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VIA EMAIL AND U.S. MAIL

September 1, 2015

Hon. Jason Burnett
President, Monterey Peninsula Regional Water Authority
580 Pacific Street, Room 6
Monterey, California 93940

Re. MPRWA Request for Financial Guarantee for the Test Slant Well

Dear President Burnett,

Thank you for your letter of August 14, regarding the rate recovery of certain costs if California American Water's (CAW) test slant well doesn't work as intended or is not permitted. To date, the test slant well has provided excellent results and information. However, I understand MPRWA's concern and I am hopeful we can come to a mutually satisfactory resolution.

As you will recall, in July 2013 sixteen parties, including Monterey Peninsula Regional Water Authority (MPRWA), entered into a settlement agreement that supported CAW's implementation of the test slant well. As part of the settlement, the parties agreed on the preferred location of the test slant well and that the costs associated with such an undertaking would be recovered by CAW in rates.

Notwithstanding the agreement of the parties in the settlement, CAW is willing to take the "physical risk" that the test slant well works and could be used as a production well. If the test slant well doesn't work, CAW is willing to bear the costs of the test slant well. If the test slant well works, CAW will seek rate recovery of all prudent test slant well-related costs and, as a condition of our willingness to accept this risk, CAW expects that MPRWA will support CAW's rate recovery efforts.

CAW's proposal in this regard should not be viewed by MPRWA or any other party as a precedent or indication of CAW's acceptance of this risk for any other component of the Monterey Peninsula Water Supply Project ("MPWSP"), or any other project it undertakes, now or in the future.

While CAW is willing to accept the physical risk of the test slant well, it is not appropriate for CAW to assume "permitting risks." Permitting for the test slant well and the entire MPWSP is complex and requires a tremendous amount of community and political cooperation and support. The MPRWA and your constituents have been instrumental in supporting CAW's permitting efforts to date and we need that support to continue. Specifically, we will need your continued assistance with educating federal, state, and local permitting agencies on the criticality and urgency of the project, and with defending litigation challenges to the test slant well and other MPWSP-related permits. We would see that continuing support as a condition to our acceptance of the physical risk of the test slant well.

I hope that the proposal above is satisfactory to the MPRWA. If you agree with our proposal, we would be happy to work with you and your staff to draft a more formal agreement, if desired.

Sincerely,

A handwritten signature in black ink, appearing to read "Robert G. MacLean", with a long horizontal flourish extending to the right.

Robert G. MacLean
President