

**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.

A.12-04-019

(Filed April 23, 2012)

NOTES FROM JUNE 12, 2013

GWR WORKSHOP

Workshop Participants:

- Regional Water Authority (“RWA”)
- Monterey Resources Water Pollution Control Agency (“MRWPCA”)
- California American Water (“CAW”)
- Monterey Peninsula Water Management District (“MPWMD”)
- Landwatch
- Surfrider
- Planning and Conservation League (“PCL”)
- Coalition of Peninsula Businesses (“CPB”)
- Monterey County Farm Bureau
- Division of Ratepayer Advocates (“DRA”)
- Citizens for Public Water (“CPW”)
- Salinas Valley Water Coalition (“SVWC”)
- Public Trust Alliance (“PTA”)
- Perc Water Corp.
- Marina Coast Water District
- Environmental Science Associates
- WaterPlus
- APT Water
- Monterey County Association of Realtors
- Brezack & Associates Planning

Workshop Presentations:

Presentation on Status of Groundwater Replenishment Project (“GWR”): Keith Israel, MRWPCA

Presentation on Draft Criteria: Mayor Jason Burnett, RWA

Review of Draft Criteria, Discussion Facilitated by Messrs. Ravi Kumra and Michael Zelazo of the Division of Water & Audits (“DWA”)

ITEM 1.

- **The CEQA process for the GWR Project is complete, with a certified Final Environmental Impact Report, the MRWPCA has approved the Project, and the status of required permits is consistent with the published project schedule.**

The parties discussed this criteria, and DWA addressed proposal to split the criteria into the following four sub-parts: A) The CEQA process of the GWR Project is complete. B) A certified FEIR is complete. C) MRWPCA has approved the Project. D) The status of required permits is consistent with the published project schedule. (Permit list provided and schedule of GWR project).

LandWatch – Raised possibility of consolidating the sub-parts A) through C), and changed to the issuance of a Notice of Determination.

ITEM 2.

- **Agreements or other determinations are in place or reasonably advanced in progress to secure the source water(s) for recommended project.**

Monterey County Farm Bureau, Norm Groot – stipulations of intent, etc. should not be relied upon; instead, signed agreements concerning source water should be created.

MCWRA, David Chardavoine – Strike "reasonably advanced in progress", such that there is an agreement between PCA and MCWRA affirming source.

PCA – final agreements should not be an absolute requirement.

CPB, John Narigi – Believes this is the most critical criteria. Start with a legal agreement. Confirm the following (1) agricultural interests (19,500 AF for source water); (2) what will be sold to CAW is for customers only; and (3) sustainability of water source.

ITEM 3.

- **THE CALIFORNIA DEPARTMENT OF PUBLIC HEALTH, TO THE EXTENT FEASIBLE, HAS EXPRESSED A REASONABLE LEVEL OF ACCEPTANCE OR APPROVAL AS TO THE GWR TREATMENT PROCESS, INJECTION AND OVERALL PERMITTING, CONSISTENT WITH THE STAGE OF DEVELOPMENT OF THE PROJECT.**

Water Plus, R. Weitzman – wants minimum time for injected water to stay in ground. Mr. Kumra characterized this as, essentially a desire for proper permits.

PCA, Keith Israel – independent advisory committee panel can review and ensure that on schedule to get the permits.

RWA, Mayor Jason Burnett – both desal and GWR will have some issues, like permits, which cannot be issued at this stage. The Governance Committee and its elected officials will make the recommendation only if they believe it will deliver water to their community. It recommends against requirement of holding permits, and supports requirement of advancing to the right stage where permit can be obtained.

PTA, R. Weitzman – wants the permits in advance.

DWA, Mr. Kumra – Requested CAW provide update on permit requirements.

ITEM 4.

- **The cost of water of the GWR Project is \$ _____ or less.**

RWA, Mayor Jason Burnett – there are two versions. The simplest way is to use a dollar per AF criteria. Downside is this requires judgment on information as we currently have it today, as opposed to information at the time the decision is made. He also wants time to hire outside experts to consider externalities. Second approach would consider information in the future, i.e., additional information would be factored in.

MPWMD, Dave Stoldt – Cites to handout with 4 items: (1) reliability, (2) reduce carbon footprint, (3) diversified water portfolio, and (4) scheduling advantage.

CPW, George Reilly – wants a relative measure for water – quantify in policies. Debt equivalency is big unknown that may make it more expensive. Wants box: “does debt equivalency apply?” Believes that issue of debt equivalency will give CAW the right to veto due to price.

MPWMD, Dave Stoldt – debt equivalency is imputation of debt which credit agency can view negatively. Believes that CAW can waive treatment (or at least seeking compensation resulting from debt equivalency). Discussed Moody’s criteria set out in 2004 and 2009 publications. Says there may be “wobble room.” Within a year, proper treatment could be determined in advance of the go/no go decision.

PTA, Ron Weitzman – same cost criteria to GWR as to any other water service – suggestion of premium. Suggests GWR is more expensive. Cites study that it may cost \$1K more per AF. He wants a storage facility project.

CAW, Rob MacLean – it seems some are trying to piece together enough water to meet our demands. We need 3500 AF. That’s important and what Item 2 is speaking to. Changing the size of GWR will require changing the size of the plant.

With respect to Item 4, there is a question that if you put too many variations in the criteria, is this still a Tier 2 advice letter or will the nature of the process need to change?

If it is just a number, that would be simpler. In discussing the cost of water, we are talking about an estimate. The actual cost will not be known until both facilities are up and running.

Debt equivalence –If debt equivalence is triggered (e.g., CAW agrees to buy all the water), the company can’t just waive it away. We owe it to our other customers in districts outside Monterey to take care of this. The parties should be mindful that changes in the accounting standards could occur.

DWA, Michael Zelazo – if you look at the cost of GWR and the possible plants then you should have the figure.

CAW, Rob MacLean –we can revisit the cost later when the project gets closer – and by decision time will have bids in hand for both us and them.

Workshop Participants – Discussion of externalities: GWR provides for lower carbon footprint, etc. MPWMD wants criteria to also reflect the value of a portfolio approach. It is important in comparison that there is a recognition that giving up some scale economies is necessary for the portfolio approach. Workshop participants discussed that we have time, and should work until February to come up with criteria. In the interim, we should figure out what the water purchase agreement looks like and what the value of externalities is.

CAW, Jeff Linam – Provided overview of rating agency’s criteria for determining debt equivalency.

DRA – To the extent there is reluctance for the Commission to delegate authority, then DRA suggests this could be done by an independent advisory panel that the Commission could then rely upon.

CPB – ratepayers should not pay a premium. It would be difficult and subjective to try and quantify the other alleged benefits.

ITEM 5.

- **The GWR Project on schedule to be operable prior to the then-effective date of the Cease and Desist Order of the State Water Resources Control Board or, if not, on schedule to meet or beat the desal project schedule.**

PCA, Keith Israel – doing updates of schedule monthly and report to its board and the governance committee when they make their recommendations.

SVWC, Nancy Isakson – wants milestones at which point determinations will be made.

Landwatch, John Farrow– he does not think we need milestones, just need to know if it's on time.

ITEM 6.

- **Preliminary design for the GWR Project is at least at the 10% level (so that an accurate project cost estimate can be generated) or is at a level similar to or more advanced than the level of design for the entire desal project.**

RWA, Mayor Jason Burnett – this in part relates to the date available to do cost comparisons discussed in the fourth criteria. He doesn't want GWR held to a higher standard than the desalination plant. Wants them at comparable design level so can compare with desal plant.

CAW, Rich Svindland – explained what is meant by 10% design.

ITEM 7.

- **The required wholesale water purchase agreement has been drafted and the parties thereto (Cal-Am and the MPWMD) have reached substantial agreement of the terms of the agreement.**

CPB – CAW should not be responsible for paying for water not taken or used by CAW customers.

WaterPlus – ratepayers should not require payment for water not supplied; and ratepayers should not assume risk if water not supplied.

DRA – concerned about allocation of risk.

CAW, Rich Svindland – clarified that drop-date for decision is time of construction, which is currently estimated to fall between October 2015 and April 2016.

CPW – noted that take or pay contract triggers debt equivalence. Discussion ensued with input from MPWMD about triggers for debt equivalence and structuring the agreement to avoid debt equivalence.

Landwatch – expressed that CAW could effectively veto agreements if it chose not to enter into agreement.

CAW – criteria should be corrected to reflect that contract must involve all parties to agreement (MPWMD, PCA, and CAW). Legal reasons why contract cannot just be between CAW and MPWMD.

ITEM 8.

- **A project funding plan, sufficient in detail to qualify for a State Revolving Fund loan, is in place.**

RWA, Mayor Jason Burnett — Discussed purpose of this criteria, including among other things assurances that project is moving forward. Explaining level of detail, he references SWRCB's requirements for application for state revolving funds loan.

RWA, Mayor Jason Burnett – proposes that three issues require further deliberation and warrant additional time to work out: (1) Water Purchase Agreement, (2) determination of debt equivalence, (3) revenue requirement associated with the fourth criteria.

DRA – cost criteria do not fit well in checklist format – supports considering externalities.

DWA, Mr. Kumra – could these be quantifiable?

DRA – suggests report from firm to analyze externalities. Mr. Kumra wants to know how much weight to assign because if it's policy then it's a Tier 3 proceeding.

CAW, Rob MacLean– idea that the settling parties would come up with the number and that would assign value regarding the externalities, then seek settlement approval for ALJ's/CPUC's consideration.

Surfrider, Gabe Ross – desal also has negative externalities. GWR has positive ones that should be considered though it may be tough to calculate them. If the Governance Committee makes a decision whether the committee says the externalities are worth the extra cost or not, that would be objective, so Tier 2. Mr. Kumra questions that a portion of the decision is delegated to the governance committee.

CAW, Rob MacLean – in general, although there may be some level of subjectivity on these matters, on other's there is no subjectivity. For example, Item 5 maybe we can get a certified engineer to sign off and in general, maybe where settlements, then the Commission can ask for more meat on the bones where it needs that.