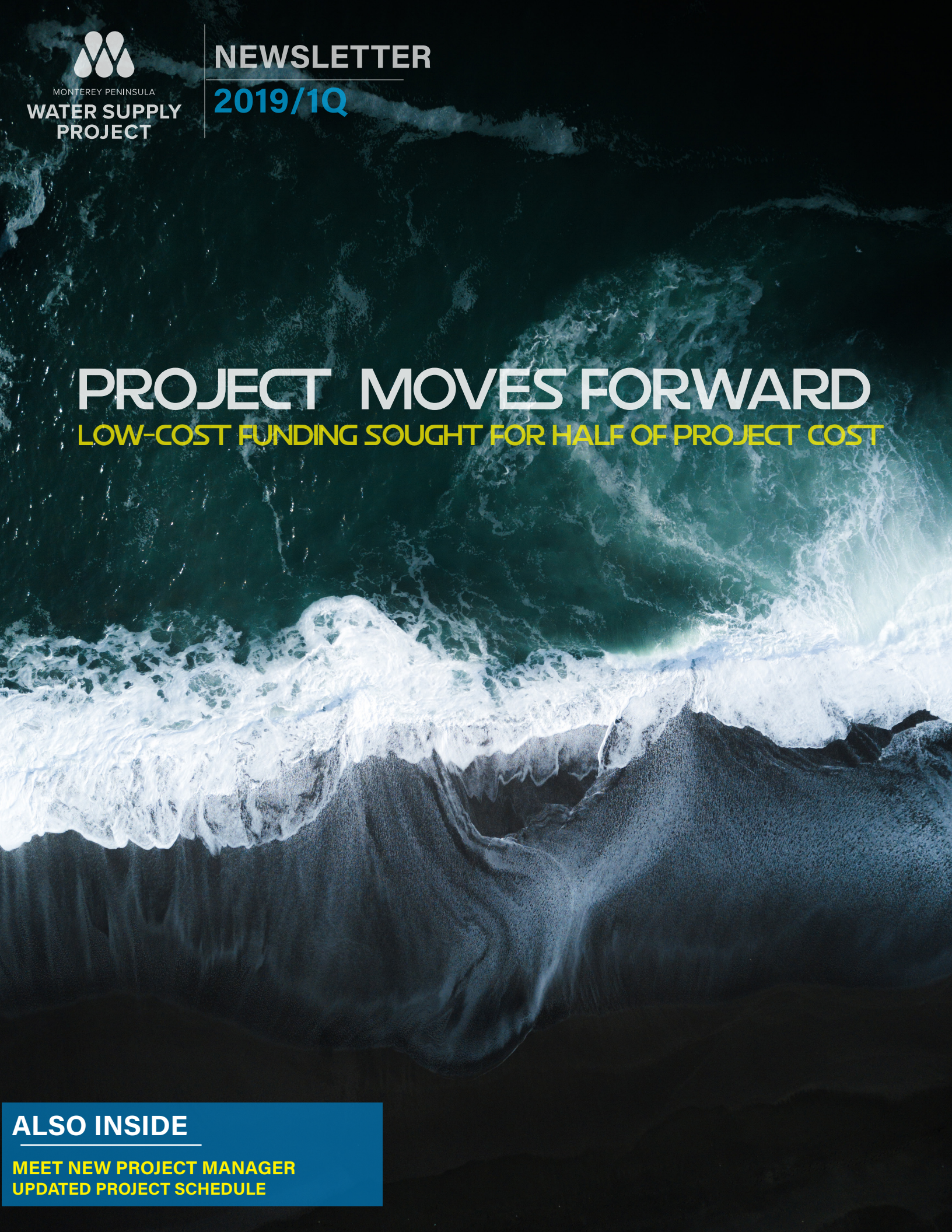
MONTEREY PENINSULA
WATER SUPPLY PROJECT

NEWSLETTER
2019/1Q

PROJECT MOVES FORWARD

LOW-COST FUNDING SOUGHT FOR HALF OF PROJECT COST



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MONTEREY BAY

APPLICATION FILED FOR LOW-COST PROJECT FINANCING

On December 31, 2018, California American Water submitted its State Revolving Fund application for low-interest financing to help fund construction of the Monterey Peninsula Water Supply Project. The company applied for a financial assistance package in the amount of $138 million, which would cover nearly half the project cost.

The U.S. Environmental Protection Agency and the State Water Resource Control Board administer state Revolving Fund or (SRF) loans for water projects in California. Last year, PureWater Monterey, one of the three key source water components of the Monterey Peninsula Water Supply Project, being developed by Monterey One Water, was awarded $88 million in SRF funding.

"The ways in which the water supply project will be financed and the interest rates secured will have a great deal of influence on the overall project cost and impact to customer water bills," said California American Water president Rich Svindland. "We are committed to continually seeking opportunities to lower project costs as we move ahead toward construction."

In addition to the SRF funding application, California American Water received a grant to offset costs of the project's test well, engaged in value engineering and will be reducing its traditional percentage of equity financing in order to moderate anticipated rate increases to customers.

The funding application describes the many advantages the Monterey Peninsula Water Supply Project brings including, reducing the use of limited natural resources, namely the Carmel River and the Seaside Groundwater Basin, and providing the following environment and ecosystem benefits:

- Restoring flows to the Carmel River and creating ecosystem benefits to the river habitat;
- Protecting threatened species in the riparian and aquatic habitat along the Carmel River, including the steelhead trout and California red-legged frog;
- Reducing withdrawals from the Seaside Groundwater Basin and protect the basin for long- term reliability; and,
- Minimizing seawater intrusion in the Salinas Valley Groundwater Basin, an impaired aquifer.

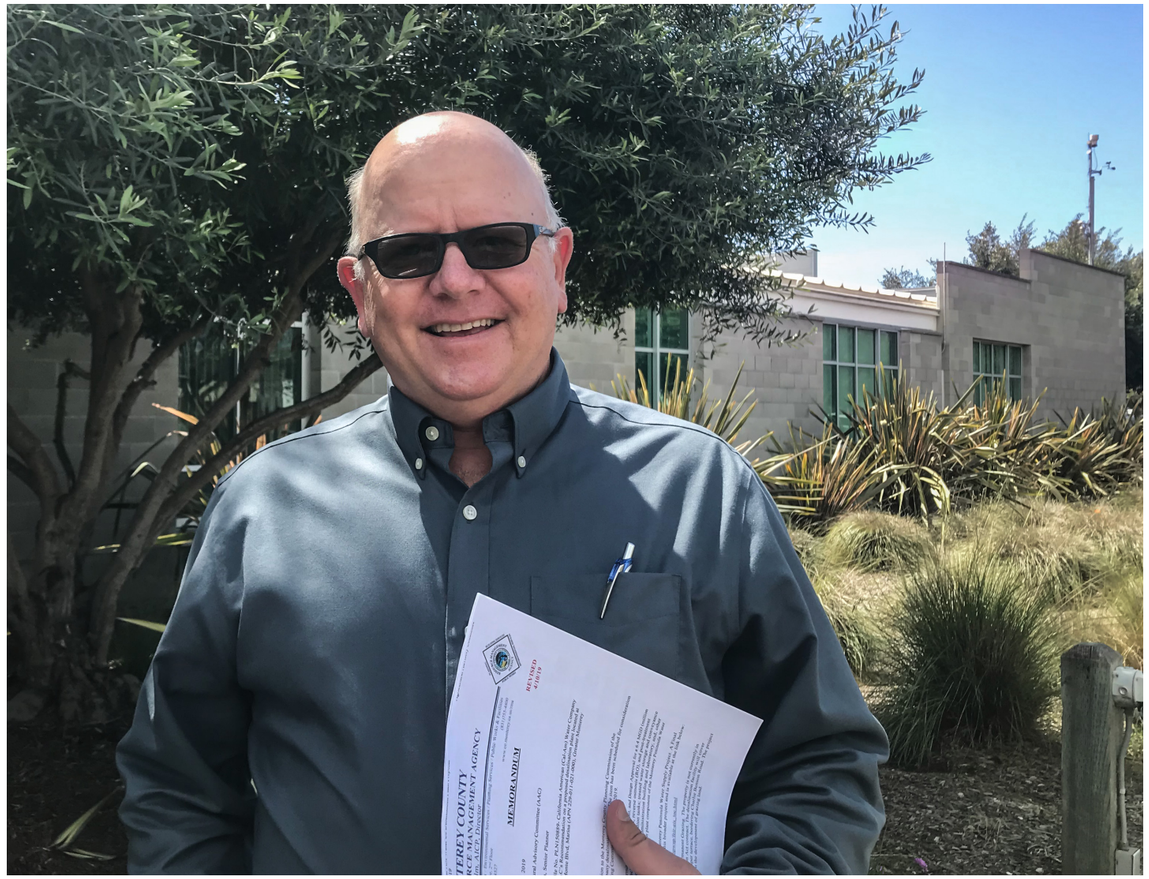
READ EIR/EIS ONLINE

Folks looking for information on the EIR/EIS, can do so by visiting the project's website www.water-supplyproject.org/eir.

WANT TO STAY UP TO DATE WITH THE LATEST PROJECT DEVELOPMENTS?

VISIT THE PROJECT WEBSITE
watersupplyproject.org

MEET THE MPWSP'S NEW PROJECT MANAGER



Tim O'Halloran joined California American Water as Central Division Engineering Manager in January 2019. Tim has over 30 years of professional experience managing engineering teams and projects. For 13 years, Tim worked as the City Engineer/Public Works Services Manager for the City of Seaside, the largest jurisdiction within California American Water's Central Division service territory.

During his time at the City of Seaside, Tim worked closely with his counterparts in the other Peninsula cities and in Monterey County, as well as at the Fort Ord Reuse Authority, on water, wastewater and transportation issues.

In addition, Tim was the Project Manager/ Construction Manager for Harris and Associates. In that capacity he was directly involved in construction management of the Monterey Pipeline component of the Monterey Peninsula Water Supply Project, particularly the Highway 68 pipeline bridge and the Hilby Avenue ADA and road reconstruction project.

Tim's professional qualifications and knowledge of the Cal Am service area and local community is a true asset to the water supply project. Tim is a registered professional Civil Engineer and a California State Water Resources Control Board qualified SWPP Developer.

WATER SUPPLY PROJECT'S REGIONAL BENEFITS

Through desalination, recycled water and capture and storage of high flow periods on the Carmel River, the Monterey Peninsula Water Supply Project will provide a multi-sourced, long-term, drought-proof water supply to the Monterey Peninsula.

Less known are the benefits the project will also provide to the Northern Monterey County community of Castroville and the Castroville Seawater Intrusion Project (CSIP).

"The water purchase agreement with Cal Am is our very best hope for a sustainable clean water supply."

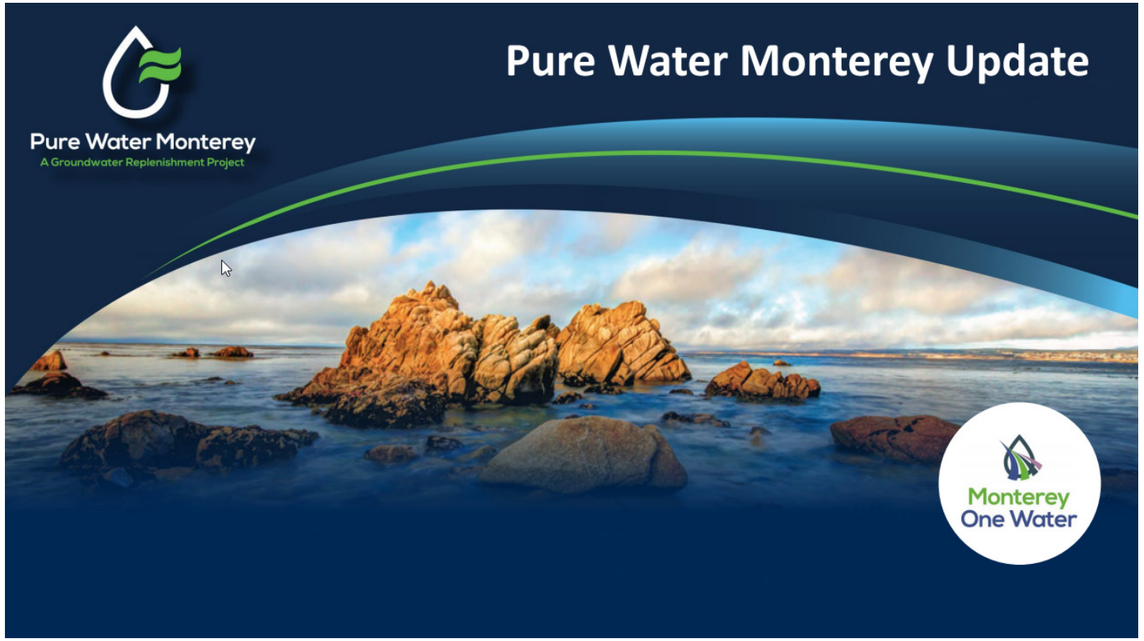
To ensure the project complied with the Monterey County Water Resource Agency Act and did not export groundwater from the Salinas Valley Groundwater Basin through its source water extractions, a return water settlement agreement was reached in 2015 by a group of key Salinas Valley project stakeholders and California American Water.

The agreement, which was later approved by the California Public Utilities Commission, decided that the portion of the extracted source seawater deemed as brackish (coming from the intruded groundwater basin) would be treated and provided to both CSIP and the Castroville Community Services District.

"The water purchase agreement negotiated with the Monterey County Water Resource Agency, Monterey County Farm Bureau, Salinas Valley Water Coalition, Landwatch and California American Water assures clean, safe drinking water to 8,000 Castroville water customers and reduces groundwater pumping, benefiting 12,000 acres of agricultural land," said Eric Tynan, General Manager of the Castroville Community Services District.

The water purchase agreement also requires that the brackish water portion of source water must be treated and delivered to Castroville before any desalinated water can be sent to the Peninsula.

"Castroville is a one hundred percent disadvantaged community," said Tynan. "Digging newer, deeper wells, which require arsenic treatment, is not financially feasible. The water purchase agreement with Cal Am is our very best hope for a sustainable clean water supply."



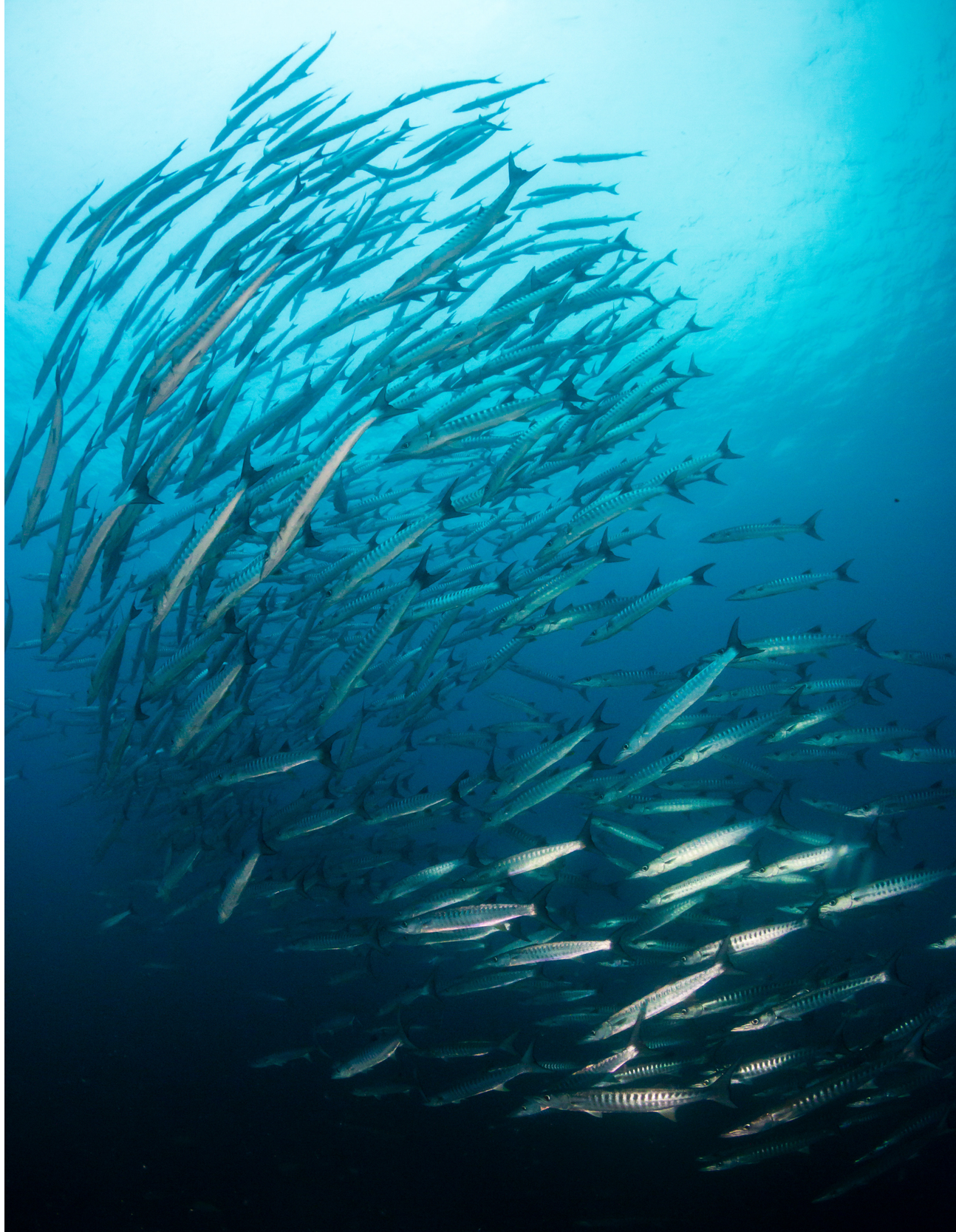
AGENCY TO STUDY PURE WATER MONTEREY EXPANSION

The Monterey One Water board of directors voted at their March 25th meeting to move forward with environmental, permitting and detailed design work for a potential expansion of the Pure Water Monterey recycled water project.

Pure Water Monterey is currently under construction and is expected to begin delivering 3,500 acre-feet of water to the Monterey Peninsula early next year. An expansion could provide up to 2,250 additional acre-fee of water, further supplementing the Peninsula's future water supply.

"The California Public Utilities Commission said that desal would be required to serve our community sustainably into the future, even with a Pure Water Monterey expansion," said California American Water Manager of External Affairs, Catherine Stedman. "We have no reason to believe the desal project schedule will be delayed, but nevertheless believe there is value in exploring the expansion as an interim alternative."

Early estimates of the cost to augment Pure Water Monterey range from $45.6 million to $52.1 million. The current estimate is $2,233 per acre foot, which is an additional $5 million per year, assuming 2,250 acre feet.



ABOUT THE PROJECT

The Monterey Peninsula is facing a severe water supply problem. That's because the State Water Resources Control Board has ordered California American Water to significantly reduce its pumping of water from the Carmel River.

This order coupled with pumping restrictions in other parts of the county means that nearly 70 percent of the Monterey Peninsula community's historic water supply must be replaced.

The current project is comprised of three elements:

- Desalination
- Aquifer Storage and Recovery
- Pure Water Montery: A Groundwater Replenshiment Project

This multi-faceted approach brings numerous advantages over a single-source solution. For one, it will enable California American Water to build a smaller desalination plant that will reduce the project's environmental footprint.

Secondly, this strategy will build-in redundancy that is critical for all municipal water supply systems, allowing the water system to continue to provide water if one component becomes temporarily unavailable.

DESALINATION

The Monterey Peninsula Water Supply Project consists of sub-surface slant intake wells, a desalination plant, and related facilities including source water pipelines, product water pipelines and brine disposal facilities.

The desalination plant will produce 6,250 acre-feet of treated water per year. One acre-foot is equal to one acre filled with one foot of water, which is typically enough water to support four households on the Monterey Peninsula for a year. California American Water purchased a 46-acre parcel of land located off of Charles Benson Road in Marina as the site for the proposed desalination plant.

California American Water has also secured access to and the ability to purchase permanent easements for locations to host its slant intake wells. California American Water's project will use a series of slant wells located near the coastline in the North Marina area designed to draw ocean water.

The slant wells will be up to 800 feet long. The final location, layout and configuration will be based on the results of the slant test well and groundwater modeling work. In addition to the plant and its intake wells, other pipeline, storage and pump facilities will need to be constructed to ultimately deliver water to customers.

PURE WATER MONTEREY

The proposed Pure Water Monterey project, a partnership between Monterey One Water and the Monterey Peninsula Water Management District, recycles wastewater through an advanced treatment process. The resulting highly purified drinking water will be injected into the Seaside groundwater basin.

A new, advanced water treatment plant will be constructed for the project in addition to a number of supporting facilities. Source water for this project will go through a three-step treatment and purification process of microfiltration, reverse osmosis and oxidation with ultraviolet light and hydrogen peroxide — all commonly used in numerous industries and food manufacturing.

AQUIFER STORAGE AND RECOVERY

California American Water will expand its current ASR project – a partnership with the Monterey Peninsula Water Management District – which captures excess winter flows from the Carmel River for storage in the Seaside Aquifer and withdrawal during the dry, summer months. Winter flows are considered excess only when they exceed what is needed to protect the river's threatened population of steelhead.

For the Monterey Peninsula Water Supply Project, the company plans to construct two additional ASR wells that will increase capacity of the program and allow the desalination plant to be smaller than would be needed without the wells.

BUDGET*

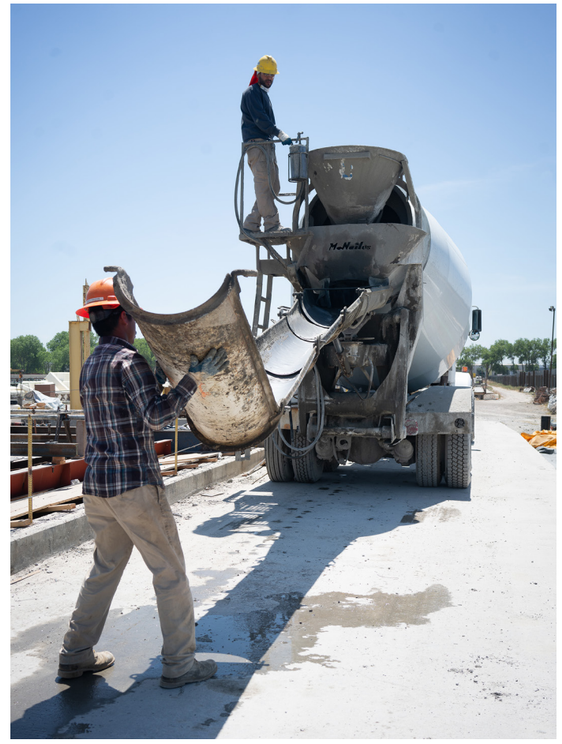
Subsurface Intake System: $80M
(34% spent to date)

Desalination Plant: $132M
(27% spent to date)

Pipeline Facilities: $67M
(16% spent to date)

Pipeline/Pump Station: $50M
(100% spent to date)

*NOTE: These figures are based on a 6.4 MGD desalination facility. Pre-construction costs are not included in the $322-million project total. Further breakdown of the above components will occur after the CPUC issues a Certificate of Public Convenience and Necessity permit for the MPWSP. These figures include financing and some contingency costs and therefore differ from the capital costs listed in the settlement.



Future editions of this newsletter will contain information on project expenditures, construction progress and milestones. Once collection begins for the Construction Funding Charge (or Surcharge 2), amounts collected by the charge will also be reported. Progress regarding slant well construction and information regarding slant well monitoring data will also be reported in future editions, as well as estimates as to the return water obligation and actual return water obligation calculated.

PROJECT SCHEDULE

MPWSP ANTICIPATED SCHEDULE