delivery Volume").

    c. If the Annual Return Water Obligation is less than the CCSD Delivery Volume, CAW shall make available for delivery potable water in addition to the amount of the Annual Return Water Obligation sufficient to satisfy the CCSD Delivery Volume ("Excess Water").

    d. CAW shall make available for delivery to CSIP any Annual Return Water Obligation

in excess of the CCSD Delivery Volume, according to procedures agreed to in the Water Purchase Agreement.

3. The Parties acknowledge that CAW could be legally required by a regulatory agency, including the CPUC in this proceeding, or by a court, to make water deliveries to other locations in the SRGB to the extent necessary to mitigate any groundwater impacts from the MPWSP that were demonstrated in relation to a specific location overlying the SRGB ("Other Return Water Obligation"). Such Other Return Water Obligation could also serve to satisfy CAWs obligations to return water to the SRGB under the Act, CEQA, or common-law water law principle. Under such circumstances, the Parties agree that it may be inequitable to CAW and its ratepayers to fund both the Other Return Water Obligation and the Return Water obligations specified herein as this would result in a duplicative liability to CAW and its ratepayers. CAW's obligation to make available the CCSD Delivery Volume shall be reduced in the event and to the extent that a regulatory agency or court has required CAW to deliver Return Water in a manner or location different than as specified in the Term Sheet. CCSD shall not be obliged to purchase Return Water if it determines that the reduced amount of Return Water would not be sufficient to justify a Water Purchase Agreement as contemplated herein. In the event that CCSD determines that its water purchase is not justified due to an Other Return Water Obligation, the parties to this Term Sheet will meet and confer in good faith to effect other arrangements to make the remaining Return Water, net of the Other Return Water Obligation, available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that CAW will meet its Annual Return Water Obligation under this Term Sheet.

   The Parties further acknowledge that the CCSD must be assured of a specific volume of Return Water to justify investment in the capital facilities necessary to convey the Return Water from the Project to the CCSD (the "CCSD Facilities"), and therefore CAW's obligation to the CCSD Delivery Volume specified herein cannot be terminated during the term of the anticipated water purchase agreements after such time as CCSD has obligated itself to finance such capital facilities. To afford the best foresight in relation to potentially competing Return Water obligations, while also facilitating the certainty relating to Return Water deliveries required by CCSD, CAW's obligation to make available the CCSD Delivery Volume under the terms of that water purchase agreement shall become unconditional on the date that is the latest of the following dates:

   a. the date on which the CPUC has issued a CPCN for the Project and the period to challenge the legality of the CPUC's issuance of the CPCN (based on CEQA compliance or otherwise) has expired and no challenge has been brought;

   b. the date on which any challenge against the CPUC's issuance of the CPCN is resolved with finality following all available appeals and petitions; or

   c. 60 days following the date on which the CCSD provides notification to CAW that it has secured financing, acceptable to CCSD, to construct the CCSD Facilities.

In the event of any challenge against the CPUC's issuance of the CPCN, the Parties to this Agreement shall meet and confer in good faith to effect other arrangements to make the total amount of the Return Water, as adjusted by any Other Return Water Obligation, available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that CAW will meet its Annual Return Water Obligation under this Agreement during the pendency of that litigation.

After the above dates, Cal Am may not terminate its obligation to deliver the CCSD Delivery Volume in the event CAW is subsequently required to make Other Return Water Obligations. CAW and CCSD shall meet and confer as necessary within a reasonable amount of time before or after any of the above dates if it appears that CAW's obligation to make available the CCSD Delivery Volume may not become unconditional. Due to the urgent nature of the MPWSP and other regulatory pressures to implement the MPWSP, CAW and CCSD may mutually agree at any time to amend and move forward with the CCSD Water Purchase Agreement, notwithstanding Other Return Water Obligations, provided all other required approvals have been attained and provided that CAW will meet its Annual Return Water Obligation under this Term Sheet through some combination of the CCSD Water Purchase Agreement, the CSIP Water Purchase Agreement, Other Return Water Obligations, or arrangements made pursuant to paragraph 6 of the Term Sheet.

4. Return Water and Excess Water pricing shall be as follows:

    a. **CCSD:** For each acre-foot of Return Water or Excess Water made available for delivery to CCSD:

        i. CCSD shall pay $110 per acre-foot, as currently estimated, for Return Water made available for delivery to meet the Annual Return Water Obligation, which reflects its avoided cost to produce groundwater to meet customer demand.

        ii. CCSD shall pay $580 per acre-foot, as currently estimated, for any Excess Water, which reflects the operations and maintenance cost for the MPWSP to produce one acre-foot of potable water.

    b. **CSIP:** For each acre-foot of Return Water delivered by CAW, CSIP shall pay $xxx per acre-foot, as currently estimated, which reflects the CSIP customers' marginal avoided cost for recycled water produced for use by the CSIP in lieu recharge project's customers.

    c. Payment for Return Water and Excess Water shall be subject to standard financing provisions, including appropriate price adjustments. The pricing set forth in this Term Sheet is for illustrative purposes only, and actual prices have not been determined.

5. The Parties support CAW negotiating and entering into Water Purchase Agreements with CCSD and the Agency (for CSIP) consistent with the terms of this Term Sheet.

a. The Water Purchase Agreements shall have an initial term of at least 30 years.

b. Prior to the expiration of the Water Purchase Agreements contemplated herein, CCSD and CSIP shall have a right of first refusal to enter into new water purchase agreements on terms to be negotiated at the time.

6. CAW's obligation to make Return Water available for use in lieu of existing groundwater pumping in the SRGB to meet its Annual Return Water Obligation shall survive for a period of 30 years if the initial Water Purchase Agreements do not become effective or are otherwise amended or terminated. In that event, the Parties to this Term Sheet shall meet and confer in good faith to effect other arrangements to make the total amount of the Return Water reduced by any Other Return Water Obligation available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that Cal-Am will meet its Annual Return Water Obligation under this Term Sheet.

7. Upon expiration or non-renewal of the Water Purchase Agreements: (a) CAW shall comply with the Agency Act; and (b) unless CAW demonstrates that Return Water is not needed to prevent legal injury to prior groundwater rights holders in the SRGB or to avoid significant adverse effects to SRGB groundwater resources pursuant to procedures to be agreed upon in future negotiations, CAW shall continue to make Return Water available for delivery to the SRGB for use in lieu of existing groundwater production. In the event of a dispute among any of the parties to this Term Sheet with respect to CAW's need to continue providing Return Water, such dispute shall be resolved by a dispute resolution procedure to be agreed upon in future negotiations.

8. This Term Sheet reflects a settlement and compromise of putative claims and remedies of the Parties hereto.

9. If the Return Water settlement described in this Term Sheet is not approved by the CPUC and implemented by CAW, the SVWC, MCFB and Landwatch reserve their rights to challenge CAW's production of water from the SRGB in any appropriate forum.

10. The Parties agree to support CPUC approval of MPWSP consistent with the compromise and settlement reflected in this Term Sheet, and agree to defend and support this Return Water settlement Term Sheet in any administrative or judicial proceedings concerning this Term Sheet and/or CAW's obligations and responsibilities with respect to Return Water.

11. Among other things, this Term Sheet helps to define a stable and finite project description that will facilitate the CPUC's completion of CEQA review for the MPWSP. The legal effectiveness of this Term Sheet is contingent on the completion of CEQA review and does not irretrievably commit the Parties to carrying out any physical activities that would be required for CAW to meet the Annual Return Water Obligation, including through the anticipated Water Purchase Agreements whose future approval will be conditioned upon the completion of CEQA review by the CPUC as lead agency for the MPWSP and by those Parties playing the role of a responsible agency with respect to the anticipated Water Supply Agreements. The lead agency and responsible agencies will retain full discretion with respect to deciding whether to approve Water Supply Agreements or any other commitments

necessary or convenient for CAW to meet the Annual Return Water Obligation, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects from Return Water activities that are within their jurisdiction.

12. This Term Sheet does not currently impact the terms of sections 3.1(b) of the document known as the Large Settlement Agreement. To the extent later binding agreements may specifically do so, they will not impact the Agency's authority and responsibilities under the Agency Act.

13. This Term Sheet may be executed in any number of counterparts.

Dated: 1/22/16

CALIFORNIA-AMERICAN WATER COMPANY

By _____
Robert MacLean,
President

Dated:

SALINAS VALLEY WATER COALITION

By _____
Nancy Isakson,
President

Dated:

MONTEREY COUNTY FARM BUREAU

By _____
Norm Groot,
Executive Director

Dated:

MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By _____
Jason Burnett,
President

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1/22/16

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President

Dated: MONTEREY COUNTY FARM BUREAU

By _____
Norm Groot,
Executive Director

Dated: MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By _____
Jason Burnett,
President

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By _____
Nancy Isakson,
President

Dated: MONTEREY COUNTY FARM BUREAU

1/22/16

By _____
Norm Groot,
Executive Director

Dated: MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By _____
Jason Burnett,
President

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Robert MacLean,
President

Dated: SALINAS VALLEY WATER COALITION

By _____
Nancy Isakson,
President

Dated: MONTEREY COUNTY FARM BUREAU

By _____
Norm Groot,
Executive Director

Dated: January 21, 2016 MONTEREY PENINSULA REGIONAL WATER AUTHORITY

By Jason Burnett
Jason Burnett,
President

January 21, 2016

Dated: 1/22/16

LANDWATCH MONTEREY COUNTY

By _____
John H. Farrow,
Counsel

Dated:

CASTROVILLE COMMUNITY SERVICES DISTRICT

By _____
J. Eric Tynan,
General Manager

Dated:

MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
David Chardavoyne,
General Manager

Dated: LANDWATCH MONTEREY COUNTY

By _____
John H. Farrow,
Counsel

Dated: CASTROVILLE COMMUNITY SERVICES DISTRICT

1/22/16

By _____
J. Eric Tynan,
General Manager

Dated: MONTEREY COUNTY WATER RESOURCES AGENCY

By _____
David Chardavoyne,
General Manager

Dated: LANDWATCH MONTEREY COUNTY

By _____
John H. Farrow,
Counsel

Dated: CASTROVILLE COMMUNITY SERVICES DISTRICT

By _____
J. Eric Tynan,
General Manager

Dated: 2/2/16 MONTEREY COUNTY WATER RESOURCES AGENCY

By David F. Chardavoyne
David Chardavoyne,
General Manager

SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER

APPENDIX B

CCSD RESOLUTION NO. 16-2 and NO. 16-4

RESOLUTION NO. 16-2

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASTROVILLE COMMUNITY SERVICES DISTRICT APPROVING RETURN WATER PLANNING TERM SHEET

RESOLVED by the Board of Directors ("Board") of the Castroville Community Services District ("District"), at a regular meeting called and held on January 19, 2016, at the business office of the District, 111499 Geil Street, Castroville, California as follows:

WHEREAS, the Board makes the following findings of fact:

A. California-American Water Company ("CAW") is seeking permits and approvals for the Monterey Peninsula Water Supply Project ("MPWSP"), including a certificate of public convenience and necessity from the California Public Utilities Commission ("CPUC").

B. The MPWSP includes a desalination plant that will provide a potable water supply for CAW's Monterey Peninsula service area. Rather than using an open-ocean intake that would produce only seawater as source water for the desalination plant, the MPWSP desalination plant will produce its source water from subterranean slant wells drilled adjacent to the ocean, which will draw water from strata underlying the ocean. The location of the wells overlies the western portion of the Salinas River Groundwater Basin ("SRGB").

C. To meet applicable requirements of the Monterey County Water Resources Agency Act ("Agency Act", CAW has proposed as part of the MPWSP to make available for delivery to groundwater users overlying the SRGB a volume of water equal to the percentage of SRGB groundwater in the total MPWSP source water production, as determined by the Agency ("Return Water").

D. A controversy has arisen as to CAW's obligation to deliver Return Water to the SRGB, and as to the responsibility for the costs of producing the Return Water, and a Draft Return Water Planning Term Sheet ("Term Sheet") has been proposed to resolve these issues and to reach agreement on a framework to satisfy Return Water requirements. A copy of the January 12, 2016 Draft of the Term Sheet is attached to this Resolution as Exhibit "A".

E. Pursuant to the terms of this Term Sheet, the Parties propose that CAW deliver Return Water to the District, which is designated "CCSD" in the Term Sheet, and to the Castroville Seawater Intrusion Project ("CSIP") to satisfy Return Water requirements that may arise out of the Agency Act, CEQA, or California groundwater law, in accordance with terms and conditions to be agreed upon based on the general principles contained in the Term Sheet.

F. The Salinas Valley Water Coalition, Monterey County Farm Bureau, and Landwatch Monterey County support CAW's delivering Return Water to the District and to CSIP for use in lieu of existing groundwater pumping in the SRGB.

G. The District currently relies on groundwater from the SRGB to meet water demands within the District's service area, which average approximately 800 acre-feet annually ("afa").

H. The District increasingly has experienced water supply challenges due to water quality degradation of its water supplies, primarily from increased salinity. The District is actively pursuing alterative water supplies and has applied to the State for funding to develop deeper groundwater wells and other projects to serve its customer demands.

I. The District is interested in taking delivery of a Return Water supply from the MPWSP to replace or supplement the District's current reliance on groundwater from the SRGB.

J. The District understands from its engineer and from CAW that preliminary cost estimates for a pipeline to convey water from the MPWSP plant to the District are approximately $6,500,000, which may be reduced to approximately $4,400,000, assuming that CAW will secure contracts for construction of the pipeline and that environmental review and permitting will be performed in conjunction with the MPWSP.

K. The District may not be able to prudently fund a pipeline for more than $2,800,000.

L. Capital obligations for the pipeline would necessitate long-term commitments by the District and certainty of source water supply for the District. The Term Sheet addresses these issues.

M. The Term Sheet provides that the legal effectiveness of the Term Sheet is contingent on the completion of CEQA review and does not irretrievably commit the Parties to the Term Sheet to carrying out any physical activities that would be required to implement the terms of the Term Sheet and that the lead agency, and responsible agencies like the District will retain full discretion with respect to deciding whether to approve Water Supply Agreements or any other commitments necessary or convenient for CAW to meet the Annual Return Water Obligation under the Term Sheet, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects from Return Water activities that are within their jurisdiction.

N. District Counsel advises that approval of the Term Sheet by the District Board does not require prior review under the California Environmental Quality Act, because approval of the Term Sheet will not constitute action that significantly furthers a project "in a manner that forecloses alternatives or mitigation measures that would ordinarily be part of CEQA review of that public project," as required by Cal.CodeRegs., tit. 14, § 15004, subd. (b)(2)(B)and the decision of the California Supreme Court in*Save Tara v. City of West Hollywood* (2008) 45 Cal.4th 116, 138.

O. The District's General Manager recommends approval of the Term Sheet.

NOW THEREFORE, BE IT RESOLVED by the Board of Directors of the Castroville Community Services District, as follows:

1. **Approval of Return WaterPlanning Term Sheet.** The Board approves execution by the Board President of the Return Water Term Sheet, a copy of which is attached to this Resolution 16-2 as Exhibit "A".

2. **Authority to Implement Term Sheet.** The District, acting through the General Manager and the Board President, are authorized to meet and confer with such persons, including representatives of other Parties to the Term Sheet and the District's engineering and legal advisors to carry out the activities necessary to comply with the Term Sheet and with applicable law.

3. **Limitation on Authority to Implement Term Sheet.** Prior to compliance with the California Environmental Quality Act ("CEQA"), the District and persons acting on behalf of the District shall not take any action or commit the District to any action to implement the Term Sheet that would as a practical matter under the circumstances effectively preclude any alternatives or mitigation measures that would otherwise require to be considered, including the alternative of not going forward with the project outlined in the Term Sheet.

The foregoing resolution was duly and properly introduced at a regular meeting of the Castroville Community Services District Board of Directors duly held on January 19, 2016,and passed and adopted by the following vote:

AYES: Stefani, Montejano, MacMillan, Lewis
NOES: Ø
ABSENT: Melgoza
ABSTAIN: Ø

President of the Board

Attest:

Lidia Santos

Secretary of the Board

EXHIBIT A

DRAFT RETURN WATER PLANNING TERM SHEET
Dated January 12, 2016

DRAFT RETURN WATER PLANNING TERM SHEET

This PLANNING TERM SHEET (the "Term Sheet") is made as of _____ _____, 2016, by and among CALIFORNIA-AMERICAN WATER COMPANY ("CAW"), the SALINAS VALLEY WATER COALITION ("SVWC"), the MONTEREY COUNTY FARM BUREAU ("MCFB"), the MONTEREY PENINSULA REGIONAL WATER AUTHORITY ("Authority"), LANDWATCH MONTEREY COUNTY, the CASTROVILLE COMMUNITY SERVICES DISTRICT ("CCSD"), and [OTHER PARTIES] (individually, "Party"; collectively, "Parties").

RECITALS

A. CAW is seeking permits and approvals for the Monterey Peninsula Water Supply Project ("MPWSP"), including a certificate of public convenience and necessity from the California Public Utilities Commission ("CPUC");

B. The MPWSP includes a desalination plant that will provide a potable water supply for CAW's Monterey Peninsula service area. Rather than using an open-ocean intake that would produce only seawater as source water for the desalination plant, the MPWSP desalination plant will produce its source water from subterranean slant wells drilled adjacent to the ocean, which will draw water from strata underlying the ocean. The location of the wells overlies the western portion of the Salinas River Groundwater Basin ("SRGB").

C. CAW characterizes its MPWSP as proposing to develop seawater and brackish groundwater originating from the SRGB to produce source water that would be desalinated to provide a potable water supply for CAW's Monterey Peninsula service area.

D. The SVWC, MCFB and Landwatch contend that—rather than proposing to use an open-ocean intake that would produce only seawater—CAW's MPWSP proposes to use wells developed in the SRGB to produce source water for desalination to provide CAW's Monterey Peninsula service area with a new source of water supply.

E. The ratio of seawater to brackish SRGB groundwater in the MPWSP source water is anticipated to change over time, with more seawater and less SRGB groundwater anticipated later in the MPWSP's life;

F. CAW contends that source water production by the MPWSP is unlikely to cause significant adverse environmental effects with respect to SRGB groundwater resources and is unlikely to cause injury to prior groundwater rights in the SRGB but submits that the Monterey County Water Resources Agency Act ("Agency Act") authorizes the Monterey County Water Resources Agency ("Agency") to obtain an injunction prohibiting the export and use of SRGB groundwater outside of the SRGB and certain areas of Fort Ord;

G. The SVWC, MCFB and Landwatch submit that the Agency Act directly prohibits the

export and use of SRGB groundwater outside of the SRGB and certain areas of Fort Ord without the need for the Agency to obtain an injunction;

H. To meet applicable requirements of the Agency Act, CAW has proposed as part of the MPWSP to make available for delivery to groundwater users overlying the SRGB a volume of water equal to the percentage of SRGB groundwater in the total MPWSP source water production, as determined by the Agency ("Return Water");

I. The SVWC, MCFB and Landwatch contend there is no surplus SRGB groundwater available for CAW's use in providing public water service within or outside of the SRGB and that the law of California groundwater rights requires that any production and use of SRGB groundwater by the MPWSP must be returned for use within the SRGB in lieu of existing groundwater pumping;

J. For MPWSP planning and engineering purposes, CAW submits that the MPWSP source water wells have been designed so that approximately 4% of the source water produced by the MPWSP will originate as brackish groundwater from the SRGB;

K. For planning purposes, CAW has assumed that the Return Water volume for the large desalination plant will be 1,080 afa, and for the small plant 690 afa;

L. The CPUC is conducting environmental review of the MPWSP under the California Environmental Quality Act ("CEQA"), and the Monterey Bay National Marine Sanctuary is conducting environmental review of the MPWSP under the National Environmental Policy Act ("NEPA");

M. The modeling used in the CPUC's April 2015 CalAm Monterey Peninsula Water Supply Project Draft Environmental Impact Report ("DEIR") estimates that the volume of SRGB groundwater produced as source water for the large-scale (9.6 million gallons per day) MPWSP would be approximately 7 percent, or 1,889 afa, under existing land-use conditions and would be approximately 4 percent, or 1,080 afa, under projected future 2060 land-use conditions, and would average approximately 5.5 percent, or 1,485 afa, over the life of the MPWSP. (DEIR at 4.4-67.)

N. Note C to the CPUC's DEIR Table 2-5 states that "groundwater modeling indicates that as much as 1,080 afa may need to be returned to the Salinas Valley Groundwater Basin (based on 4 percent of total source water intake being drawn from the Salinas Valley Groundwater Basin[]))" and states that "MPWSP supply would be sufficient to provide this larger quantity of return water."

O. The CPUC is preparing a revised DEIR/Environmental Impact Statement (RDEIR/DEIS) for the MPWSP that will assess the significance of effects to SRGB groundwater resources, and the modeling in the revised RDEIR/DEIS will be updated and calibrated to include test well production data obtained to date (over 100 days of pumping). CAW also is working to gather additional (up to two years) test well production data to inform analysis of those effects. The full data set is not expected to be available before the CPUC's completion of CEQA/NEPA review and its

decision whether to approve a certificate of convenience and necessity for the MPWSP;

P. The Parties and the State Water Resources Control Board are in agreement, and the DEIR concludes, that injecting desalinated water from the MPWSP into the SRGB is less desirable than delivering the Return Water for beneficial use in in the SRGB;

Q. Prior environmental analyses reveal that there may be limitations in the capacity of the Castroville Seawater Intrusion Project ("CSIP") to accommodate all of the MPWSP Return Water under some conditions. (DEIR, p. 2-45, 6-4, 6-114; Pure Water Monterey, GWR DEIR, Appendix Q, Table B-3);

R. CSIP is an Agency project that provides recycled water and diverted Salinas River water for use in lieu of groundwater pumping for irrigated agricultural use in the Castroville area of the SRGB;

S. The CPUC Administrative Law Judge has requested additional testimony from the Joint Settling Parties regarding Return Water options, and that testimony must be submitted to the CPUC by January 22, 2016;

T. The SVWC, MCFB and Landwatch contend that the MPWSP's well production may cause injury to the SRGB and senior groundwater rights holders in the SRGB under California groundwater law, even if the RDEIR/DEIS concludes that the well production would not cause a significant adverse effect under CEQA.

U. MCFB, SVWC and Landwatch oppose any scenario where Return Water would be used outside the SRGB, rather than for use in lieu of existing groundwater pumping in the SRGB;

V. In the July 31, 2013 Settlement Agreement among 16 parties to Proceeding A1204019, MCFB, SVWC, Landwatch, the Agency, and Citizens for Public Water reserved all rights to challenge production of water from the SRGB by CAW in any appropriate forum based on their concerns for potential harm to the SRGB and users thereof;

W. MCFB and SVWC have stated they will litigate these issues if they are not resolved through agreement;

X. CAW and the Authority maintain that any obligation to return SRGB groundwater to the SRGB arises only as a requirement of the Agency Act, except to the extent that Return Water is necessary as part of a physical solution to avoid harm to the SRGB and senior groundwater rights holders in the SRGB under California groundwater law or to mitigate significant adverse effects to the SRGB or particular groundwater users pursuant to CEQA;

Y. CAW, with the encouragement of the Authority, also desires to maximize revenue for Return Water to offset water costs and water rates for CAW customers on the Monterey Peninsula;

Z. CAW must obtain CPUC approval to deliver or sell any Return Water for use outside of CAW's service area;

AA. A controversy has now arisen as to CAW's obligation to deliver Return Water to the SRGB, and as to the responsibility for the costs of producing the Return Water, and the Parties to this Term Sheet desire to resolve these issues and to reach agreement on a framework to satisfy Return Water requirements;

BB. Pursuant to the terms of this Term Sheet, the Parties propose that CAW deliver Return Water to the CCSD and to the CSIP to satisfy Return Water requirements that may arise out of the Agency Act, CEQA, or California groundwater law, in accordance with terms and conditions to be agreed upon based on the general principles contained in this Term Sheet;

CC. CCSD submits that it provides municipal and domestic water service to the Town of Castroville, which overlies the SRGB in an area north of the City of Marina and west of the City of Salinas;

DD. CCSD submits that it currently relies on groundwater from the SRGB to meet Castroville's water demands, which average approximately 800 afa;

EE. CCSD submits that it increasingly has experienced water supply challenges due to water quality degradation of its water supplies, primarily from increased salinity;

FF. CCSD submits that poor water quality, including elevated sodium levels extant in CCSD's groundwater supplies, can contribute to health risks of individuals susceptible to high sodium;

GG. CCSD submits that it has been identified as a disadvantaged community (Greater Monterey County IRWM Regional Water Management Group Disadvantaged Community Outreach Plan, Prepared for the Environmental Justice Coalition for Water by Nilsen & Associates, Approved April 18, 2012), and was an active participant in the Regional Plenary Oversight Group process established by the Office of Ratepayer Advocates to determine whether the Regional Desalination Project, a predecessor project to the MPWSP, would be a source of supply for Castroville;

HH. CCSD submits that many of CCSD's customers contribute significantly to agricultural and hospitality industries in the Salinas Valley and on the Monterey Peninsula;

II. CCSD submits that it is actively pursuing alterative water supplies and has applied to the State for funding to develop deeper groundwater wells and other projects to serve its customer demands;

JJ. CCSD submits that it is interested in taking delivery of a Return Water supply from the MPWSP to replace or supplement CCSD's current reliance on groundwater from the SRGB;

KK. Preliminary cost estimates for a pipeline to convey water from the MPWSP plant to CCSD are approximately $6,500,000, which may be reduced to approximately $4,400,000, assuming that CAW will secure contracts for construction of the pipeline and that environmental review and permitting will be performed in conjunction with the MPWSP. CCSD submits that it may not be able to prudently fund a pipeline for more than $2,800,000, and that capital obligations for the pipelinewould necessitate long-term commitments by CCSD and certainty of source water supply for CCSD;

LL. The SVWC, MCFB, and Landwatch support CAW's delivering Return Water to CCSD and to CSIP for use in lieu of existing groundwater pumping in the SRGB; and

MM. CAW's delivery of Return Water to CCSD pursuant to the terms of this Term Sheet is a fair and equitable resolution of the disputed matters described above, and is consistent with the law and policy controlling the CPUC's approval of the MPWSP.

NN. The foregoing Recitals are included to provide background regarding this Term Sheet but are neither part of nor incorporated into its terms.

NOW, THEREFORE, as a COMPROMISE and SETTLEMENT of the above-stated dispute, and to provide for an efficient and effective resolution of this dispute, the Parties do hereby AGREE to negotiate appropriate binding agreements on the following terms:

1. Notwithstanding any other provision of this Term Sheet, this Term Sheet sets forth agreements in principle concerning its subject matter, but does not at this time constitute binding covenants or conditions with respect to the issue of Return Water.

2. It is anticipated that certain Parties to thisterms sheet will negotiate and enter into water purchase agreements under which CAW will deliver Return Water to the SRGB during the term of the anticipated water purchase agreements for use in lieu of existing groundwater production as follows:

    a. CAW shall have annual Return Water requirements that shall be calculated based on the percentage of SRGB groundwater in the total MPWSP source water production for the prior calendar year ("Annual Return Water Obligation").

        i. During the first three months after start-up of the MPWSP, the Annual Return Water Obligation shall be 7% of total source water production during that period, and for the remainder of that year shall be the percentage of SRGB groundwater in the total MPWSP source water production calculated during the first three months in which the MPWSP started up and then operated.

        ii. Thereafter, CAW shall make available for delivery to the SRGB for beneficial use each year the Annual Return Water Obligation.

iii. The volume of the Annual Return Water Obligation shall be determined by the Agency based on the methodology set forth in Exhibit A [parties analyzing], which may include annual averaging and other operational parameters appropriate to the circumstances.

b. CAW shall make available for delivery to CCSD 800 afa of Return Water if the large desalination plant is constructed or 690 afa if the smaller desalination plant is constructed ("CCSD Delivery Volume").

c. If the Annual Return Water Obligation is less than the CCSD Delivery Volume, CAW shall make available for delivery potable water in addition to the amount of the Annual Return Water Obligation sufficient to satisfy the CCSD Delivery Volume ("Excess Water").

d. CAW shall make available for delivery to CSIP any Annual Return Water Obligation in excess of the CCSD Delivery Volume, according to procedures agreed to in the Water Purchase Agreement.

3. The Parties acknowledge that CAW could be legally required by a regulatory agency, including the CPUC in this proceeding, or by a court, to make water deliveries to other locations in the SRGB to the extent necessary to mitigate any groundwater impacts from the MPWSP that were demonstrated in relation to a specific location overlying the SRGB ("Other Return Water Obligation"). Such Other Return Water Obligation could also serve to satisfy CAWs obligations to return water to the SRGB under the Act, CEQA, or common-law water law principle. Under such circumstances, the Parties agree that it may be inequitable to CAW and its ratepayers to fund both the Other Return Water Obligation and the Return Water obligations specified herein as this would result in a duplicative liability to CAW and its ratepayers. CAW's obligation to make available the CCSD Delivery Volume shall be reduced in the event and to the extent that a regulatory agency or court has required CAW to deliver Return Water in a manner or location different than as specified in the Term Sheet. CCSD shall not be obliged to purchase Return Water if it determines that the reduced amount of Return Water would not be sufficient to justify a Water Purchase Agreement as contemplated herein. In the event that CCSD determines that its water purchase is not justified due to an Other Return Water Obligation, the parties to this Term Sheet will meet and confer in good faith to effect other arrangements to make the remaining Return Water, net of the Other Return Water Obligation, available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that CAW will meet its Annual Return Water Obligation under this Term Sheet.

The Parties further acknowledge that the CCSD must be assured of a specific volume of Return Water to justify investment in the capital facilities necessary to convey the Return Water from the Project to the CCSD (the "CCSD Facilities"), and therefore CAW's obligation to the CCSD Delivery Volume specified herein cannot be terminated during the term of the anticipated water purchase agreements after such time as CCSD has obligated itself to finance such capital facilities. To afford the best foresight in

relation to potentially competing Return Water obligations, while also facilitating the certainty relating to Return Water deliveries required by CCSD, CAW's obligation to make available the CCSD Delivery Volume under the terms of that water purchase agreement shall become unconditional on the date that is the latest of the following dates:

a. the date on which the CPUC has issued a CPCN for the Project and the period to challenge the legality of the CPUC's issuance of the CPCN (based on CEQA compliance or otherwise) has expired and no challenge has been brought;

b. the date on which any challenge against the CPUC's issuance of the CPCN is resolved with finality following all available appeals and petitions; or

c. 60 days following the date on which the CCSD provides notification to CAW that it has secured financing, acceptable to CCSD, to construct the CCSD Facilities.

In the event of any challenge against the CPUC's issuance of the CPCN, the Parties to this Agreement shall meet and confer in good faith to effect other arrangements to make the total amount of the Return Water, as adjusted by any Other Return Water Obligation, available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that CAW will meet its Annual Return Water Obligation under this Agreement during the pendency of that litigation.

After the above dates, Cal Am may not terminate its obligation to deliver the CCSD Delivery Volume in the event CAW is subsequently required to make Other Return Water Obligations. CAW and CCSD shall meet and confer as necessary within a reasonable amount of time before or after any of the above dates if it appears that CAW's obligation to make available the CCSD Delivery Volume may not become unconditional. Due to the urgent nature of the MPWSP and other regulatory pressures to implement the MPWSP, CAW and CCSD may mutually agree at any time to amend and move forward with the CCSD Water Purchase Agreement, notwithstanding Other Return Water Obligations, provided all other required approvals have been attained and provided that CAW will meet its Annual Return Water Obligation under this Term Sheet through some combination of the CCSD Water Purchase Agreement, the CSIP Water Purchase Agreement, Other Return Water Obligations, or arrangements made pursuant to paragraph 6 of the Term Sheet.

4. Return Water and Excess Water pricing shall be as follows:

   a. **CCSD:** For each acre-foot of Return Water or Excess Water made available for delivery to CCSD:

      i. CCSD shall pay $110 per acre-foot, as currently estimated, for Return Water made available for delivery to meet the Annual Return Water Obligation, which reflects its avoided cost to produce groundwater to

meet customer demand.

ii. CCSD shall pay $580 per acre-foot, as currently estimated, for any Excess Water, which reflects the operations and maintenance cost for the MPWSP to produce one acre-foot of potable water.

b. **CSIP:** For each acre-foot of Return Water delivered by CAW, CSIP shall pay $xxx per acre-foot, as currently estimated, which reflects the CSIP customers' marginal avoided cost for recycled water produced for use by the CSIP in lieu recharge project's customers.

c. Payment for Return Water and Excess Water shall be subject to standard financing provisions, including appropriate price adjustments. The pricing set forth in this Term Sheet is for illustrative purposes only, and actual prices have not been determined.

5. The Parties support CAW negotiating and entering into Water Purchase Agreements with CCSD and the Agency (for CSIP) consistent with the terms of this Term Sheet.

   a. The Water Purchase Agreements shall have an initial term of at least 30 years.

   b. Prior to the expiration of the Water Purchase Agreements contemplated herein, CCSD and CSIP shall have a right of first refusal to enter into new water purchase agreements on terms to be negotiated at the time.

6. CAW's obligation to make Return Water available for use in lieu of existing groundwater pumping in the SRGB to meet its Annual Return Water Obligation shall survive for a period of 30 years if the initial Water Purchase Agreements do not become effective or are otherwise amended or terminated. In that event, the Parties to this Term Sheet shall meet and confer in good faith to effect other arrangements to make the total amount of the Return Water reduced by any Other Return Water Obligation available for use in lieu of existing groundwater pumping in the SRGB in order to ensure that Cal-Am will meet its Annual Return Water Obligation under this Term Sheet.

7. Upon expiration or non-renewal of the Water Purchase Agreements: (a) CAW shall comply with the Agency Act; and (b) unless CAW demonstrates that Return Water is not needed to prevent legal injury to prior groundwater rights holders in the SRGB or to avoid significant adverse effects to SRGB groundwater resources pursuant to procedures to be agreed upon in future negotiations, CAW shall continue to make Return Water available for delivery to the SRGB for use in lieu of existing groundwater production. In the event of a dispute among any of the parties to this Term Sheet with respect to CAW's need to continue providing Return Water, such dispute shall be resolved by a dispute resolution procedure to be agreed upon in future negotiations.

8. This Term Sheet reflects a settlement and compromise of putative claims and remedies of the Parties hereto.

9. If the Return Water settlement described in this Term Sheet is not approved by the CPUC and implemented by CAW, the SVWC, MCFB and Landwatch reserve their rights to challenge CAW's production of water from the SRGB in any appropriate forum.

10. The Parties agree to support CPUC approval of MPWSP consistent with the compromise and settlement reflected in this Term Sheet, and agree to defend and support this Return Water settlement Term Sheet in any administrative or judicial proceedings concerning this Term Sheet and/or CAW's obligations and responsibilities with respect to Return Water.

11. Among other things, this Term Sheet helps to define a stable and finite project description that will facilitate the CPUC's completion of CEQA review for the MPWSP. The legal effectiveness of this Term Sheet is contingent on the completion of CEQA review and does not irretrievably commit the Parties to carrying out any physical activities that would be required for CAW to meet the Annual Return Water Obligation, including through the anticipated Water Purchase Agreements whose future approval will be conditioned upon the completion of CEQA review by the CPUC as lead agency for the MPWSP and by those Parties playing the role of a responsible agency with respect to the anticipated Water Supply Agreements. The lead agency and responsible agencies will retain full discretion with respect to deciding whether to approve Water Supply Agreements or any other commitments necessary or convenient for CAW to meet the Annual Return Water Obligation, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects from Return Water activities that are within their jurisdiction.

12. This Term Sheet does not currently impact the terms of sections 3.1(b) of the document known as the Large Settlement Agreement. To the extent later binding agreements may specifically do so, they will not impact the Agency's authority and responsibilities under the Agency Act.

13. This Term Sheet may be executed in any number of counterparts.

[Signatures to be added]

RESOLUTION NO. 16-4

A RESOLUTION OF THE BOARD OF DIRECTORS OF THE CASTROVILLE COMMUNITY SERVICES DISTRICT APPROVING SUBMITTAL TO CPUC OF DRAFT "IN CONCEPT" RETURN WATER PURCHASE AGREEMENT

RESOLVED by the Board of Directors ("Board") of the Castroville Community Services District ("District"), at a regular meeting called and held on April 19, 2016, at the business office of the District, 111499 Geil Street, Castroville, California as follows:

WHEREAS, the Board makes the following findings of fact:

A. California-American Water Company ("Cal Am") is seeking permits and approvals for the Monterey Peninsula Water Supply Project ("MPWSP"), including a certificate of public convenience and necessity from the California Public Utilities Commission ("CPUC").

B. The MPWSP includes a desalination plant that will provide a potable water supply for Cal Am's Monterey Peninsula service area. Rather than using an open-ocean intake that would produce only seawater as source water for the desalination plant, the MPWSP desalination plant will produce its source water from subterranean slant wells drilled adjacent to the ocean, which will draw water from strata underlying the ocean. The location of the wells overlies the western portion of the Salinas River Groundwater Basin ("SRGB").

C. To meet applicable requirements of the Monterey County Water Resources Agency Act ("Agency Act"), Cal Am has proposed as part of the MPWSP to make available for delivery to groundwater users overlying the SRGB a volume of water equal to the percentage of SRGB groundwater in the total MPWSP source water production, as determined by the Agency ("Return Water").

D. On January 22, Cal Am, other parties to CPUC proceeding A.12-04-019 and the District signed a Return Water Planning Term Sheet ("Term Sheet") for a framework to satisfy Return Water requirements. The Board approved Resolution 16-2 on December 15, 2015, authorizing execution of the Term Sheet for the District.

E. The Term Sheet provides that Cal Am deliver Return Water to the District, which is designated "CCSD" in the Term Sheet, and to the Castroville Seawater Intrusion Project ("CSIP") to satisfy Return Water requirements that may arise out of the Agency Act, CEQA, or California groundwater law, in accordance with terms and conditions to be agreed upon based on the general principles contained in the Term Sheet. The Monterey County Water Resources Agency ("MCWRA"), the Salinas Valley Water Coalition, Monterey County Farm Bureau, and Landwatch Monterey County support Cal Am's delivering Return Water to the District and to CSIP for use in lieu of existing groundwater pumping in the SRGB.

F. The District currently relies on groundwater from the SRGB to meet water demands within the District's service area, which are currently 780 acre-feet annually ("afa").

G. The District increasingly has experienced water supply challenges due to water quality degradation of its water supplies, primarily from increased salinity. The District is actively pursuing alterative water supplies and has applied to the State for funding to develop deeper groundwater wells and other projects to serve its customer demands.

H. The District is interested in taking delivery of a Return Water supply from the MPWSP to replace or supplement the District's current reliance on groundwater from the SRGB at a cost equivalent to the cost for the District to drill and outfit a new deep well, currently estimated to be $2,800,000.

I. The parties to the Term Sheet have met and conferred and negotiated draft agreements consistent with the Term Sheet. A draft Settlement Agreement is proposed for the parties to the Term Sheet who are also parties to CPUC proceeding A.12-04-019. Draft Return Water Purchase Agreements consistent with the Term Sheet and the draft Settlement Agreement are proposed for the District and for the Monterey County Water Resources Agency for CSIP.

J. A 20,000-foot pipe line is proposed to deliver return water from the MPWSP to CSIP and to the District. Cal Am will build the entire pipe line and will retain ownership of the 12,000 feet from the plant to Nashua Rd, where meters will be set for CSIP and the District. The portion of the return water delivery pipeline and appurtenances from the meter to Castroville, about 8,000 feet, is proposed to be acquired by the District from Cal Am for $2.8 million dollars. Financing obligations for the District's acquisition of this portion of the pipeline would necessitate long-term commitments by the District and Cal Am and certainty of source water supply for the District. The draft Return Water Purchase Agreement for the District addresses these issues.

K. The draft Return Water Purchase Agreement allows for Castroville to receive this high quality, long term and drought proof Desalinated water in-lieu of pumping the District's wells. The price per acre foot would be approximately the same as the cost per acre foot to pump from our wells, about $110 per acre foot. Under certain conditions, including if the source water becomes 100% salt water, the price would be Cal Am's marginal production cost for the return water, approximately $580 per acre foot.

L. The draft Return Water Purchase Agreement provides that the legal effectiveness of the Return Water Purchase Agreement is contingent on the completion of CEQA review and does not irretrievably commit the Parties to carrying out any physical activities that would be required to implement the terms of the Return Water Purchase Agreement and that the lead agency, and responsible agencies like the District will retain full discretion with respect to deciding whether to approve commitments necessary or convenient for Cal Am to meet the Annual Return Water Obligation under the Return Water Purchase Agreement, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects from Return Water activities that are within their jurisdiction.

M. District Counsel advises that the District Board's approval of the draft Return Water Purchase Agreement for submittal by Cal Am to the CPUC for planning purposes and review by

the CPUC does not require prior review under the California Environmental Quality Act, because such approval will not constitute action that significantly furthers a project "in a manner that forecloses alternatives or mitigation measures that would ordinarily be part of CEQA review of that public project," as required by Cal.Code Regs., tit. 14, § 15004, subd. (b)(2)(B) and the decision of the California Supreme Court in *Save Tara v. City of West Hollywood* (2008) 45 Cal.4th 116, 138.

N. Recital BB of the Settlement Agreement recites that the District submits that the District would sign a Return Water Purchase Agreement after expiration of the statute of limitations for challenging a decision by the CPUC certifying the Project environmental impact report and approving the Settlement Agreement.

O. The District's General Manager recommends approval of the draft Return Water Purchase Agreement for submittal by Cal Am to the CPUC for planning purposes and review by the CPUC.

NOW THEREFORE, BE IT RESOLVED by the Board of Directors of the Castroville Community Services District, as follows:

1. Approval for Cal Am to Submit draft Return Water Purchase Agreement Between Cal Am and the District to the CPUC for Planning Purposes and Review. The Board approves the draft Return Water Purchase Agreement, copy of which is attached to this Resolution 16-4 as Exhibit "A", for submittal by California-American Water Company to the California Public Utilities Commission for planning purposes and review in proceeding number A.12-04-019. The General Manager shall keep the Board apprised of the status of the submittal of the draft Return Water Purchase Agreement to the CPUC and of the CPUC's review of the draft Return Water Purchase Agreement.

2. Authority to Implement Resolution. The District, acting through the General Manager and the Board President, are authorized to meet and confer with such persons, including representatives of other Parties to the Term Sheet and the District's engineering and legal advisors to carry out the activities consistent with implementing this Resolution 16-4 in accordance with applicable law.

3. Limitation on Authority to execute Return Water Purchase Agreement. Prior to compliance with the California Environmental Quality Act ("CEQA"), the District and persons acting on behalf of the District shall not take any action or commit the District to any action to implement the draft Return Water Purchase Agreement that would as a practical matter under the circumstances effectively preclude any alternatives or mitigation measures that would otherwise require to be considered, including the alternative of not going forward with the project outlined in the draft Return Water Purchase Agreement.

The foregoing resolution was duly and properly introduced at a regular meeting of the Castroville Community Services District Board of Directors duly held on April 19, 2016, and passed and adopted by the following vote:

AYES: MacMillan, Melgoza, Montejano + Stefani
NOES: Ø
ABSENT: Lewis
ABSTAIN: Ø

President of the Board

Attest:

Secretary of the Board

EXHIBIT A

DRAFT RETURN WATER PURCHASE AGREEMENT
Draft Dated 4/13/16

RETURN WATER PURCHASE AGREEMENT

By and Between

CASTROVILLE COMMUNITY SERVICES DISTRICT

and

CALIFORNIA-AMERICAN WATER COMPANY

THIS RETURN WATER PURCHASE AGREEMENT ("Agreement") is made as of _____, 2017 (the "Effective Date") by and between the CASTROVILLE COMMUNITY SERVICES DISTRICT, a Special District formed pursuant to the Community Services District Law found at California Government Code Sections 61000 – 61226.5 ("CCSD"), and CALIFORNIA-AMERICAN WATER COMPANY, a California corporation ("Cal Am"). CCSD and Cal Am are referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS:

A. CCSD is a public agency providing services to customers within its jurisdictional boundaries in the Castroville area located in Monterey County north of the City of Marina and west of the City of Salinas ("CCSD Service Area"), and is responsible for, among other things, providing municipal and domestic water service to the CCSD Service Area, which overlies the Salinas River Groundwater Basin ("SRGB").

B. Cal Am is a public utility regulated by the California Public Utilities Commission ("CPUC") and provides water service in various areas within California, including a service area in Monterey County (as it may be subsequently amended or revised from time to time without the approval of the other Party) ("Cal Am Service Area").

C. Cal Am submitted an application to the CPUC on April 23, 2012, in Proceeding A.12-04-019 for approval of the Monterey Peninsula Water Supply Project ("Project"). The Project as proposed would consist of slant intake wells, brackish water pipelines, a desalination plant, product water pipelines, brine disposal facilities and related appurtenant facilities. Depending on the availability of water from the Monterey Regional Water Pollution Control Agency's proposed publicly-owned Groundwater Replenishment Project and on the CPUC's decision on the application, the desalination plant is expected to be sized at either 9.6 million gallons per day ("mgd") ("Large Plant") or 6.4 mgd ("Small Plant") to supply water for municipal use in the Cal Am Service Area.

D. The Project's slant intake wells are designed to pump seawater and to avoid or minimize the capture of groundwater from the SRGB in the process of producing source water for treatment by the selected desalination plant ("Project Source Water Production"). To meet applicable requirements of the Monterey County Water Resources Agency ("Agency") Act ("Agency Act"), Cal Am has proposed as part of the Project to make available for delivery to groundwater users overlying the SRGB a volume of water equal to the percentage of SRGB groundwater in the total Project Source Water Production ("Return Water").

E. CCSD currently relies on groundwater from the SRGB to meet the CCSD Service Area water demands, which average approximately 780 acre feet annually ("afa"), however, CCSD increasingly has experienced water supply challenges due to water quality degradation of its water supplies, primarily from increased salinity. As such, CCSD desires to purchase Return Water to replace or supplement CCSD's current reliance on groundwater from the SRGB.

F. Cal Am intends to seek any CPUC approval necessary to allow for the sale of Return Water to CCSD consistent with the terms of this Agreement, and CCSD intends to

support Cal Am's request for any CPUC approval necessary to allow for the sale of Return Water to CCSD pursuant to the terms of this Agreement.

G. Cal Am contemplated two separate pipelines delivering Return Water from the Project desalination plant, one to CSIP ponds and one to CCSD's wellsite #3 ("CCSD Wellsite"). Through negotiations and discussions, the Parties determined the cost of new infrastructure could be decreased by connecting with existing CSIP infrastructure. That connection allows a single pipeline, rather than two pipelines, to be constructed from the desalination plant to the CCSD Wellsite that will connect with an existing CSIP pipeline ("CSIP Connection"). The elimination of a separate pipeline to the CSIP ponds avoids certain pipeline and pump station costs and results in an estimated cost savings to Cal Am of approximately $1,300,000. A preliminary cost estimate for a pipeline and ancillary facilities necessary to convey water from the Project desalination plant to the CCSD Wellsite ("Delivery Pipeline") is approximately $6,500,000. Cal Am believes that if the Delivery Pipeline is constructed by Cal Am there will economies of scale achieved which may reduce the cost of the Delivery Pipeline to approximately $4,400,000, assuming that Cal Am will secure contracts for construction of the pipeline and that environmental review and permitting will be performed in conjunction with the Project. CCSD estimates its cost to construct a new deep well with treatment facilities would cost approximately $2,800,000. Thus, CCSD submits that it may not be able to prudently fund the Delivery Pipeline for more than $2,800,000, and that capital obligations for the Delivery Pipeline would necessitate long-term commitments by CCSD and certainty of source water supply for CCSD.

NOW THEREFORE, in consideration of the foregoing recitals and the mutual covenants set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, CCSD and Cal Am hereby agree as follows:

AGREEMENT

1. **Governing Terms**.

1.1 Recitals. The recitals are hereby incorporated in this Agreement as if fully set forth herein.

1.2 Interpretation. The following rules of interpretation shall apply:

(a) Capitalized terms used in this Agreement, including the exhibits hereto, shall have their respective meanings as set forth in this Agreement.

(b) Unless otherwise specified herein, references in the singular shall include references in the plural and vice versa; and pronouns having masculine or feminine gender will be deemed to include the other.

(c) Any act required to occur by or on a certain day is required to occur before or on that day unless the day falls on a Saturday, Sunday or federal holiday, in which case the act must occur before or on the next day this is not a Saturday, Sunday or federal holiday.

(d) The headings in this Agreement are included for convenience only and shall not be deemed to modify or explain any of the terms of this Agreement.

(e) This Agreement is the product of negotiation between the Parties, no Party is to be deemed the drafter of this Agreement, and any ambiguities in this Agreement shall not be read against any Party to the Agreement.

(f) All references in this Agreement to a "year" shall mean a "water year," and all references to a "water year" shall mean the 12-month period beginning on October 1 of a given year and ending on September 30 of the following year. All calculations herein based on the period of a year shall be prorated to account for any time frame that is less than a 12-month period.

1.3 Agency Act Compliance. Cal Am shall comply with the Agency Act. Notwithstanding any other provisions of this Agreement, the Agency will retain all rights, discretion and authority conferred on the Agency under the Agency Act to ensure that the pumping, production, desalination, and distribution of project source water from the SRGB for the selected desalination plant complies with the Agency Act, and the long-term viability of the SRGB as a water supply for water for agricultural, domestic and municipal use. Neither this Section 1.3 nor any other provision of this Agreement shall be interpreted: (a) to affect, diminish, or enhance the Agency's regulatory authority under the Agency Act; (b) to affect, diminish, excuse, or forgive Cal Am's obligation to comply with the Agency Act; or (c) to preclude any argument by Cal Am or CCSD that there is no violation of the Agency Act.

2. **Term**.

2.1 Effective Date. This Agreement shall be effective on the Effective Date and shall continue in effect until expiration of the Delivery Term (defined in Section 2.2 below) or until earlier termination as provided for in Section 10.

2.2 Delivery Term. The "Delivery Term" shall begin on the date on which Cal Am has determined that it is ready to deliver Return Water to the Delivery Point (defined in Section 3.1 below), the anticipated location of which is depicted on Exhibit A, and shall continue for a period of thirty (30) years thereafter. Cal Am shall provide CCSD with written notice of the commencement date of the Delivery Term, promptly upon Cal Am's determination of such date.

2.3 Right of First Refusal. If this Agreement has not been terminated as provided for in Section 10, CCSD shall have a right of first refusal to enter into a new return water purchase agreement on terms to be negotiated by the Parties at the time the right is exercised. In order to exercise the right, CCSD shall provide Cal Am written notice of its intent to do so no earlier than 730 days and no later than 365 days prior to expiration of this Agreement. CCSD acknowledges that Agency also has a right of first refusal to enter into a new return water purchase agreement with respect to its agreement with Cal Am pursuant to that certain Return Water Purchase Agreement By and Between MONTEREY COUNTY WATER RESOURCES AGENCY and CALIFORNIA-AMERICAN WATER COMPANY dated _____.

2.4 Expiration or Non-Renewal. Upon termination, expiration or non-renewal of this Agreement, Cal Am shall continue to make Return Water available for delivery to the SRGB

for use in lieu of existing groundwater production, unless Cal Am demonstrates that Return Water is not needed to prevent legal injury to prior groundwater rights holders in the SRGB or to avoid significant adverse effects to SRGB groundwater resources. If Cal Am desires to make such a showing, it shall initially do so by providing a demonstration in writing to all parties to that certain Settlement Agreement on MPWSP Desalination Plant Return Water, dated _____, 2016, (the "Settlement Agreement") using the notice provisions of Section 11 of this Agreement. Within 21 days thereafter, the Parties shall meet to seek to reach agreement regarding whether Cal Am has made the requisite demonstration. If the Parties do not reach agreement within 30 days after the initial meeting, any Party may on or after the 31st day, but no later than the 91st day, invoke the provisions of Section 9. For the avoidance of doubt, nothing in this Section 2.4 in any way affects the provisions, scope and application of Section 1.3.

3. **Delivery of Return Water**

3.1 Priority of Return Water for In-Lieu Use. Unless prevented by circumstances outside the control of CCSD and so long as such use is permitted by law, CCSD will use the water purchased from Cal Am under Section 3.5.1 of this Agreement to serve the water supply demand of persons served by CCSD, before using water from the SRGB. CCSD shall measure and record the amount of water received under this Agreement and produced from other groundwater sources within the SRGB and shall make such information available to the public upon written request. CCSD will report to the parties to the Settlement Agreement within 90 days after executing this Agreement, and annually thereafter by March 31, the following information for the prior 12 months: the amount of water served to, and the current number of, its residential, commercial, and industrial service connections; the amount of water produced from groundwater wells to serve these connections; the amount of Return Water to serve these connections; and the amount of water from other sources to serve these connections. This provision is not intended and shall not be interpreted to limit either CCSD's statutory authority under Section 61100 of the California Government Code to supply water for any beneficial uses within CCSD's boundaries or CCSD's discretion in the use of best management practices to operate CCSD's water system facilities in performing CCSD's obligations under the law and this Agreement, or to impose new or additional requirements for analysis under the California Environmental Quality Act ("CEQA"), Public Resource Code Sections 21000 and following for water service and supply by CCSD.

3.2 Cal Am Return Water Pipeline. Subject to satisfaction of the Conditions Precedent set forth in Sections 3.3(a), (b), (c), (d), (e) and (f), Cal Am will design and construct (in consultation with CCSD) the Delivery Pipeline including a metered delivery point ("Delivery Point") as set forth in Exhibit A. Cal Am will install, operate, and maintain the meter in accordance with CPUC General Order 103-A or other applicable CPUC or water industry standards which will measure the volume of Return Water delivered to the Delivery Point ("Cal Am Meter"). CCSD shall use best efforts to ensure it has the ability to take such delivery. All pipeline facilities from the desalination plant up to and including the Cal Am Meter shall be owned, operated and maintained by Cal Am. All pipeline facilities downstream of the Cal Am Meter shall be owned, operated, and maintained by CCSD upon payment by CCSD to Cal Am of the CCSD Pipeline Contribution as set forth in this Agreement.

3.3 Conditions Precedent. Any delivery of Return Water pursuant to this Agreement is subject to the following conditions precedent:

(a) any required CPUC approval to amend Cal Am's Service Area to allow for the sale of Return Water consistent with the terms of this Agreement; and,

(b) any required CPUC approval of a tariff to allow for the sale of Return Water consistent with the terms of this Agreement, which tariff may change from time to time with the approval of the CPUC and shall govern over any inconsistent terms or conditions set forth in this Agreement; and,

(c) the completion of CEQA review by the CPUC as lead agency for the Project; and

(d) the CPUC's issuance of a Certificate of Public Convenience and Necessity ("CPCN") for the Project; and,

(e) the total cost of the Delivery Pipeline ("Delivery Pipeline Cost") is estimated by Cal Am to be no more than $4.4 million; and,

(f) CCSD and Cal Am have reached an agreement concerning the capacity, construction by Cal Am, implementation, acquisition by CCSD, ownership, financing, and operation and maintenance costs of the Delivery Pipeline; and,

(g) completion of construction, and acceptance by Cal Am, of the Project desalination plant such that it is able to produce and transport Return Water to the Delivery Point; and

(h) CCSD's ability to take delivery of the Return Water at the Delivery Point.

With respect to Sections 3.2(a), (b), (c) and (d), Cal Am shall use good faith diligent efforts to seek any such required CPUC approval as is reasonably possible following the Effective Date. CCSD shall use good faith diligent efforts to support Cal Am's efforts to obtain any such CPUC approval.

3.4 Delivery Pipeline Cost.

3.4.1 Upon completion and acceptance by Cal Am of the Delivery Pipeline, CCSD will pay to Cal Am the Delivery Pipeline Cost, subject to a cap of $2.8 million ("CCSD Pipeline Contribution").

3.4.2 The Parties shall cooperate in good faith to seek grants to offset the Delivery Pipeline Cost.

3.4.3 Cal Am will reimburse CCSD for its CCSD Pipeline Contribution in proportion to any reduction to the CCSD Delivery Volume as a result of the occurrence of an Other Return Water Obligation pursuant to Section 3.5.2 ("Conditional Pipeline Reimbursement"), which Conditional Pipeline Reimbursement shall be prorated by that

percentage of the outstanding 30-year Delivery Term remaining at the time the Other Return Water Obligation occurs. The foregoing concept is represented in the following equation: Conditional Pipeline Reimbursement = ([Other Return Water Obligation/CCSD Delivery Volume] x $2.8 million) x (remaining Delivery Term/30-year term).

3.5 Delivery Requirements. Cal Am shall have annual Return Water requirements ("Annual Return Water Obligation") that shall be calculated based on the percentage of SRGB groundwater in the total Project Source Water Production. CCSD agrees that the volume of the Annual Return Water Obligation will be determined as set forth in Section 2.c. of the Settlement Agreement. For reference purposes, Section 2.c. of the Settlement Agreement is attached as Exhibit C hereto.

3.5.1 On an annual basis during the Delivery Term, Cal Am shall make available for delivery to CCSD 690 afa of Return Water ("CCSD Delivery Volume"). In any given year, if the CCSD Delivery Volume is less than the Annual Return Water Obligation for that year, CCSD shall purchase Return Water from Cal Am in an amount equal to the CCSD Delivery Volume. In any given year, if the Annual Return Water Obligation is less than the CCSD Delivery Volume, CCSD shall purchase Return Water from Cal Am in an amount equal to the Annual Return Water Obligation for that year and may elect to purchase from Cal Am potable water in an amount equal to the difference between the Annual Return Water Obligation for that year and the CCSD Delivery Volume ("Excess Water"). In other words, CCSD shall purchase from Cal Am each year the lesser of the CCWD Delivery Volume or the Annual Return Water Obligation, and may purchase from Cal Am each year Excess Water, in accordance with pricing terms addressed in Section 4.2. Notwithstanding any other provision of this Agreement, if CCSD purchases any Excess Water in any given year, it may not purchase a total of more than 690 afa of Return Water in that year.

3.5.2 The Parties acknowledge that Cal Am could be legally required by a regulatory agency, including the CPUC in this proceeding, or by a court, to make water deliveries to other locations in the SRGB to the extent necessary to mitigate any groundwater impacts from the Project that were demonstrated in relation to a specific location overlying the SRGB ("Other Return Water Obligation"). Such Other Return Water Obligation could also serve to satisfy Cal Am's obligations to return water to the SRGB under the Agency Act, the CEQA, or common-law water law principles. Under such circumstances, the Parties agree that it would be inequitable to Cal Am and its ratepayers to fund both the Other Return Water Obligation and the Return Water obligations specified herein as this would result in a duplicative liability to Cal Am and its ratepayers. Cal Am's obligation to make available the CCSD Delivery Volume shall be reduced in the event and to the extent that a regulatory agency or court has required Cal Am to deliver Return Water in a manner or location different than as specified in this Agreement. CCSD shall have the right to terminate this Agreement as set forth in Section 10.3 if it determines that the reduced amount of Return Water would not be sufficient to justify its water purchase as contemplated herein.

3.6 Scheduling of Deliveries. Subject to CCSD's obligation to purchase Return Water set forth in Section 3.5.1, Cal Am will deliver Return Water to the Delivery Point in quantities and at times determined by the Parties. Cal Am will endeavor to cooperate with

CCSD to deliver Return Water to the Delivery Point in volumes and at times requested by CCSD.

4. **Payment Provisions**.

4.1 Generally. Cal Am will invoice CCSD for deliveries of Return Water to the Delivery Point based on the volumes measured at the Cal Am Meter. CCSD shall pay such invoices within 30 days of receipt.

(a) Pricing. CCSD shall pay its avoided cost to produce groundwater to meet customer demand, currently estimated to be $110 per acre-foot, for Return Water made available for delivery to meet the Annual Return Water Obligation. CCSD plans to continue operation of its existing wells so they may be available in emergency circumstances. This continuing operation will enable CCSD to provide future updates to the avoided cost of pumping to Cal Am upon Cal Am's reasonable request, but not more than once per year. If CCSD is unable to provide such updated avoided costs of pumping, then the percentage increase of PG&E's A-6 tariff for off-peak summer distribution rate (with a base of $0.07311 / kWh as of the tariff existing on March 24, 2016) will be used as the escalation factor for the increase in avoided cost of pumping in the future.

(b) CCSD shall pay the operations and maintenance cost for the MPWSP to produce one acre-foot of potable water, currently estimated to be $580 per acre-foot for any Excess Water; provided, however, that as to Excess Water, CCSD shall pay the prices that are approved by the CPUC and included in Cal Am's tariffs, as they may be modified from time to time as approved by the CPUC, if such CPUC-approved prices differ from a price of $580 per acre foot.

5. **Compliance with Laws/Cooperation**. The Parties shall comply with all applicable laws in their respective performance under this Agreement and shall cooperate to take the actions and execute the documents necessary to perform under this Agreement.

6. **Indemnification; Fees and Expenses**

6.1 Indemnification.

(a) To the fullest extent permitted by law, Cal Am shall indemnify and hold harmless CCSD and its respective directors, officers, agents and employees, from any claims, actions or liability for any damages (including reasonable attorneys' fees, expert fees and litigation costs), any injury to persons or property, or any violation of any law or regulation, occurring by reason of anything done or omitted to be done by Cal Am, its officers, employees, contractors or agents under this Agreement, except and only to the extent such damages, injury, or violation resulted from the negligent acts or willful misconduct of CCSD or its respective directors, officers, agents and employees.

(b) To the fullest extent permitted by law, CCSD shall indemnify and hold harmless Cal Am and its respective directors, officers, agents and employees from any claims, actions or liability for any damages (including reasonable attorneys' fees, expert fees and litigation costs), any injury to persons or property, or any violation of any law or regulation, occurring by

reason of anything done or omitted to be done by CCSD, its officers, employees, contractors or agents under this Agreement, except and only to the extent such damages, injury, or violation resulted from the negligent acts or willful misconduct of Cal Am or its respective directors, officers, agents and employees.

7. **Insurance.** The Parties will keep in full force and effect the insurance coverage described in Exhibit B.

8. **Assignment**. A Party may not assign its rights or obligations under this Agreement without the written consent of the other Party, which consent may not be unreasonably withheld.

9. **Dispute Resolution**

9.1 Scope of Article. This Article governs the resolution of all disputes that arise under this Agreement.

9.2 Disputes. If a dispute arises concerning any controversy or claim arising out of or relating to this Agreement or the breach thereof, or relating to its application or interpretation, the aggrieved Party will notify the other Party of the dispute in writing within twenty (20) days after such dispute arises. If the Parties fail to resolve the dispute within sixty (60) days after delivery of such notice, each Party will promptly nominate a senior officer of its organization to meet at any mutually-agreed time and location to resolve the dispute. The Parties shall use their best efforts to reach a just and equitable solution satisfactory to both Parties. If the Parties are unable to resolve the dispute to their mutual satisfaction within sixty (60) days thereafter, the dispute will be subject to mediation, pursuant to Section 9.3. The time periods set forth in this Section 9.2 are subject to extension as agreed to by the Parties.

9.3 Mandatory Non-binding Mediation. If a dispute is not resolved pursuant to Section 9.2, the Parties agree to first endeavor to settle the dispute in an amicable manner, using mandatory non-binding mediation initiated and conducted under the applicable rules of the American Arbitration Association in effect as of the Effective Date or other rules agreed to in writing by the Parties, before having recourse in a court of law. Each Party shall bear its own legal expenses, and the expenses of witnesses for either side shall be paid by the Party producing such witnesses. All expenses of the mediator, including required travel, and the cost of any proofs or expert advice produced at the direct request of the mediator, shall be borne equally by the Parties, unless they agree otherwise. Any resultant agreements from mediation shall be documented in writing. All mediation proceedings, results, and documentation, including without limitation any materials prepared or submitted or any positions taken by or on behalf of either Party, shall be confidential and inadmissible for any purpose in any legal proceeding (pursuant to California Evidence Codes sections 1115 through 1128), unless such admission is otherwise agreed upon in writing by the Parties. Mediators shall not be subject to any subpoena or liability, and their actions shall not be subject to discovery. The mediation shall be completed within sixty (60) days after selection of the mediator, unless the Parties agree to extend the mediation period.

9.4 Judicial Relief. If mediation pursuant to Section 9.3 does not resolve a dispute, either Party may seek relief in a court of competent jurisdiction.

9.5 Limitations on Damages. No Party shall be entitled to consequential damages, incidental damages, or punitive or exemplary damages from the other Party in any action or proceeding in connection with this Agreement.

9.6 Attorneys' Fees and Costs. In any action or proceeding to enforce a term or condition of this Agreement, in any disputes relating to the Agreement, and in any actions for breaches, defaults, or misrepresentations in connection with any the Agreement, a prevailing Party (as determined by a court of competent jurisdiction) shall be entitled to recover its reasonable costs and expenses, including without limitation reasonable attorneys' fees and costs.

10. **Termination**.

10.1 Termination for Non-Performance. Either Party may terminate this Agreement if the other Party fails to perform a material provision of this Agreement as required herein, provided that the Party seeking termination shall provide prior written notice of its intention to terminate to the other Party, which notice shall fully describe how the other Party failed to perform a material provision of this Agreement, and provided further that the dispute has not been resolved by following the procedures set forth in Section 9 above. If the Parties are unable to resolve the dispute following the procedures set forth in Section 9, the Party seeking termination may provide a written notification of termination to the other Party, and such termination shall become effective thirty (30) days after the other Party has received such written notification. The procedures of this Section 10.1 shall not apply to terminations under Section 10.2 and 10.3 of this Agreement.

10.2 Termination for Failure of Conditions Precedent. Either Party may terminate this Agreement if, by January 1, 2025, Cal Am has not obtained any and all required CPUC approval of the matters described as conditions precedent in Sections 3.2(a), (b), (c) and (d) by providing a written notification of termination to the other Party, and such termination shall become effective thirty (30) days after the other Party has received such written notification.

10.3 Termination Based on Regulatory Requirements. CCSD may terminate this Agreement if: (a) Cal Am is legally required by a regulatory agency, including the CPUC, or by a court, to make water deliveries to locations in the SRGB other than the CCSD Service Area which result in reduced deliveries to CCSD; and (b) CCSD determines that the reduced amount of Return Water would not be sufficient to justify its water purchase hereunder. Such termination must be effected by providing a written notification of termination to Cal Am, and such termination shall become effective thirty (30) days after Cal Am has received such written notification.

10.4 Agency Act. Termination of this Agreement does not excuse or delay Cal Am's obligation to comply with the Agency Act.

10.5 Ending of Right to Terminate. The Parties acknowledge that the CCSD must be assured of a specific volume of Return Water to justify investment in the capital facilities necessary to convey the Return Water to the CCSD ("CCSD Facilities"), and therefore Cal Am's obligation under this Agreement to make available the CCSD Delivery Volume shall become unconditional on the latest of the following dates, on and after which date the Agreement may not be terminated prior to its expiration:

10.5.1 The date on which the CPUC has issued a CPCN for the Project and the period to challenge the legality of the CPUC's issuance of the CPCN (based on CEQA compliance or otherwise) has expired and no challenge has been brought; or

10.5.2 The date on which any challenge against the CPUC's issuance of the CPCN is resolved with finality following all available appeals and petitions; or

10.5.3 Sixty (60) days following the date on which the CCSD provides notification to Cal Am that it has secured financing, acceptable to CCSD, to construct the CCSD Facilities.

Nothing in this Section 10.4 shall prohibit Cal Am from temporarily suspending delivery of Return Water or Excess Water to CCSD if CCSD fails to make payments when due and such failure continues for a time period in excess of sixty (60) calendar days.

11. **Representatives; Notices**.

11.1 Authorized Representatives. Each Party will designate at least one individual officer or employee who will be its representative and will be authorized to act on behalf of the Party for all purposes in performing the provisions of this Agreement ("Representative"). The designation may be changed from time to time. The designation and changes to a designation must be made in a writing delivered to the other Party.

11.2 No Release. Each Party is responsible for the acts or omissions of its Representative(s). The designation of a Representative by a Party does not release the Party from responsibility for performance of its obligations under this Agreement.

11.3 Notice. All notifications, notices, demands, requests and other communications herein provided for or made pursuant hereto shall be in writing and shall be sent by: (i) registered or certified mail, return receipt requested, and the giving of such communication shall be deemed complete on the third (3rd) business day after the same is deposited in a United States Post Office with postage charges prepaid; (ii) reputable overnight delivery service, and the giving of such communication shall be deemed complete on the immediately succeeding business day after the same is deposited with such delivery service; or (iii) so long as a Party has notified the other Party by means of a method described in clauses (i) or (ii) above of such Party's email address for notification purposes, email transmission of notices to such Party are also permitted provided an original is also sent via one of the other permitted means and the giving of such communication shall be complete when such email is received if such email is received on a business day before 3:00 pm Pacific Time; otherwise, such communication shall be deemed complete the next business day. The date on which notifications, notices, demands, requests and other communications are deemed complete shall be the earliest date arising under subsections (i), (ii) or (iii) of this Section 11.3. All notifications, notices, demands, requests and other communications shall be sent to the Parties as follows:

To CCSD:

J. Eric Tynan
General Manager
Castroville Community Services District
11499 Geil Street
Castroville, CA 95012

To Cal Am:

Eric J. Sabolsice
Director, Operations
Coastal Division
California-American Water Company
511 Forest Lodge Road, Suite 100
Pacific Grove, CA 93950

12. **Force Majeure**. If by reason of Force Majeure (defined below), a Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, and if such Party gives notice and reasonably describes the particulars of such Force Majeure in writing to the other Party as promptly as possible after the occurrence of the cause relied on, then the affected Party shall be excused from performance hereunder without liability, but only so far as and to the extent that it is affected by such Force Majeure; provided, however, such cause shall be remedied with all reasonable dispatch. Upon occurrence of the Force Majeure, the affected Party, in addition to notifying the other Party as provided above, shall as promptly as possible provide such Party a written description of the Force Majeure, the cause thereof (to the extent known), the date the Force Majeure began, its expected duration, and an estimate of the specific relief requested or to be requested by such Party. Furthermore, the Party affected by such Force Majeure shall use diligent efforts to reduce costs resulting from the occurrence of the Force Majeure, fulfill its performance obligations under this Agreement and otherwise mitigate the adverse effects of the Force Majeure. While the Force Majeure continues, the affected Party shall give the other Party regular updates of the information previously submitted. The affected Party shall also provide prompt written notice to the other Party of the cessation of the Force Majeure. Notwithstanding anything to the contrary contained herein, the occurrence of a Force Majeure shall not, however, (i) excuse or delay any obligation to pay monies previously accrued and owing to another Party under this Agreement, or for the Party to perform any obligation under this Agreement not affected by the occurrence of the Force Majeure; or (ii) excuse or delay Cal Am's obligation to comply with the Agency Act.

For purposes of this Section 12, "Force Majeure" means any act, event, condition or circumstance that (A) is beyond the reasonable control of a Party, (B) by itself or in combination with other acts, events, conditions or circumstances adversely affects, interferes with or delays a Party's ability to perform its obligations under this Agreement, expands the scope of a Party's obligations under this Agreement, or increases a Party's cost of performing its obligations under this Agreement, and (C) is not the direct result of the willful or negligent act, intentional misconduct, or breach of this Agreement by the affected Party.

13. **Other Provisions**.

13.1 Integration. This Agreement embodies the entire agreement between the Parties relating to the subject matter hereof and supersedes all prior agreements and understandings, written or oral, relating to such subject matter.

13.2 Successor and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of and be enforceable by, the Parties hereto and their respective successors and assigns permitted hereunder.

13.3 Relationship of Parties. Each Party is an independent entity. This Agreement will not constitute any Party as the agent of the other Party. This Agreement will not constitute the Parties as partners or joint venturers (or as co-owners of a business entity) for common law purposes, federal, state or local income tax purposes, or otherwise.

13.4 Amendments or Waivers. No term or provision hereof or Exhibit hereto may be amended, changed, waived, discharged, terminated or replaced except by a writing executed by each of the Parties hereto.

13.5 No Waiver by Failure to Act. No failure, delay, forbearance or indulgence on the part of any Party in insisting upon the strict performance of any provision, or in exercising any option, right, power, privilege or remedy hereunder, shall operate or be construed as a waiver or relinquishment thereof, or as an acquiescence in any breach, nor shall any single or partial exercise of any option, right, power, privilege or remedy hereunder preclude any other or further exercise thereof or the exercise of any other option, right, power, privilege or remedy.

13.6 Controlling Law; Conflicts of Law. This Agreement shall be construed, governed and applied in accordance with the laws of the State of California, without regard to the conflicts of law principles thereof.

13.7 CEQA. This Agreement helps to define a stable and finite project description that will facilitate the CPUC's completion of CEQA review for the Project. The legal effectiveness of this Agreement is contingent on the completion of CEQA review and this Agreement does not irretrievably commit the Parties to carrying out any physical activities that would be required for Cal Am to meet the Annual Return Water Obligation or would otherwise be required for the Parties to comply with the terms of this Agreement. The Parties acknowledge and intend that the CPUC as lead agency and other responsible agencies under CEQA will retain full discretion with respect to deciding whether to approve water purchase or any other commitments necessary or convenient for Cal Am to meet the Annual Return Water Obligation, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects (i) from Return Water activities that are within their jurisdiction, and (ii) from the Parties' compliance with other terms of this Agreement.

13.8 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any

such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13.9 No Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the Parties hereto; nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third person to any Party; and, this Agreement does not create any duty, liability or standard of care to any person who is not a Party.

13.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.

13.11 Consents and Approvals. Except as otherwise expressly set forth in this Agreement, all consents and approvals which may be given under this Agreement shall be in writing and shall not be unreasonably withheld or delayed unless otherwise expressly provided herein.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered in their name and on their behalf.

CASTROVILLE COMMUNITY SERVICES DISTRICT

By: _____

Printed Name: _____

Title: _____

Approved as to Form:

By: _____

Printed Name: _____

Title: _____

CALIFORNIA-AMERICAN WATER COMPANY

By: _____

Printed Name: _____

Title: _____

DRAFT

EXHIBIT A

Depiction of Anticipated Location of Delivery Pipeline and Delivery Point

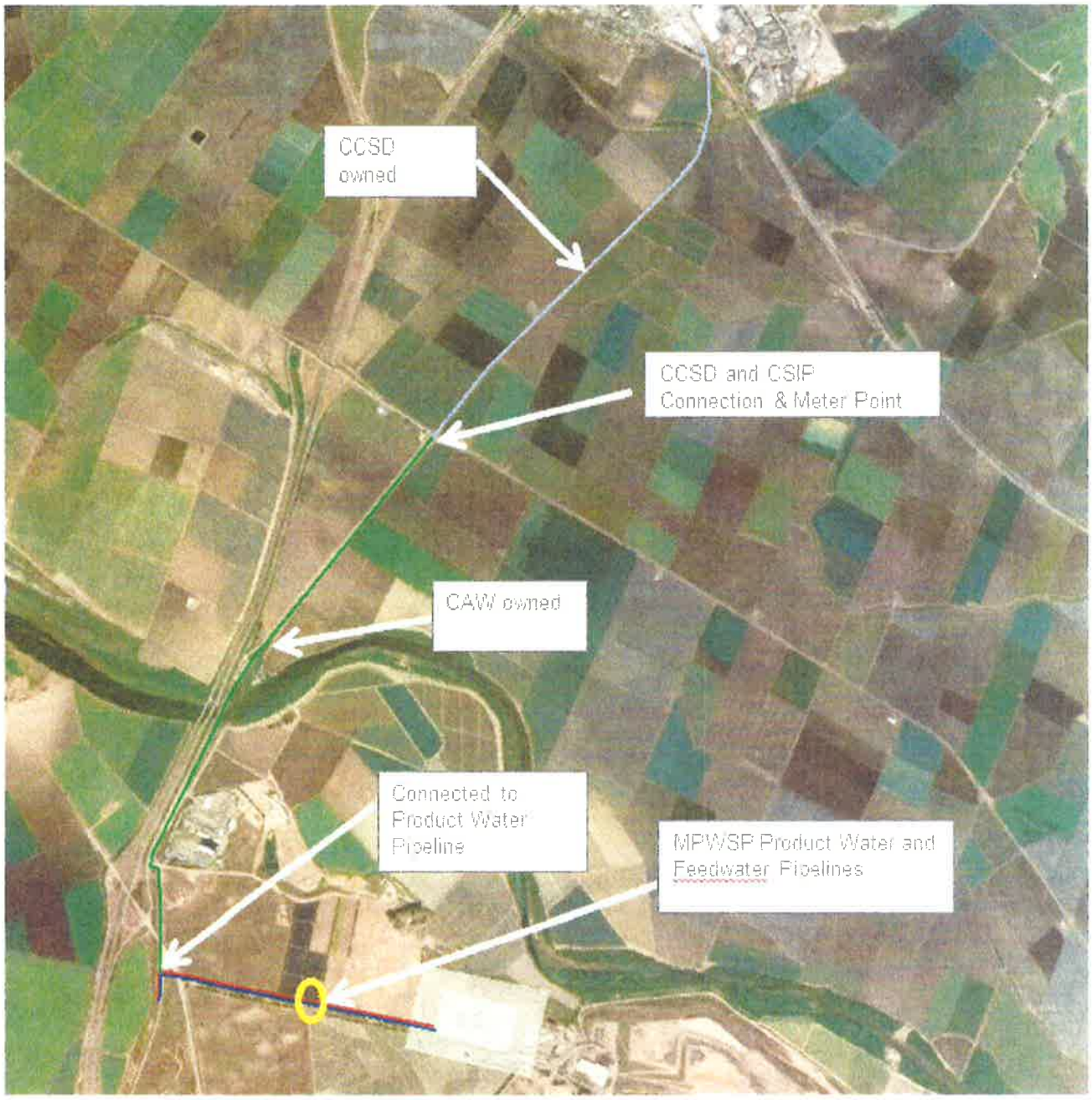

EXHIBIT B

INSURANCE REQUIREMENTS

[CCSD TO PROVIDE]

DRAFT

EXHIBIT C

SECTION 2.C. OF SETTLEMENT AGREEMENT

[TO BE PROVIDED UPON FINALIZATION OF SETTLEMENT AGREEMENT]

SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER

APPENDIX C

RETURN WATER PURCHASE AGREEMENTS

RETURN WATER PURCHASE AGREEMENT

By and Between

CASTROVILLE COMMUNITY SERVICES DISTRICT

and

CALIFORNIA-AMERICAN WATER COMPANY

THIS RETURN WATER PURCHASE AGREEMENT ("Agreement") is made as of _____, 2017 (the "Effective Date") by and between the CASTROVILLE COMMUNITY SERVICES DISTRICT, a Special District formed pursuant to the Community Services District Law found at California Government Code Sections 61000 – 61226.5 ("CCSD"), and CALIFORNIA-AMERICAN WATER COMPANY, a California corporation ("Cal Am"). CCSD and Cal Am are referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS:

A. CCSD is a public agency providing services to customers within its jurisdictional boundaries in the Castroville area located in Monterey County north of the City of Marina and west of the City of Salinas ("CCSD Service Area"), and is responsible for, among other things, providing municipal and domestic water service to the CCSD Service Area, which overlies the Salinas River Groundwater Basin ("SRGB").

B. Cal Am is a public utility regulated by the California Public Utilities Commission ("CPUC") and provides water service in various areas within California, including a service area in Monterey County (as it may be subsequently amended or revised from time to time without the approval of the other Party) ("Cal Am Service Area").

C. Cal Am submitted an application to the CPUC on April 23, 2012, in Proceeding A.12-04-019 for approval of the Monterey Peninsula Water Supply Project ("Project"). The Project as proposed would consist of slant intake wells, brackish water pipelines, a desalination plant, product water pipelines, brine disposal facilities and related appurtenant facilities. Depending on the availability of water from the Monterey Regional Water Pollution Control Agency's proposed publicly-owned Groundwater Replenishment Project and on the CPUC's decision on the application, the desalination plant is expected to be sized at either 9.6 million gallons per day ("mgd") ("Large Plant") or 6.4 mgd ("Small Plant") to supply water for municipal use in the Cal Am Service Area.

D. The Project's slant intake wells are designed to pump seawater and to avoid or minimize the capture of groundwater from the SRGB in the process of producing source water for treatment by the selected desalination plant ("Project Source Water Production"). To meet applicable requirements of the Monterey County Water Resources Agency ("Agency") Act ("Agency Act"), Cal Am has proposed as part of the Project to make available for delivery to groundwater users overlying the SRGB a volume of water equal to the percentage of SRGB groundwater in the total Project Source Water Production ("Return Water").

E. CCSD currently relies on groundwater from the SRGB to meet the CCSD Service Area water demands, which average approximately 780 acre feet annually ("afa"), however, CCSD increasingly has experienced water supply challenges due to water quality degradation of its water supplies, primarily from increased salinity. As such, CCSD desires to purchase Return Water to replace or supplement CCSD's current reliance on groundwater from the SRGB.

F. Cal Am intends to seek any CPUC approval necessary to allow for the sale of Return Water to CCSD consistent with the terms of this Agreement, and CCSD intends to

support Cal Am's request for any CPUC approval necessary to allow for the sale of Return Water to CCSD pursuant to the terms of this Agreement.

G. Cal Am's performance of its Return Water obligations under this Agreement and its Return Water Purchase Agreement with the Agency is intended to advance fulfillment of Cal Am's Return Water obligations under that certain SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER, dated _____, 2016 ("Settlement Agreement").

H. Cal Am contemplated two separate pipelines delivering Return Water from the Project desalination plant, one to CSIP ponds and one to CCSD's wellsite #3 ("CCSD Wellsite"). Through negotiations and discussions, the Parties determined the cost of new infrastructure could be decreased by connecting with existing CSIP infrastructure. That connection allows a single pipeline, rather than two pipelines, to be constructed from the desalination plant to the CCSD Wellsite that will connect with an existing CSIP pipeline ("CSIP Connection"). The elimination of a separate pipeline to the CSIP ponds avoids certain pipeline and pump station costs and results in an estimated cost savings to Cal Am of approximately $1,300,000. A preliminary cost estimate for a pipeline and ancillary facilities necessary to convey water from the Project desalination plant to the CCSD Wellsite ("Delivery Pipeline") is approximately $6,500,000. Cal Am believes that if the Delivery Pipeline is constructed by Cal Am there will economies of scale achieved which may reduce the cost of the Delivery Pipeline to approximately $4,400,000, assuming that Cal Am will secure contracts for construction of the pipeline and that environmental review and permitting will be performed in conjunction with the Project. CCSD estimates its cost to construct a new deep well with treatment facilities would cost approximately $2,800,000. Thus, CCSD submits that it may not be able to prudently fund the Delivery Pipeline for more than $2,800,000, and that capital obligations for the Delivery Pipeline would necessitate long-term commitments by CCSD and certainty of source water supply for CCSD.

NOW THEREFORE, in consideration of the foregoing recitals and the mutual covenants set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, CCSD and Cal Am hereby agree as follows:

AGREEMENT

1. **Governing Terms**.

1.1 Recitals. The recitals are hereby incorporated in this Agreement as if fully set forth herein.

1.2 Interpretation. The following rules of interpretation shall apply:

(a) Capitalized terms used in this Agreement, including the exhibits hereto, shall have their respective meanings as set forth in this Agreement.

(b) Unless otherwise specified herein, references in the singular shall include references in the plural and vice versa; and pronouns having masculine or feminine gender will be deemed to include the other.

(c) Any act required to occur by or on a certain day is required to occur before or on that day unless the day falls on a Saturday, Sunday or federal holiday, in which case the act must occur before or on the next day this is not a Saturday, Sunday or federal holiday.

(d) The headings in this Agreement are included for convenience only and shall not be deemed to modify or explain any of the terms of this Agreement.

(e) This Agreement is the product of negotiation between the Parties, no Party is to be deemed the drafter of this Agreement, and any ambiguities in this Agreement shall not be read against any Party to the Agreement.

(f) All references in this Agreement to a "year" shall mean a "water year," and all references to a "water year" shall mean the 12-month period beginning on October 1 of a given year and ending on September 30 of the following year. All calculations herein based on the period of a year shall be prorated to account for any time frame that is less than a 12-month period.

1.3 Agency Act Compliance. Cal Am shall comply with the Agency Act. Notwithstanding any other provisions of this Agreement, the Agency will retain all rights, discretion and authority conferred on the Agency under the Agency Act to ensure that the pumping, production, desalination, and distribution of project source water from the SRGB for the selected desalination plant complies with the Agency Act, and the long-term viability of the SRGB as a water supply for water for agricultural, domestic and municipal use. Neither this Section 1.3 nor any other provision of this Agreement shall be interpreted: (a) to affect, diminish, or enhance the Agency's regulatory authority under the Agency Act; (b) to affect, diminish, excuse, or forgive Cal Am's obligation to comply with the Agency Act; or (c) to preclude any argument by Cal Am or CCSD that there is no violation of the Agency Act.

2. **Term**.

2.1 Effective Date. This Agreement shall be effective on the Effective Date and shall continue in effect until expiration of the Delivery Term (defined in Section 2.2 below) or until earlier termination as provided for in Section 10.

2.2 Delivery Term. The "Delivery Term" shall begin on the date on which Cal Am has determined that it is ready to deliver Return Water to the Delivery Point (defined in Section 3.2 below), the anticipated location of which is depicted on Exhibit A, and shall continue for a period of thirty (30) years thereafter. Cal Am shall provide CCSD with written notice of the commencement date of the Delivery Term, promptly upon Cal Am's determination of such date.

2.3 Right of First Refusal. If this Agreement has not been terminated as provided for in Section 10, CCSD shall have a right of first refusal to enter into a new return water purchase agreement on terms to be negotiated by the Parties at the time the right is exercised. In order to exercise the right, CCSD shall provide Cal Am written notice of its intent to do so no earlier than 730 days and no later than 365 days prior to expiration of this Agreement. CCSD acknowledges that Agency also has a right of first refusal to enter into a new

return water purchase agreement with respect to its agreement with Cal Am pursuant to that certain Return Water Purchase Agreement By and Between MONTEREY COUNTY WATER RESOURCES AGENCY and CALIFORNIA-AMERICAN WATER COMPANY dated _____.

2.4 Expiration or Non-Renewal. Upon termination, expiration or non-renewal of this Agreement, Cal Am shall continue to make Return Water available for delivery to the SRGB for use in lieu of existing groundwater production, unless Cal Am demonstrates that Return Water is not needed to prevent legal injury to prior groundwater rights holders in the SRGB or to avoid significant adverse effects to SRGB groundwater resources. If Cal Am desires to make such a showing, it shall initially do so by providing a demonstration in writing to all parties to the Settlement Agreement using the notice provisions of Section 11 of this Agreement. Within 21 days thereafter, the Parties shall meet to seek to reach agreement regarding whether Cal Am has made the requisite demonstration. If the Parties do not reach agreement within 30 days after the initial meeting, any Party may on or after the 31st day, but no later than the 91st day, invoke the provisions of Section 9. For the avoidance of doubt, nothing in this Section 2.4 in any way affects the provisions, scope and application of Section 1.3.

3. **Delivery of Return Water**

3.1 Priority of Return Water for In-Lieu Use. Unless prevented by circumstances outside the control of CCSD and so long as such use is permitted by law, CCSD will use the water purchased from Cal Am under Section 3.5.1 of this Agreement to serve the water supply demand of persons served by CCSD, before using water from the SRGB. CCSD shall measure and record the amount of water received under this Agreement and produced from other groundwater sources within the SRGB and shall make such information available to the public upon written request. CCSD will report to the parties to the Settlement Agreement within 90 days after executing this Agreement, and annually thereafter by March 31, the following information for the prior 12 months: the amount of water served to, and the current number of, its residential, commercial, and industrial service connections; the amount of water produced from groundwater wells to serve these connections; the amount of Return Water to serve these connections; and the amount of water from other sources to serve these connections. This provision is not intended and shall not be interpreted to limit either CCSD's statutory authority under Section 61100 of the California Government Code to supply water for any beneficial uses within CCSD's boundaries or CCSD's discretion in the use of best management practices to operate CCSD's water system facilities in performing CCSD's obligations under the law and this Agreement, or to impose new or additional requirements for analysis under the California Environmental Quality Act ("CEQA"), Public Resource Code Sections 21000 and following for water service and supply by CCSD.

3.2 Cal Am Return Water Pipeline. Subject to satisfaction of the Conditions Precedent set forth in Sections 3.3(a), (b), (c), (d), (e) and (f), Cal Am will design and construct (in consultation with CCSD) the Delivery Pipeline including a metered delivery point ("Delivery Point") as set forth in Exhibit A. Cal Am will install, operate, and maintain the meter in accordance with CPUC General Order 103-A or other applicable CPUC or water industry standards which will measure the volume of Return Water delivered to the Delivery Point ("Cal Am Meter"). CCSD shall use best efforts to ensure it has the ability to take such delivery. All pipeline facilities from the desalination plant up to and including the Cal Am Meter shall be

owned, operated and maintained by Cal Am. All pipeline facilities downstream of the Cal Am Meter shall be owned, operated, and maintained by CCSD upon payment by CCSD to Cal Am of the CCSD Pipeline Contribution as set forth in this Agreement.

3.3 Conditions Precedent. Any delivery of Return Water pursuant to this Agreement is subject to the following conditions precedent:

(a) any required CPUC approval to amend Cal Am's Service Area to allow for the sale of Return Water consistent with the terms of this Agreement; and,

(b) any required CPUC approval of a tariff to allow for the sale of Return Water consistent with the terms of this Agreement, which tariff may change from time to time with the approval of the CPUC and shall govern over any inconsistent terms or conditions set forth in this Agreement; and,

(c) the completion of CEQA review by the CPUC as lead agency for the Project; and

(d) the CPUC's issuance of a Certificate of Public Convenience and Necessity ("CPCN") for the Project; and,

(e) the total cost of the Delivery Pipeline ("Delivery Pipeline Cost") is estimated by Cal Am to be no more than $4.4 million; and,

(f) CCSD and Cal Am have reached an agreement concerning the capacity, construction by Cal Am, implementation, acquisition by CCSD, ownership, financing, and operation and maintenance costs of the Delivery Pipeline; and,

(g) completion of construction, and acceptance by Cal Am, of the Project desalination plant such that it is able to produce and transport Return Water to the Delivery Point; and

(h) CCSD's ability to take delivery of the Return Water at the Delivery Point.

With respect to Sections 3.3(a), (b), (c) and (d), Cal Am shall use good faith diligent efforts to seek any such required CPUC approval as is reasonably possible following the Effective Date. CCSD shall use good faith diligent efforts to support Cal Am's efforts to obtain any such CPUC approval.

3.4 Delivery Pipeline Cost.

3.4.1 Upon completion and acceptance by Cal Am of the Delivery Pipeline, CCSD will pay to Cal Am the Delivery Pipeline Cost, subject to a cap of $2.8 million ("CCSD Pipeline Contribution").

3.4.2 The Parties shall cooperate in good faith to seek grants to offset the Delivery Pipeline Cost.

3.4.3 Cal Am will reimburse CCSD for its CCSD Pipeline Contribution in proportion to any reduction to the CCSD Delivery Volume as a result of the occurrence of an Other Return Water Obligation pursuant to Section 3.5.2 ("Conditional Pipeline Reimbursement"), which Conditional Pipeline Reimbursement shall be prorated by that percentage of the outstanding 30-year Delivery Term remaining at the time the Other Return Water Obligation occurs. The foregoing concept is represented in the following equation: Conditional Pipeline Reimbursement = ([Other Return Water Obligation/CCSD Delivery Volume] x $2.8 million) x (remaining Delivery Term/30-year term).

3.5 Delivery Requirements. Cal Am shall have annual Return Water requirements ("Annual Return Water Obligation") that shall be calculated based on the percentage of SRGB groundwater in the total Project Source Water Production. CCSD agrees that the volume of the Annual Return Water Obligation will be determined as set forth in Section 2.c. of the Settlement Agreement. For reference purposes, Section 2.c. of the Settlement Agreement is attached as Exhibit C hereto.

3.5.1 On an annual basis during the Delivery Term, Cal Am shall make available for delivery to CCSD 690 afa of Return Water ("CCSD Delivery Volume"). In any given year, if the CCSD Delivery Volume is less than the Annual Return Water Obligation for that year, CCSD shall purchase Return Water from Cal Am in an amount equal to the CCSD Delivery Volume. In any given year, if the Annual Return Water Obligation is less than the CCSD Delivery Volume, CCSD shall purchase Return Water from Cal Am in an amount equal to the Annual Return Water Obligation for that year and may elect to purchase from Cal Am potable water in an amount equal to the difference between the Annual Return Water Obligation for that year and the CCSD Delivery Volume ("Excess Water"). In other words, CCSD shall purchase from Cal Am each year the lesser of the CCWD Delivery Volume or the Annual Return Water Obligation, and may purchase from Cal Am each year Excess Water, in accordance with pricing terms addressed in Section 4. Notwithstanding any other provision of this Agreement, if CCSD purchases any Excess Water in any given year, it may not purchase a total of more than 690 afa of Return Water in that year.

3.5.2 The Parties acknowledge that Cal Am could be legally required by a regulatory agency, including the CPUC in this proceeding, or by a court, to make water deliveries to other locations in the SRGB to the extent necessary to mitigate any groundwater impacts from the Project that were demonstrated in relation to a specific location overlying the SRGB ("Other Return Water Obligation"). Such Other Return Water Obligation could also serve to satisfy Cal Am's obligations to return water to the SRGB under the Agency Act, the CEQA, or common-law water law principles. Under such circumstances, the Parties agree that it would be inequitable to Cal Am and its ratepayers to fund both the Other Return Water Obligation and the Return Water obligations specified herein as this would result in a duplicative liability to Cal Am and its ratepayers. Cal Am's obligation to make available the CCSD Delivery Volume shall be reduced in the event and to the extent that a regulatory agency or court has required Cal Am to deliver Return Water in a manner or location different than as specified in this Agreement. CCSD shall have the right to terminate this Agreement as set forth in Section

10.3 if it determines that the reduced amount of Return Water would not be sufficient to justify its water purchase as contemplated herein.

3.6 Scheduling of Deliveries. Subject to CCSD's obligation to purchase Return Water set forth in Section 3.5.1, Cal Am will deliver Return Water to the Delivery Point in quantities and at times determined by the Parties. Cal Am will endeavor to cooperate with CCSD to deliver Return Water to the Delivery Point in volumes and at times requested by CCSD. CCSD will give at least 30 days' advance written notice to Cal Am by email, facsimile or U.S. Mail before any changes to CCSD's water demand during any water year.

4. **Payment Provisions**.

4.1 Generally. Cal Am will invoice CCSD for deliveries of Return Water to the Delivery Point based on the volumes measured at the Cal Am Meter. CCSD shall pay such invoices within 30 days of receipt.

(a) Pricing. CCSD shall pay a rate intended to represent its avoided cost to produce groundwater to meet customer demand, currently estimated to be $110 per acre-foot, which will be the rate as of the beginning of the Delivery Term, for Return Water made available for delivery to meet the Annual Return Water Obligation. CCSD plans to continue operation of its existing wells so they may be available in emergency circumstances. This continuing operation will enable CCSD to provide future updates to the avoided cost of pumping to Cal Am upon Cal Am's reasonable request, but not more than once per year. If CCSD is unable to provide such updated avoided costs of pumping, then the percentage increase of PG&E's A-6 tariff for off-peak summer distribution rate (with a base of $0.07311 / kWh as of the tariff existing on March 24, 2016) will be used as the escalation factor for the increase in avoided cost of pumping in the future. During the Delivery Term, the rate will be reviewed annually and updated, if necessary, via Tier 2 advice letter filing with the CPUC. If at any time the CPUC approves or imposes a price for Return Water that exceeds CCSD's marginal avoided cost for groundwater pumping, CCSD may terminate this Agreement, but Cal Am's obligation to provide Return Water shall not be affected by such termination. Such termination must be effected by providing a written notification of termination to Cal Am, and such termination shall become effective thirty (30) days after Cal Am has received such written notification.

(b) CCSD shall pay a rate intended to represent the marginal operation and maintenance costs for the Project to produce one acre-foot of potable water, currently estimated to be $580 per acre-foot, which will be the rate as of the beginning of the Delivery Term, for any Excess Water; provided, however, that as to Excess Water, CCSD shall pay the prices that are approved by the CPUC and included in Cal Am's tariffs, as they may be modified from time to time as approved by the CPUC. During the Delivery Term, the rate will be reviewed annually and updated, if necessary, via Tier 2 advice letter filing with the CPUC.

5. **Compliance with Laws/Cooperation**. The Parties shall comply with all applicable laws in their respective performance under this Agreement and shall cooperate to take the actions and execute the documents necessary to perform under this Agreement.

6. **Indemnification; Fees and Expenses**

6.1 Indemnification.

(a) To the fullest extent permitted by law, Cal Am shall indemnify and hold harmless, but shall have no obligation to defend, CCSD and its directors, officers, agents and employees, from any claims, actions or liability for any damages or costs (including reasonable attorneys' fees and costs of defense) arising either from any injury to persons or property or from any violation of any law or regulation, which damages result from either the negligent acts, errors, or omissions, or the willful misconduct, of Cal Am, its directors, officers, employees, or agents in performing under this Agreement, but only to the extent such damages resulted from such negligent acts, errors, or omissions, or from such willful misconduct, of Cal Am or its directors, officers, agents and employees, such that Cal Am's indemnity obligation shall only apply to its percentage of fault multiplied by the total damages in issue.

(b) To the fullest extent permitted by law, CCSD shall indemnify and hold harmless, but shall have no obligation to defend, Cal Am and its directors, officers, agents and employees from any claims, actions or liability for any damages or costs (including reasonable attorneys' fees and costs of defense) arising either from any injury to persons or property or from any violation of any law or regulation, which damages result from either the negligent acts, errors, or omissions, or the willful misconduct, of CCSD, its directors, officers, employees, contractors or agents in performing under this Agreement, but only to the extent such damages resulted from such negligent acts, errors, or omissions, or from such willful misconduct, of CCSD or its directors, officers, agents and employees, such that CCSD's indemnity obligation shall only apply to its percentage of fault multiplied by the total damages in issue. Notwithstanding the foregoing, the Parties acknowledge and agree that nothing in this Section 6.1(b) or otherwise contained in this Agreement constitutes or shall be asserted to constitute a waiver of any defense CCSD possesses or may possess, including but not limited to any defense of sovereign or statutory immunity, to liability at law or in equity.

7. **Insurance.** The Parties will keep in full force and effect the insurance coverage described in Exhibit B.

8. **Assignment**. A Party may not assign its rights or obligations under this Agreement without the written consent of the other Party, which consent may not be unreasonably withheld.

9. **Dispute Resolution**

9.1 Scope of Article. This Article governs the resolution of all disputes that arise under this Agreement.

9.2 Disputes. If a dispute arises concerning any controversy or claim arising out of or relating to this Agreement or the breach thereof, or relating to its application or interpretation, the aggrieved Party will notify the other Party of the dispute in writing within twenty (20) days after such dispute arises. If the Parties fail to resolve the dispute within sixty (60) days after delivery of such notice, each Party will promptly nominate a senior officer of its organization to meet at any mutually-agreed time and location to resolve the dispute. The Parties

shall use their best efforts to reach a just and equitable solution satisfactory to both Parties. If the Parties are unable to resolve the dispute to their mutual satisfaction within sixty (60) days thereafter, the dispute will be subject to mediation, pursuant to Section 9.3. The time periods set forth in this Section 9.2 are subject to extension as agreed to by the Parties.

9.3 Mandatory Non-binding Mediation. If a dispute is not resolved pursuant to Section 9.2, the Parties agree to first endeavor to settle the dispute in an amicable manner, using mandatory non-binding mediation initiated and conducted under the applicable rules of the American Arbitration Association in effect as of the Effective Date or other rules agreed to in writing by the Parties, before having recourse in a court of law. Each Party shall bear its own legal expenses, and the expenses of witnesses for either side shall be paid by the Party producing such witnesses. All expenses of the mediator, including required travel, and the cost of any proofs or expert advice produced at the direct request of the mediator, shall be borne equally by the Parties, unless they agree otherwise. Any resultant agreements from mediation shall be documented in writing. All mediation proceedings, results, and documentation, including without limitation any materials prepared or submitted or any positions taken by or on behalf of either Party, shall be confidential and inadmissible for any purpose in any legal proceeding (pursuant to California Evidence Codes sections 1115 through 1128), unless such admission is otherwise agreed upon in writing by the Parties. Mediators shall not be subject to any subpoena or liability, and their actions shall not be subject to discovery. The mediation shall be completed within sixty (60) days after selection of the mediator, unless the Parties agree to extend the mediation period.

9.4 Judicial Relief. If mediation pursuant to Section 9.3 does not resolve a dispute, either Party may seek relief in a court of competent jurisdiction.

9.5 Limitations on Damages. No Party shall be entitled to consequential damages, incidental damages, or punitive or exemplary damages from the other Party in any action or proceeding in connection with this Agreement.

9.6 Attorneys' Fees and Costs. In any action or proceeding to enforce a term or condition of this Agreement, in any disputes relating to the Agreement, and in any actions for breaches, defaults, or misrepresentations in connection with any the Agreement, a prevailing Party (as determined by a court of competent jurisdiction) shall be entitled to recover its reasonable costs and expenses, including without limitation reasonable attorneys' fees and costs.

10. **Termination**.

10.1 Termination for Non-Performance. Either Party may terminate this Agreement if the other Party fails to perform a material provision of this Agreement as required herein, provided that the Party seeking termination shall provide prior written notice of its intention to terminate to the other Party, which notice shall fully describe how the other Party failed to perform a material provision of this Agreement, and provided further that the dispute has not been resolved by following the procedures set forth in Section 9 above. If the Parties are unable to resolve the dispute following the procedures set forth in Section 9, the Party seeking termination may provide a written notification of termination to the other Party, and such termination shall become effective thirty (30) days after the other Party has received such written

notification. The procedures of this Section 10.1 shall not apply to terminations under Section 10.2 and 10.3 of this Agreement.

10.2 Termination for Failure of Conditions Precedent. Either Party may terminate this Agreement if, by January 1, 2025, Cal Am has not obtained any and all required CPUC approval of the matters described as conditions precedent in Sections 3.2(a), (b), (c) and (d) by providing a written notification of termination to the other Party, and such termination shall become effective thirty (30) days after the other Party has received such written notification.

10.3 Termination Based on Regulatory Requirements. CCSD may terminate this Agreement if: (a) Cal Am is legally required by a regulatory agency, including the CPUC, or by a court, to make water deliveries to locations in the SRGB other than the CCSD Service Area which result in reduced deliveries to CCSD; and (b) CCSD determines that the reduced amount of Return Water would not be sufficient to justify its water purchase hereunder. Such termination must be effected by providing a written notification of termination to Cal Am, and such termination shall become effective thirty (30) days after Cal Am has received such written notification.

10.4 Agency Act. Termination of this Agreement does not excuse or delay Cal Am's obligation to comply with the Agency Act.

10.5 Ending of Right to Terminate. The Parties acknowledge that the CCSD must be assured of a specific volume of Return Water to justify investment in the capital facilities necessary to convey the Return Water to the CCSD ("CCSD Facilities"), and therefore Cal Am's obligation under this Agreement to make available the CCSD Delivery Volume shall become unconditional on the latest of the following dates, on and after which date the Agreement may not be terminated prior to its expiration:

10.5.1 The date on which the CPUC has issued a CPCN for the Project and the period to challenge the legality of the CPUC's issuance of the CPCN (based on CEQA compliance or otherwise) has expired and no challenge has been brought; or

10.5.2 The date on which any challenge against the CPUC's issuance of the CPCN is resolved with finality following all available appeals and petitions; or

10.5.3 Sixty (60) days following the date on which the CCSD provides notification to Cal Am that it has secured financing, acceptable to CCSD, to acquire the CCSD Facilities.

Nothing in this Section 10.54 shall prohibit Cal Am from temporarily suspending delivery of Return Water or Excess Water to CCSD if CCSD fails to make payments when due and such failure continues for a time period in excess of sixty (60) calendar days.

11. **Representatives; Notices**.

11.1 Authorized Representatives. Each Party will designate at least one individual officer or employee who will be its representative and will be authorized to act on behalf of the Party for all purposes in performing the provisions of this Agreement ("Representative"). The designation may be changed from time to time. The designation and changes to a designation must be made in a writing delivered to the other Party.

11.2 No Release. Each Party is responsible for the acts or omissions of its Representative(s). The designation of a Representative by a Party does not release the Party from responsibility for performance of its obligations under this Agreement.

11.3 Notice. All notifications, notices, demands, requests and other communications herein provided for or made pursuant hereto shall be in writing and shall be sent by: (i) registered or certified mail, return receipt requested, and the giving of such communication shall be deemed complete on the third (3rd) business day after the same is deposited in a United States Post Office with postage charges prepaid; (ii) reputable overnight delivery service, and the giving of such communication shall be deemed complete on the immediately succeeding business day after the same is deposited with such delivery service; or (iii) so long as a Party has notified the other Party by means of a method described in clauses (i) or (ii) above of such Party's email address for notification purposes, email transmission of notices to such Party are also permitted provided an original is also sent via one of the other permitted means and the giving of such communication shall be complete when such email is received if such email is received on a business day before 3:00 pm Pacific Time; otherwise, such communication shall be deemed complete the next business day. The date on which notifications, notices, demands, requests and other communications are deemed complete shall be the earliest date arising under subsections (i), (ii) or (iii) of this Section 11.3. All notifications, notices, demands, requests and other communications shall be sent to the Parties as follows:

To CCSD:

J. Eric Tynan
General Manager
Castroville Community Services District
11499 Geil Street
Castroville, CA 95012

To Cal Am:

Eric J. Sabolsice
Director, Operations
Coastal Division
California-American Water Company
511 Forest Lodge Road, Suite 100
Pacific Grove, CA 93950

12. **Force Majeure**. If by reason of Force Majeure (defined below), a Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, and if such Party gives notice and reasonably describes the particulars of such Force Majeure in writing to the other Party as promptly as possible after the occurrence of the cause relied on, then the affected Party shall be excused from performance hereunder without liability, but only so far as and to the extent that it is affected by such Force Majeure; provided, however, such cause shall be remedied with all reasonable dispatch. Upon occurrence of the Force Majeure, the affected Party, in addition to notifying the other Party as provided above, shall as promptly as possible provide such Party a written description of the Force Majeure, the cause thereof (to the extent known), the date the Force Majeure began, its expected duration, and an estimate of the specific relief requested or to be requested by such Party. Furthermore, the Party affected by such Force Majeure shall use diligent efforts to reduce costs resulting from the occurrence of the Force Majeure, fulfill its performance obligations under this Agreement and otherwise mitigate the adverse effects of the Force Majeure. While the Force Majeure continues, the affected Party shall give the other Party regular updates of the information previously submitted. The affected Party shall also provide prompt written notice to the other Party of the cessation of the Force Majeure. Notwithstanding anything to the contrary contained herein, the occurrence of a Force Majeure shall not, however, (i) excuse or delay any obligation to pay monies previously accrued and owing to another Party under this Agreement, or for the Party to perform any obligation under this Agreement not affected by the occurrence of the Force Majeure; or (ii) excuse or delay Cal Am's obligation to comply with the Agency Act.

For purposes of this Section 12, "Force Majeure" means any act, event, condition or circumstance that (A) is beyond the reasonable control of a Party, (B) by itself or in combination with other acts, events, conditions or circumstances adversely affects, interferes with or delays a Party's ability to perform its obligations under this Agreement, expands the scope of a Party's obligations under this Agreement, or increases a Party's cost of performing its obligations under this Agreement, and (C) is not the direct result of the willful or negligent act, intentional misconduct, or breach of this Agreement by the affected Party.

13. **Other Provisions**.

13.1 Integration. This Agreement embodies the entire agreement between the Parties relating to the subject matter hereof and supersedes all prior agreements and understandings, written or oral, relating to such subject matter.

13.2 Successor and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of and be enforceable by, the Parties hereto and their respective successors and assigns permitted hereunder.

13.3 Relationship of Parties. Each Party is an independent entity. This Agreement will not constitute any Party as the agent of the other Party. This Agreement will not constitute the Parties as partners or joint venturers (or as co-owners of a business entity) for common law purposes, federal, state or local income tax purposes, or otherwise.

13.4 Amendments or Waivers. No term or provision hereof or Exhibit hereto may be amended, changed, waived, discharged, terminated or replaced except by a writing executed by each of the Parties hereto.

13.5 No Waiver by Failure to Act. No failure, delay, forbearance or indulgence on the part of any Party in insisting upon the strict performance of any provision, or in exercising any option, right, power, privilege or remedy hereunder, shall operate or be construed as a waiver or relinquishment thereof, or as an acquiescence in any breach, nor shall any single or partial exercise of any option, right, power, privilege or remedy hereunder preclude any other or further exercise thereof or the exercise of any other option, right, power, privilege or remedy.

13.6 Controlling Law; Conflicts of Law. This Agreement shall be construed, governed and applied in accordance with the laws of the State of California, without regard to the conflicts of law principles thereof.

13.7 CEQA. This Agreement helps to define a stable and finite project description that will facilitate the CPUC's completion of CEQA review for the Project. The legal effectiveness of this Agreement is contingent on the completion of CEQA review and this Agreement does not irretrievably commit the Parties to carrying out any physical activities that would be required for Cal Am to meet the Annual Return Water Obligation or would otherwise be required for the Parties to comply with the terms of this Agreement. The Parties acknowledge and intend that the CPUC as lead agency and other responsible agencies under CEQA will retain full discretion with respect to deciding whether to approve water purchase or any other commitments necessary or convenient for Cal Am to meet the Annual Return Water Obligation, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects (i) from Return Water activities that are within their jurisdiction, and (ii) from the Parties' compliance with other terms of this Agreement.

13.8 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13.9 No Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the Parties hereto; nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third person to any Party; and, this Agreement does not create any duty, liability or standard of care to any person who is not a Party. However, this Section 13.9 is not intended to, and shall not, limit the right of Settlement Agreement Parties to meet and confer under Section 6 of the Settlement Agreement in response to any conflict that is noted or alleged to exist between the terms of this Agreement and the terms of the Settlement Agreement.

13.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.

13.11 Consents and Approvals. Except as otherwise expressly set forth in this Agreement, all consents and approvals which may be given under this Agreement shall be in writing and shall not be unreasonably withheld or delayed unless otherwise expressly provided herein.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered in their name and on their behalf.

CASTROVILLE COMMUNITY SERVICES DISTRICT

By: _____

Printed Name: _____

Title: _____

Approved as to Form:

By: _____

Printed Name: _____

Title: _____

CALIFORNIA-AMERICAN WATER COMPANY

By: _____

Printed Name: _____

Title: _____

EXHIBIT A

Depiction of Anticipated Location of Delivery Pipeline and Delivery Point

EXHIBIT B

INSURANCE REQUIREMENTS

Each Party to this Agreement shall initially provide information regarding and thereafter at all times maintain Commercial General Liability ("CGL") insurance, or be analogously self-insured or insured through a pooling arrangement, in the minimum amount of $1,000,000 per occurrence with an aggregate limit of $2,000,000. Subject to the immediately preceding sentence, each Party may change insurance and/or insurers, and if a Party does so, it shall provide notice to the other Party within seven (7) days of such change.

Cal Am declares that it currently has a CGL policy with limits of $2,000,000 per occurrence with an aggregate limit of $25,000,000 and a $2,000,000 deductible. Coverage is issued through Travelers Property Casualty Company of America.

CCSD declares that it participates in pooled coverage through the Association of California Water Agency Joint Powers Insurance Authority (ACWA/JPIA) for acts and omissions that would be covered by a CGL policy issued by a private insurer. The limits of such pooled coverage equal or exceed $1,000,000 per occurrence and an aggregate limit of $2,000,000.

EXHIBIT C

SECTION 2.C. OF SETTLEMENT AGREEMENT

[TO BE PROVIDED UPON FINALIZATION OF SETTLEMENT AGREEMENT]

RETURN WATER PURCHASE AGREEMENT

By and Between

MONTEREY COUNTY WATER RESOURCES AGENCY

and

CALIFORNIA-AMERICAN WATER COMPANY

THIS RETURN WATER PURCHASE AGREEMENT ("Agreement") is made as of _____, 2017 (the "Effective Date") by and between the MONTEREY COUNTY WATER RESOURCES AGENCY, a Water Resources Agency created pursuant to the Monterey County Water Resources Agency Act found at California Water Code Appendix Chapter 52 ("Agency"), and CALIFORNIA-AMERICAN WATER COMPANY, a California corporation ("Cal Am"). Agency and Cal Am are referred to herein individually as a "Party" and collectively as the "Parties."

RECITALS:

A. The Agency is a public agency with jurisdictional boundaries that are coextensive with the boundaries of the County of Monterey and, under the Monterey County Water Resources Agency Act ("Agency Act"), Agency is responsible for, among other things, controlling groundwater extractions as required to prevent or deter the loss of usable groundwater through intrusion of seawater and prohibiting groundwater exportation from the Salinas River Groundwater Basin ("SRGB").

B. Cal Am is a public utility regulated by the California Public Utilities Commission ("CPUC") and provides water service in various areas within California, including a service area in Monterey County (as it may be subsequently amended or revised from time to time without the approval of the other Party) ("Cal Am Service Area").

C. Cal Am submitted an application to the CPUC on April 23, 2012, in Proceeding A.12-04-019 for approval of the Monterey Peninsula Water Supply Project ("Project"). The Project as proposed would consist of slant intake wells, brackish water pipelines, a desalination plant, product water pipelines, brine disposal facilities and related appurtenant facilities. Depending on the availability of water from the Monterey Regional Water Pollution Control Agency's proposed publicly-owned Groundwater Replenishment Project and on the CPUC's decision on the application, the desalination plant is expected to be sized at either 9.6 million gallons per day ("mgd") or 6.4 mgd to supply water for municipal use in the Cal Am Service Area.

D. The Project's slant intake wells are designed to pump seawater and to avoid or minimize the capture of groundwater from the SRGB in the process of producing source water for treatment by the selected desalination plant ("Project Source Water Production"). To meet applicable requirements of the Agency Act, Cal Am has proposed as part of the Project to make available for delivery to groundwater users overlying the SRGB a volume of water equal to the percentage of SRGB groundwater in the total Project Source Water Production ("Return Water").

E. The Castroville Seawater Intrusion Project ("CSIP") is an Agency project that provides recycled water and diverted Salinas River water for use in lieu of groundwater pumping for irrigated agricultural use in the Castroville area of the SRGB. Agency desires to purchase Return Water for ultimate distribution to CSIP agricultural users; however, prior environmental analyses reveal that there may be limitations in the capacity of CSIP to accommodate all of the Return Water under some conditions.

F. Cal Am intends to seek any CPUC approval necessary to allow for the sale of Return Water to Agency consistent with the terms of this Agreement, and Agency intends to support Cal Am's request for any CPUC approval necessary to allow the sale of Return Water to Agency pursuant to the terms of this Agreement.

G. Pursuant to a separate agreement with Castroville Community Services District ("CCSD") dated _____ and entitled Return Water Purchase Agreement By and Between CASTROVILLE COMMUNITY SERVICES DISTRICT and CALIFORNIA-AMERICAN WATER COMPANY ("CCSD Return WPA"), Cal Am is required to make available for delivery to CCSD 690 acre feet annually ("afa") of Return Water ("CCSD Delivery Volume").

H. Cal Am's performance of its Return Water obligations under this Agreement and the CCSD Return WPA is intended to advance fulfillment of Cal Am's Return Water obligations under that certain SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER, dated _____, 2016 ("Settlement Agreement").

I. Cal Am contemplated two separate pipelines delivering Return Water from the Project desalination plant, one to CSIP ponds and one to CCSD's wellsite #3 ("CCSD Wellsite"). Through negotiations and discussions, the Parties determined the cost of new infrastructure could be decreased by connecting with existing CSIP infrastructure. That connection allows a single pipeline, rather than two pipelines, to be constructed from the desalination plant to the CCSD Wellsite that will connect with an existing CSIP pipeline ("CSIP Connection"). The elimination of a separate pipeline to the CSIP ponds avoids certain pipeline and pump station costs and results in an estimated cost savings to Cal Am of approximately $1,300,000. A preliminary cost estimate for a pipeline and ancillary facilities necessary to convey water from the Project desalination plant to the CCSD Wellsite ("Delivery Pipeline") is approximately $6,500,000. Cal Am believes that if the Delivery Pipeline is constructed by Cal Am there will economies of scale achieved which may reduce the cost of the Delivery Pipeline to approximately $4,400,000, assuming that Cal Am will secure contracts for construction of the pipeline and that environmental review and permitting will be performed in conjunction with the Project. CCSD estimates its cost to construct a new deep well with treatment facilities would cost approximately $2,800,000. Thus, CCSD submits that it may not be able to prudently fund the Delivery Pipeline for more than $2,800,000, and that capital obligations for the Delivery Pipeline would necessitate long-term commitments by CCSD and certainty of source water supply for CCSD.

NOW THEREFORE, in consideration of the foregoing recitals and the mutual covenants set forth in this Agreement and for other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, Agency and Cal Am hereby agree as follows:

AGREEMENT

1. **Governing Terms**.

1.1 Recitals. The recitals are hereby incorporated in this Agreement as if fully set forth herein.

1.2 Interpretation. The following rules of interpretation shall apply:

(a) Capitalized terms used in this Agreement, including the exhibits hereto, shall have their respective meanings as set forth in this Agreement.

(b) Unless otherwise specified herein, references in the singular shall include references in the plural and vice versa; and pronouns having masculine or feminine gender will be deemed to include the other.

(c) Any act required to occur by or on a certain day is required to occur before or on that day unless the day falls on a Saturday, Sunday or federal holiday, in which case the act must occur before or on the next day this is not a Saturday, Sunday or federal holiday.

(d) The headings in this Agreement are included for convenience only and shall not be deemed to modify or explain any of the terms of this Agreement.

(e) This Agreement is the product of negotiation between the Parties, no Party is to be deemed the drafter of this Agreement, and any ambiguities in this Agreement shall not be read against any Party to the Agreement.

(f) All references in this Agreement to a "year" shall mean a "water year," and all references to a "water year" shall mean the 12-month period beginning on October 1 of a given year and ending on September 30 of the following year. All calculations herein based on the period of a year shall be prorated to account for any time frame that is less than a 12-month period.

1.3 Agency Act Compliance. Cal Am shall comply with the Agency Act. Notwithstanding any other provisions of this Agreement, the Agency will retain all rights, discretion and authority conferred on the Agency under the Agency Act to ensure that the pumping, production, desalination, and distribution of project source water from the SRGB for the selected desalination plant complies with the Agency Act, and the long-term viability of the SRGB as a water supply for water for agricultural, domestic and municipal use. Neither this Section 1.3 nor any other provision of this Agreement shall be interpreted: (a) to affect, diminish, or enhance the Agency's regulatory authority under the Agency Act; (b) to affect, diminish, excuse, or forgive Cal Am's obligation to comply with the Agency Act; or (c) to preclude any argument by Cal Am that there is no violation of the Agency Act.

2. **Term**.

2.1 Effective Date. This Agreement shall be effective on the Effective Date and shall continue in effect until expiration of the Delivery Term (defined in Section 2.2 below) or until earlier termination as provided for in Section 10.

2.2 Delivery Term. The "Delivery Term" shall begin on the date on which Cal Am has determined that it is ready to deliver Return Water to the Delivery Point (defined in Section 3.2 below), the anticipated location of which is depicted on Exhibit A, and shall continue for a period of thirty (30) years thereafter. Cal Am shall provide Agency with written notice of

the commencement date of the Delivery Term, promptly upon Cal Am's determination of such date.

2.3 Right of First Refusal. If this Agreement has not been terminated as provided for in Section 10, Agency shall have a right of first refusal to enter into a new return water purchase agreement on terms to be negotiated by the Parties at the time the right is exercised. In order to exercise the right, Agency shall provide Cal Am written notice of its intent to do so no earlier than 730 days and no later than 365 days prior to expiration of this Agreement. Agency acknowledges that pursuant to the CCSD Return WPA CCSD also has a right of first refusal to enter into a new return water purchase agreement with respect to its agreement with Cal Am.

2.4 Expiration or Non-Renewal. Upon termination, expiration or non-renewal of this Agreement, Cal Am shall continue to make Return Water available for delivery to the SRGB for use in lieu of existing groundwater production, unless Cal Am demonstrates that Return Water is not needed to prevent legal injury to prior groundwater rights holders in the SRGB or to avoid significant adverse effects to SRGB groundwater resources. If Cal Am desires to make such a showing, it shall initially do so by providing a demonstration in writing to all parties to the Settlement Agreement using the notice provisions of Section 11. Within 21 days thereafter, the Parties shall meet to seek to reach agreement regarding whether Cal Am has made the requisite demonstration. If the Parties do not reach agreement within 30 days after the initial meeting, any Party may on or after the 31st day, but no later than the 91st day, invoke the provisions of Section 9. For the avoidance of doubt, nothing in this Section 2.4 in any way affects the provisions, scope and application of Section 1.3.

3. **Delivery of Return Water**

3.1 Priority of Return Water for In-Lieu Use. Agency will use the Return Water only within the existing CSIP service area and will use it to the greatest extent possible to offset existing groundwater pumping. Unless the amounts of groundwater pumped and Return Water purchased are not publicly available through routine Agency reports, Agency will annually report to the parties to the Settlement Agreement the amount of groundwater pumped and Return Water purchased for use within the CSIP service area, delivery of which report shall occur under the notice provisions of Section 11 of this Agreement.

3.2 Cal Am Return Water Pipeline. Subject to satisfaction of the Conditions Precedent set forth in Sections 3.3(a), (b), (c), (d), (e), and (f), Cal Am will design and construct (in consultation with Agency) the Delivery Pipeline including a metered delivery point ("Delivery Point") as set forth in Exhibit A. Cal Am will install, operate, and maintain the meter at the Delivery Point in accordance with CPUC General Order 103-A or other applicable CPUC or water industry standards which will measure the volume of Return Water delivered at the Delivery Point ("Cal Am Meter"). Agency shall use good faith diligent efforts to support Cal Am's efforts to obtain any such CPUC approval. The Parties shall cooperate in good faith to seek grants to offset the costs of the Delivery Pipeline.

3.3 Conditions Precedent. Any delivery of Return Water pursuant to this Agreement is subject to the following conditions precedent:

(a) any required CPUC approval to amend Cal Am's Service Area to allow for the sale of Return Water consistent with the terms of this Agreement; and

(b) any required CPUC approval of a tariff to allow for the sale of Return Water consistent with the terms of this Agreement, which tariff may change from time to time with the approval of the CPUC and shall govern over any inconsistent terms or conditions set forth in this Agreement; and

(c) the completion of California Environmental Quality Act ("CEQA") review by the CPUC as lead agency for the Project; and

(d) the CPUC's issuance of a Certificate of Public Convenience and Necessity ("CPCN") for the Project; and

(e) completion of construction, and acceptance by Cal Am, of the Project desalination plant such that it is able to produce and transport Return Water to the Delivery Point; and

(f) A Cal Am Annual Return Water Obligation in any given year (defined in Section 3.4 below) in excess of the CCSD Delivery Volume; and

(g) Agency's ability to take delivery of the Return Water at the Delivery Point. Agency shall use best efforts to ensure it has the ability to take such delivery.

With respect to Sections 3.3(a), (b), (c) and (d), Cal Am shall use good faith diligent efforts to seek any such required CPUC approval as is reasonably possible following the Effective Date.

3.4 Annual Return Water Obligation. Cal Am shall have an annual Return Water obligation ("Annual Return Water Obligation") that shall be calculated based on the percentage of SRGB groundwater in the total Project Source Water Production. Agency agrees that any Return Water delivered by Cal Am to the Delivery Point as contemplated by this Agreement, any Return Water delivered to CCSD as contemplated by the CCSD Return WPA, and any Return Water delivered to Monterey Regional Waste Management District and Monterey Regional Water Pollution Control Agency, should such delivery occur as discussed in the Settlement Agreement, shall be applied to satisfy Cal Am's Annual Return Water Obligation.

3.4.1 The volume of the Annual Return Water Obligation will be determined as set forth in Section 2.c. of the Settlement Agreement. For reference purposes, Section 2.c. of the Settlement Agreement is attached as Exhibit C hereto.

3.4.2 The Parties acknowledge that Cal Am could be legally required by a regulatory agency, including the CPUC in this proceeding, or by a court, to make water deliveries to other locations in the SRGB to the extent necessary to mitigate any groundwater impacts from the Project that were demonstrated in relation to a specific location overlying the SRGB ("Other Return Water Obligation"). Such Other Return Water Obligation could also serve to satisfy Cal Am's obligations to return water to the SRGB under the Agency Act, the

CEQA, or common-law water law principles. Under such circumstances, the Parties agree that it would be inequitable to Cal Am and its ratepayers to fund both the Other Return Water Obligation and the Return Water obligations specified herein as this would result in a duplicative liability to Cal Am and its ratepayers. Cal Am's obligation to make available the CCSD Delivery Volume shall be reduced in the event and to the extent that a regulatory agency or court has required Cal Am to deliver Return Water in a manner or location different than as specified in this Agreement. Agency shall have the right to terminate this Agreement as set forth in Section 10.3 if it determines that the reduced amount of Return Water would not be sufficient to justify its water purchase as contemplated herein.

3.5 Scheduling of Deliveries. On an annual basis during the Delivery Term, Cal Am shall make available for delivery to Agency for CSIP use the volume of Cal Am's Annual Return Water Obligation in excess of the CCSD Delivery Volume, if any. If available and requested by Agency, Cal Am will endeavor to cooperate with Agency to deliver Return Water to the Delivery Point in volumes and at times that satisfy Agency's needs.

4. **Payment Provisions**.

4.1 Generally. Cal Am will invoice Agency for deliveries of Return Water to the Delivery Point based on the volumes measured at the Cal Am Meter. Agency shall pay such invoices within 30 days of receipt.

4.2 Pricing. For each acre-foot of Return Water delivered by Cal Am, the Agency shall pay a rate intended to represent the CSIP customers' marginal avoided cost for groundwater produced for use by the CSIP customers, currently estimated to be $102 per acre foot, which will be the rate as of the beginning of the Delivery Term. Upon Cal Am's reasonable request, and not more than once per year, Agency shall provide Cal Am with all information relating to CSIP customers' marginal avoided cost for groundwater pumping reasonably requested by Cal Am to support Agency's calculation of CSIP customers' marginal avoided cost for groundwater pumping. Using Agency's calculation and information provided under this Section 4.2, Cal Am will annually review the rate and following such review, if necessary, update its CPUC tariff through a Tier 2 advice letter filing with the CPUC. If at any time the CPUC approves or imposes a price for Return Water that exceeds CSIP customers' marginal avoided cost for groundwater pumping, Agency may terminate this Agreement as provided in Section 10.3, but Cal Am's obligation to provide Return Water shall not be affected by such termination.

5. **Compliance with Laws/Cooperation**. The Parties shall comply with all applicable laws in their respective performance under this Agreement and shall cooperate to take the actions and execute the documents necessary to perform under this Agreement.

6. **Indemnification; Fees and Expenses**

6.1 Indemnification.

(a) To the fullest extent permitted by law, Cal Am shall indemnify and hold harmless, but shall have no obligation to defend, Agency and its directors, officers, agents and employees, from any claims, actions or liability for any damages or costs (including

reasonable attorneys' fees and costs of defense) arising either from any injury to persons or property or from any violation of any law or regulation, which damages result from either the negligent acts, errors, or omissions, or the willful misconduct, of Cal Am, its directors, officers, employees, or agents in performing under this Agreement, but only to the extent such damages resulted from such negligent acts, errors, or omissions, or from such willful misconduct, of Cal Am or its directors, officers, agents and employees, such that Cal Am's indemnity obligation shall only apply to its percentage of fault multiplied by the total damages in issue.

(b) To the fullest extent permitted by law, Agency shall indemnify and hold harmless, but shall have no obligation to defend, Cal Am and its directors, officers, agents and employees from any claims, actions or liability for any damages or costs (including reasonable attorneys' fees and costs of defense) arising either from any injury to persons or property or from any violation of any law or regulation, which damages result from either the negligent acts, errors, or omissions, or the willful misconduct, of Agency, its directors, officers, employees, or agents in performing under this Agreement, but only to the extent such damages resulted from such negligent acts, errors, or omissions, or from such willful misconduct, of Agency or its directors, officers, agents and employees, such that Agency's indemnity obligation shall only apply to its percentage of fault multiplied by the total damages in issue. Notwithstanding the foregoing, the Parties acknowledge and agree that nothing in this Section 6.1(b) or otherwise contained in this Agreement constitutes or shall be asserted to constitute a waiver of any defense Agency possesses or may possess, including but not limited to any defense of sovereign or statutory immunity, to liability at law or in equity.

7. **Insurance.** The Parties will keep in full force and effect the insurance coverage described in Exhibit B.

8. **Assignment**. A Party may not assign its rights or obligations under this Agreement without the written consent of the other Party, which consent may not be unreasonably withheld.

9. **Dispute Resolution**

9.1 Scope of Article. This Article governs the resolution of all disputes that arise under this Agreement

9.2 Disputes. If a dispute arises concerning any controversy or claim arising out of or relating to this Agreement or the breach thereof, or relating to its application or interpretation, the aggrieved Party will notify the other Party of the dispute in writing within twenty (20) days after such dispute arises. If the Parties fail to resolve the dispute within sixty (60) days after delivery of such notice, each Party will promptly nominate a senior officer of its organization to meet at any mutually-agreed time and location to resolve the dispute. The Parties shall use their best efforts to reach a just and equitable solution satisfactory to both Parties. If the Parties are unable to resolve the dispute to their mutual satisfaction within sixty (60) days thereafter, the dispute will be subject to mediation, pursuant to Section 9.3. The time periods set forth in this Section 9.2 are subject to extension as agreed to by the Parties.

9.3 Mandatory Non-binding Mediation. If a dispute is not resolved pursuant to Section 9.2, the Parties agree to first endeavor to settle the dispute in an amicable manner,

using mandatory non-binding mediation initiated and conducted under the applicable rules of the American Arbitration Association in effect as of the Effective Date or other rules agreed to in writing by the Parties, before having recourse in a court of law. Each Party shall bear its own legal expenses, and the expenses of witnesses for either side shall be paid by the Party producing such witnesses. All expenses of the mediator, including required travel, and the cost of any proofs or expert advice produced at the direct request of the mediator, shall be borne equally by the Parties, unless they agree otherwise. Any resultant agreements from mediation shall be documented in writing. All mediation proceedings, results, and documentation, including without limitation any materials prepared or submitted or any positions taken by or on behalf of either Party, shall be confidential and inadmissible for any purpose in any legal proceeding (pursuant to California Evidence Codes sections 1115 through 1128), unless such admission is otherwise agreed upon in writing by the Parties. Mediators shall not be subject to any subpoena or liability, and their actions shall not be subject to discovery. The mediation shall be completed within sixty (60) days after selection of the mediator, unless the Parties agree to extend the mediation period.

9.4 Judicial Relief. If mediation pursuant to Section 9.3 does not resolve a dispute, either Party may seek relief in a court of competent jurisdiction.

9.5 Limitations on Damages. No Party shall be entitled to consequential damages, incidental damages, or punitive or exemplary damages from the other Party in any action or proceeding in connection with this Agreement.

9.6 Attorneys' Fees and Costs. In any action or proceeding to enforce a term or condition of this Agreement, in any disputes relating to the Agreement, and in any actions for breaches, defaults, or misrepresentations in connection with any the Agreement, a prevailing Party (as determined by a court of competent jurisdiction) shall be entitled to recover its reasonable costs and expenses, including without limitation reasonable attorneys' fees and costs.

10. **Termination**.

10.1 Termination for Non-Performance. A Party may terminate this Agreement if the other Party fails to perform a material provision of this Agreement as required herein, provided that the Party seeking termination shall provide prior written notice of its intention to terminate to the other Party, which notice shall fully describe how the other Party failed to perform a material provision of this Agreement, and provided further that the dispute has not been resolved by following the procedures set forth in Section 9 above. If the Parties are unable to resolve the dispute following the procedures set forth in Section 9, the Party seeking termination may provide a written notification of termination to the other Party, and such termination shall become effective thirty (30) days after the other Party has received such written notification. The procedures of this Section 10.1 shall not apply to terminations under Section 10.2 and 10.3 of this Agreement.

10.2 Termination for Failure of Conditions Precedent. Either Party may terminate this Agreement if, by January 1, 2025, Cal Am has not obtained any and all required CPUC approval of the matters described as conditions precedent in Sections 3.2(a), (b), (c) and (d) by providing a written notification of termination to the other Party, and such termination

shall become effective thirty (30) days after the other Party has received such written notification.

10.3 Termination Based on Regulatory Requirements. Either Party may terminate this Agreement if Cal Am is legally required by a regulatory agency, including the CPUC, or by a court, to make water deliveries to locations in the SRGB other than CSIP or CCSD by providing a written notification of termination to the other Party, and Agency may terminate this Agreement if at any time the CPUC approves a price for Return Water to be included in Cal Am's tariffs that exceeds CSIP customers' marginal avoided cost for groundwater pumping. Any termination under the preceding sentence shall be preceded by thirty (30) days' written notice, and such termination shall become effective thirty (30) days after the other Party has received such written notification. Cal Am's obligation to provide Return Water shall not be affected by such termination.

11. **Representatives; Notices**.

11.1 Authorized Representatives. Each Party will designate at least one individual officer or employee who will be its representative and will be authorized to act on behalf of the Party for all purposes in performing the provisions of this Agreement ("Representative"). The designation may be changed from time to time. The designation and changes to a designation must be made in a writing delivered to the other Party.

11.2 No Release. Each Party is responsible for the acts or omissions of its Representative(s). The designation of a Representative by a Party does not release the Party from responsibility for performance of its obligations under this Agreement.

11.3 Notice. All notifications, notices, demands, requests and other communications herein provided for or made pursuant hereto shall be in writing and shall be sent by: (i) registered or certified mail, return receipt requested, and the giving of such communication shall be deemed complete on the third (3rd) business day after the same is deposited in a United States Post Office with postage charges prepaid; (ii) reputable overnight delivery service, and the giving of such communication shall be deemed complete on the immediately succeeding business day after the same is deposited with such delivery service; or (iii) so long as a Party has notified the other Party by means of a method described in clauses (i) or (ii) above of such Party's email address for notification purposes, email transmission of notices to such Party are also permitted provided an original is also sent via one of the other permitted means and the giving of such communication shall be complete when such email is received if such email is received on a business day before 3:00 pm Pacific Time; otherwise, such communication shall be deemed complete the next business day. The date on which notifications, notices, demands, requests and other communications are deemed complete shall be the earliest date arising under subsections (i), (ii) or (iii) of this Section 11.3. All notifications, notices, demands, requests and other communications shall be sent to the Parties as follows:

To Agency:

David E. Chardavoyne

General Manager
Monterey County Water Resources Agency
893 Blanco Circle
Salinas, CA 93901

To Cal Am:

Eric J. Sabolsice
Director, Operations
Coastal Division
California-American Water Company
511 Forest Lodge Road, Suite 100
Pacific Grove, CA 93950

12. **Force Majeure**. If by reason of Force Majeure (defined below), a Party is rendered unable, wholly or in part, to carry out its obligations under this Agreement, and if such Party gives notice and reasonably describes the particulars of such Force Majeure in writing to the other Party as promptly as possible after the occurrence of the cause relied on, then the affected Party shall be excused from performance hereunder without liability, but only so far as and to the extent that it is affected by such Force Majeure; provided, however, such cause shall be remedied with all reasonable dispatch. Upon occurrence of the Force Majeure, the affected Party, in addition to notifying the other Party as provided above, shall as promptly as possible provide such Party a written description of the Force Majeure, the cause thereof (to the extent known), the date the Force Majeure began, its expected duration, and an estimate of the specific relief requested or to be requested by such Party. Furthermore, the Party affected by such Force Majeure shall use diligent efforts to reduce costs resulting from the occurrence of the Force Majeure, fulfill its performance obligations under this Agreement and otherwise mitigate the adverse effects of the Force Majeure. While the Force Majeure continues, the affected Party shall give the other Party regular updates of the information previously submitted. The affected Party shall also provide prompt written notice to the other Party of the cessation of the Force Majeure. Notwithstanding anything to the contrary contained herein, the occurrence of a Force Majeure shall not, however, (i) excuse or delay any obligation to pay monies previously accrued and owing to another Party under this Agreement, or for the Party to perform any obligation under this Agreement not affected by the occurrence of the Force Majeure; or (ii) excuse or delay Cal Am's obligation to comply with the Agency Act.

For purposes of this Section 12, "Force Majeure" means any act, event, condition or circumstance that (A) is beyond the reasonable control of a Party, (B) by itself or in combination with other acts, events, conditions or circumstances adversely affects, interferes with or delays a Party's ability to perform its obligations under this Agreement, expands the scope of a Party's obligations under this Agreement, or increases a Party's cost of performing its obligations under this Agreement, and (C) is not the direct result of the willful or negligent act, intentional misconduct, or breach of this Agreement by the affected Party.

13. **Other Provisions**.

13.1 Integration. This Agreement embodies the entire agreement between the Parties relating to the subject matter hereof and supersedes all prior agreements and understandings, written or oral, relating to such subject matter.

13.2 Successor and Assigns. This Agreement shall be binding upon, and shall inure to the benefit of and be enforceable by, the Parties hereto and their respective successors and assigns permitted hereunder.

13.3 Relationship of Parties. Each Party is an independent entity. This Agreement will not constitute any Party as the agent of the other Party. This Agreement will not constitute the Parties as partners or joint venturers (or as co-owners of a business entity) for common law purposes, federal, state or local income tax purposes, or otherwise.

13.4 Amendments or Waivers. No term or provision hereof or Exhibit hereto may be amended, changed, waived, discharged, terminated or replaced except by a writing executed by each of the Parties hereto.

13.5 No Waiver by Failure to Act. No failure, delay, forbearance or indulgence on the part of any Party in insisting upon the strict performance of any provision, or in exercising any option, right, power, privilege or remedy hereunder, shall operate or be construed as a waiver or relinquishment thereof, or as an acquiescence in any breach, nor shall any single or partial exercise of any option, right, power, privilege or remedy hereunder preclude any other or further exercise thereof or the exercise of any other option, right, power, privilege or remedy.

13.6 Controlling Law; Conflicts of Law. This Agreement shall be construed, governed and applied in accordance with the laws of the State of California, without regard to the conflicts of law principles thereof.

13.7 CEQA. This Agreement helps to define a stable and finite project description that will facilitate the CPUC's completion of CEQA review for the Project. The legal effectiveness of this Agreement is contingent on the completion of CEQA review and this Agreement does not irretrievably commit the Parties to carrying out any physical activities that would be required for Cal Am to meet the Annual Return Water Obligation or would otherwise be required for the Parties to comply with the terms of this Agreement. The Parties acknowledge and intend that the CPUC as lead agency and other responsible agencies under CEQA will retain full discretion with respect to deciding whether to approve water purchase or any other commitments necessary or convenient for Cal Am to meet the Annual Return Water Obligation, including discretion to modify commitments to avoid or reduce any significant adverse physical environmental effects (i) from Return Water activities that are within their jurisdiction, and (ii) from the Parties' compliance with other terms of this Agreement.

13.8 Severability. Any provision of this Agreement which is prohibited or unenforceable in any jurisdiction shall, as to such jurisdiction, be ineffective to the extent of such prohibition or unenforceability without invalidating the remaining provisions hereof, and any

such prohibition or unenforceability in any jurisdiction shall not invalidate or render unenforceable such provision in any other jurisdiction.

13.9 No Third Party Beneficiaries. Nothing in this Agreement, express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the Parties hereto; nothing in this Agreement is intended to relieve or discharge the obligation or liability of any third person to any Party; and, this Agreement does not create any duty, liability or standard of care to any person who is not a Party. However, this Section 13.9 is not intended to, and shall not, limit the right of Settlement Agreement Parties to meet and confer under Section 6 of the Settlement Agreement in response to any conflict that is noted or alleged to exist between the terms of this Agreement and the terms of the Settlement Agreement.

13.10 Counterparts. This Agreement may be executed in any number of counterparts, each of which shall be an original, and such counterparts together shall constitute but one and the same instrument.

13.11 Consents and Approvals. Except as otherwise expressly set forth in this Agreement, all consents and approvals which may be given under this Agreement shall be in writing and shall not be unreasonably withheld or delayed unless otherwise expressly provided herein.

[SIGNATURE PAGE TO FOLLOW]

IN WITNESS WHEREOF, the Parties have caused this Agreement to be duly executed and delivered in their name and on their behalf.

MONTEREY COUNTY WATER RESOURCES AGENCY

By: _____

Printed Name: _____

Title: _____

Approved as to Form:

By: _____

Printed Name: _____

Title: _____

CALIFORNIA-AMERICAN WATER COMPANY

By: _____

Printed Name: _____

Title: _____

EXHIBIT A

Depiction of Anticipated Location of Delivery Pipeline and Delivery Point

EXHIBIT B

INSURANCE REQUIREMENTS

Each Party to this Agreement shall initially provide information regarding and thereafter at all times maintain Commercial General Liability ("CGL") insurance, or be analogously self-insured or insured through a pooling arrangement, in the minimum amount of $1,000,000 per occurrence with an aggregate limit of $2,000,000. Subject to the immediately preceding sentence, each Party may change insurance and/or insurers, and if a Party does so, it shall provide notice to the other Party within seven (7) days of such change.

Cal Am declares that it currently has a CGL policy with limits of $2,000,000 per occurrence with an aggregate limit of $25,000,000 and a $2,000,000 deductible. Coverage is issued through Travelers Property Casualty Company of America.

The Agency declares that it is self-insured through the County of Monterey for acts and omissions that would be covered by a CGL policy issued by a private insurer. The limits of such self-insurance are $1,000,000 per occurrence with an aggregate limit of $2,000,000.

EXHIBIT C

SECTION 2.C. OF SETTLEMENT AGREEMENT

[TO BE PROVIDED UPON FINALIZATION OF SETTLEMENT AGREEMENT]

SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER

APPENDIX D

BASE RETURN WATER OBLIGATION METHODOLOGY

APPENDIX D

BASE RETURN WATER OBLIGATION METHODOLOGY

Example of Calculation of Percentage of Salinas Basin Water in Brackish Water using current Monterey Bay salinity levels (33,500 mg/L) and current and projected test well results (~31,076 mg/L → 31,950 mg/L)

$$(seawater\ salinity) \times (Percentage\ of\ seawater) + (inland\ water\ salinity) \times (Percentage\ of\ Salinas\ Basin\ water) = (brackish\ water\ salinity)$$

EXAMPLE #1

Assumed Data for Example #1 Purposes Only:
33,500 mg/L = Measured seawater TDS ("seawater salinity")[1]
500 mg/L = Measured Salinas Basin water TDS ("inland water salinity")[1]
31,076 mg/L = Measured Brackish Source Water TDS ("brackish water salinity")[1] (Test Well)

Unknowns:
Percentage of seawater = *x*
Percentage of Salinas Basin Water (inland water) = *y*
The sum of the percentage must equal 100% or 1. Therefore: *x+y=1* or *y=1-x*

$$33{,}500x + 500y = 31{,}076$$
$$33{,}500x + 500(1 - x) = 31{,}076$$
$$33{,}500x + 500 - 500x = 31{,}076$$
$$33{,}000x + 500 = 31{,}076$$
$$33{,}000x = 30{,}576$$
$$x = \frac{30{,}576}{33{,}000}$$
$$x = 0.926 \text{ or } 92.6\%$$

Thus,

$$y = 1 - x$$
$$y = 1 - 0.926$$
$$y = 0.074 \text{ or } 7.4\%$$

Therefore,

Percentage of seawater = 92.6% and Percentage of Salinas Basin water (inland water) = 7.4%

[1] TDS values for the seawater, Basin water, and Brackish Source water will be determined by analysis by an accredited laboratory, using appropriate methodology – **SM 2540C**

EXAMPLE #2

Assumed Data for Example #2 Purposes Only:
33,500 mg/L = Measured seawater TDS ("seawater salinity")[1]
500 mg/L = Measured Salinas Basin water TDS ("inland water salinity")[1]
31,950 mg/L = Measured Brackish Source Water TDS ("brackish water salinity")[1]

Unknowns:
Percentage of seawater = *x*
Percentage of Salinas Basin Water (inland water) = *y*
The sum of the percentage must equal 100% or 1. Therefore: *x+y=1* or *y=1-x*

$$33{,}500x + 500y = 31{,}950$$
$$33{,}500x + 500(1 - x) = 31{,}950$$
$$33{,}500x + 500 - 500x = 31{,}950$$
$$33{,}000x + 500 = 31{,}950$$
$$33{,}000x = 31{,}450$$
$$x = \frac{31{,}450}{33{,}000}$$
$$x = 0.953 \text{ or } 95.3\%$$

Thus,

$$y = 1 - x$$
$$y = 1 - 0.953$$
$$y = 0.047 \text{ or } 4.7\%$$

Therefore,

Percentage of seawater = 95.3% and Percentage of Salinas Basin water (inland water) = 4.7%

[1] TDS values for the seawater, Basin water, and Brackish Source water will be determined by analysis by an accredited laboratory, using appropriate methodology – **<u>SM 2540C</u>**

Example of Calculation of Return to Basin Allocation:

$$\begin{aligned}&\textit{Return to Basin Allocation}\\&\qquad = (\textit{Percentage of Salinas Basin water})\\&\qquad \times (\textit{Total Actual Source Water Quantity})\end{aligned}$$

EXAMPLE #1

Assumed Data for Example #1 Purposes Only:
26,992 AFY = Total Actual Source Water Quantity (i.e. 24.1 MGD)
92.6% = Percentage of Seawater = *x*
7.4% = Percentage of Salinas Basin water = *y*

Unknowns:
Return to Basin Allocation = z

So, substituting the equation with the assumed data for example#1:

$$z = (y) \times (26{,}992)$$
$$z = (0.074) \times (26{,}992) = 1{,}997 \text{ AFY}$$

EXAMPLE #2

Assumed Data for Example #2 Purposes Only:
26,992 AFY = Total Actual Source Water Quantity
95.3% = Percentage of Seawater = *x*
4.7% = Percentage of Salinas Basin water = *y*

Unknowns:
Return to Basin Allocation = z

So, substituting the equation with the assumed data for example#2:

$$z = (y) \times (26{,}992)$$
$$z = (0.047) \times (26{,}992) = 1{,}268 \text{ AFY}$$

SETTLEMENT AGREEMENT
ON MPWSP DESALINATION PLANT
RETURN WATER

APPENDIX E

PROPOSED TARIFF

Schedule No. MO-XX
Monterey County District Tariff Area
MPWSP RETURN WATER

APPLICABILITY

Applicable to water provided pursuant to Return Water Purchase Agreements between California American Water and: (1) the Castroville Community Services District ("CCSD") and (2) the Monterey County Water Resources Agency ("MCWRA").

TERRITORY

The delivery point near the intersection of Nashua Road and Monte Road in Castroville.

RATES

Return Water:		
For CCSD, per acre-foot (see Special Condition 11)	$110	(I)
For MCWRA, per acre-foot (see Special Condition 13)	$102	
Excess Water:		
For CCSD, per acre-foot (see Special Condition 12)	$580	(I)

SPECIAL CONDITIONS

1. The Castroville Seawater Intrusion Project ("CSIP") is a MCWRA project that provides recycled water and diverted Salinas River water for use in lieu of groundwater pumping for irrigated agricultural use in the Castroville area of the Salinas River Groundwater Basin ("SRGB").
2. California American Water will make available for delivery to CCSD and CSIP a volume of water ("Return Water") equal to the percentage of SRGB in the total source water produced from slant intake wells for the MPWSP ("Project Source Water Production"), as calculated on a water year basis ("Base Return Water Obligation"). ("MPWSP" refers to California American Water's Monterey Peninsula Water Supply Project.)
3. Upon start-up of the MPWSP, the first 175 acre-feet of Return Water delivered by California American Water ("Reserve Water") shall be delivered to CSIP.
4. California American Water has annual Return Water requirements ("Annual Return Water Obligation"). Beginning in the first full water year after the full amount of Reserve Water has been delivered to CSIP (the "Obligation Start Date") , the Annual Return Water Obligation in any given year shall be the sum of (a) the Base Return Water Obligation for that year, plus (b) any Return Water Shortfall (as defined in Special Condition 7) for the prior year, minus (c) any Return Water Surplus Shortfall (as defined in Special Condition 7) for the prior year. California American Water's Annual Return Water Obligation shall not begin until the "Obligation Start Date".

5. During the first three months after the Obligation Start Date, the Annual Return Water Obligation shall be 7% of total Project Source Water Production during that period. For the remainder of the water year after the first three months have passed, the Annual Return Water Obligation shall be the percentage of SRGB groundwater in the total Project Source Water Production calculated during the first three months after the Obligation Start Date.

6. The volume of any Return Water Shortfall for a given year shall be determined by subtracting the amount of Return Water made available by California American Water in that year from the amount of the Annual Return Water Obligation for that year. If the amount of Return Water made available by California American Water in that year equals or exceeds the Annual Return Water Obligation, the Return Water Shortfall for that year shall be equal to zero.

7. The volume of any Return Water Surplus for a given year shall be determined by subtracting the amount of the Annual Return Water Obligation for that year from the amount of Return Water provided by California American Water to CCSD and MCWRA in that year. If the amount of Annual Return Water Obligation in that year equals or exceeds the amount of Return Water provided by California American Water to CCSD and MCWRA, the Return Water Surplus for that year shall be equal to zero.

8. California American Water shall make available for delivery to CCSD 690 afa of Return Water ("CCSD Delivery Volume").

9. If the Annual Return Water Obligation is less than the CCSD Delivery Volume, California American Water shall make available for delivery potable water in an amount equal to the difference between the Annual Return Water Obligation for that year and the CCSD Delivery Volume ("Excess Water").

10. California American Water shall make available for delivery to CSIP any Annual Return Water Obligation in excess of the CCSD Delivery Volume, according to procedures agreed to in the Return Water Purchase Agreement by and between MCWRA and California American Water.

11. For Return Water made available for delivery to meet the Annual Return Water Obligation, CCSD shall pay a rate intended to represent its avoided cost to produce groundwater to meet customer demand, currently estimated to be $110 per acre-foot, which will be the rate as of the Obligation Start Date. CCSD plans to continue operation of its existing wells so they may be available in emergency circumstances. This continuing operation will enable CCSD to provide future updates to the avoided cost of pumping. If CCSD is unable to provide such updated avoided costs of pumping, then the percentage increase of PG&E's A-6 tariff for off-peak summer distribution rate (with a base of $0.07311 / kWh as of the tariff existing on March 24, 2016) will be used as the escalation factor for the increase in avoided cost of pumping in the future. After the Obligation Start Date, the rate will be reviewed annually and updated, if necessary, via a Tier 2 advice letter filing with the CPUC.

12. For any Excess Water California American Water makes available as described in Special Condition 9, CCSD shall pay a rate intended to represent the marginal operation and maintenance costs for the MPWSP to produce one acre-foot of potable water, currently estimated to be $580 per acre-foot, which will be the rate as of the Obligation Start Date. After the Obligation Start Date, the rate will be reviewed annually and updated, if necessary, via Tier 2 advice letter filing with the CPUC.

13. MCWRA shall pay a rate for Return Water intended to represent the CSIP customers'

marginal avoided cost for groundwater produced for use by the CSIP customers, currently estimated to be $102 per acre-foot, which will be the rate as of the Obligation Start Date. After the Obligation Start Date, the rate will be reviewed annually and updated, if necessary, via Tier 2 advice letter filing with the CPUC.

14. Upon termination of either or both Return Water Purchase Agreements in accordance with their terms, this tariff will cease to be effective as to the parties to the terminated Return Water Purchase Agreement.

SETTLEMENT AGREEMENT ON MPWSP DESALINATION PLANT RETURN WATER

APPENDIX F

PROJECT MARGINAL OPERATION AND MAINTEANCE COSTS CALCULATION

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Project MARGINAL OPERATION AND MAINTENANCE COSTS CALCULATION

Calculation of the marginal cost of water at either the 6.4 MGD or 9.6 MGD desalination plant proposed as part of the Project. Items that are part of the cost computation include:

1. **Power Costs (PC):** related to the slant intake wells and the desalination plant. The costs shall be computed annually based on the sum of the power bills for the intake wells and the desalination plant including the high service pump station.

2. **Chemical Costs (CC):** related to the production the potable water. The costs shall be computed annually based on the sum of the chemical bills for the desalination plant.

3. **Membrane and Media Replacement Costs (MMRC):** related to production the potable water. The costs shall be computed annually based on the sum of the invoices for replacement membranes and media.

4. **Production Volume (AF):** related to the total amount of water produced from the desalination plant.

5. **Marginal Cost of Water:** Cost per acre-foot of water.

The formula for the marginal cost of water shall be:

$$\frac{PC + CC + MMRC}{AF} = \frac{\$}{AF} = Marginal\ Cost\ of\ Water$$

EXAMPLE #1 – First Years Cost - $580 / AF

Summary of Updated 6.4 MGD O&M Costs (Dec. 15, 2015)

Item	6.4 MGD MPWSP	AFY	Desal Plant Only	Cost per AF
Power	$4,580,000	7,168	$3,323,160	$463.6
Chemicals	$920,000	7,168	$750,871	$104.8
Membrane/Media Replacement	$90,000	7,168	$88,240	$12.3
R&R	$1,570,000		**Total**	**$580.7**
Purchased Recharge Water	$8,750,000			
Labor & Misc	$3,360,000			
Total	***$19,270,000***			