

California Public Utilities Commission
505 Van Ness Ave., San Francisco

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PRESS RELEASE

Docket #: A.04-09-019

**CPUC APPROVES CAL-AM'S REQUEST FOR REGIONAL PROJECT
TO SOLVE WATER SUPPLY DEFICIT**

SAN FRANCISCO, Dec. 2, 2010 - The California Public Utilities Commission (CPUC) today approved a request by California American Water Company (Cal-Am) to join with several local agencies on the Monterey Peninsula to form a public-private partnership to build, own, and operate a regional water desalination project called the Regional Project in order to solve the long-standing water supply deficit on the Monterey Peninsula.

This additional source water is needed to make up for water now taken from the Carmel River, which must stop by December 31, 2016, by Order of the California Water Resources Control Board. Under the Order, Cal-Am must reduce its diversions of water from the Carmel River annually and terminate all diversions by no later than December 31, 2016. This means a reduction of more than 2/3 of the water that Cal-Am currently draws from the Carmel River every year

Today's decision approves a Settlement Agreement between Cal-Am, Marina Coast Water District, Monterey County Water Resources Agency, Monterey Water Regional Pollution Control Agency, the Surfrider Foundation, the Public Trust Alliance, and Citizens for Public Water. Monterey County Water Resources Agency will own, construct, operate, and maintain the source water wells and raw water conveyance facilities to the desalination plant. Marina Coast Water District will own, construct, operate, and maintain the desalination plant and the product water conveyance facilities to the delivery point, which then becomes Cal-Am's intake point. Cal-Am will own, construct, operate, and maintain the pipeline, conveyance, and pumping facilities necessary to deliver the water to its customers. The Monterey Regional Water Pollution Control Authority will own, operate, and maintain the outfall for return of the brine to the sea.

The CPUC adopted a \$297.5 million capital cost cap for the Regional Project facilities. A capital cost cap of \$106.875 million was set for the Cal-Am only facilities. Cost recovery from Cal-Am's ratepayers above these cost caps would only be allowed upon a showing of exceptional circumstances and subject to a rigorous reasonableness review.

The rates associated with this project will be determined in a separate phase of this proceeding. The revenue requirement for Cal-Am's Monterey District customers is expected to increase by approximately 63 percent, as compared to the projected trend of the current revenue requirement. The CPUC determined that there are sufficient procedural, contractual, and other legal safeguards contained in the settlement agreement to be reasonably certain to produce the lowest cost, viable, and timely solution to Cal-Am's immediate source water needs and provide adequate water for Cal-Am's ratepayers.

"Today's decision balances the need for adequate water with the need to provide water at a reasonable price," said CPUC Commissioner John A. Bohn, author of today's decision. "The CPUC must balance the cost burden contemplated on Cal-Am ratepayers from the construction of the Regional Project, generally regarded as the only feasible project with the likelihood being completed within the time limit imposed by the State Water Resources Control Board, with the burden on those same ratepayers if no alternative source of water is produced."

Said Commissioner Timothy Alan Simon, "It is critical to move forward with a solution to ensure that Cal-Am complies with the California Water Resources Control Board's requirement to address the water supply issue or face losing most of its water supply from the Carmel River."

Added Commissioner Nancy E. Ryan, "With our decision today we are meeting the critical water needs of the Monterey area, while protecting the environment and controlling ratepayer costs. I am proud this inclusive and historically elusive goal has been met."

The proposal voted on today is available at

http://docs.cpuc.ca.gov/PUBLISHED/AGENDA_DECISION/127347.htm.

For more information on the CPUC, please visit www.cpuc.ca.gov.

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