



July 20, 2015

Honorable Marla O. Anderson
Superior Court
240 Church Street
Salinas, CA 93901

Dear Judge Anderson:

We are in receipt of the 2014-15 Monterey County Civil Grand Jury final report number 3 titled "A Glass Half Full? The Monterey Peninsula Water Management District and The Marina Coast Water District." The Grand Jury has requested that our Board respond to certain findings and recommendations contained in the report, which we have done below. In addition, we have commented on certain statements and inaccuracies we have found in the body of the report.

Findings

Our Board agrees with Findings F1, F2, F4, F5, F6, F13, and F14. We partially agree with Finding F3, in that further conservation efforts may conserve 500 acre-feet per year, but 1,000 acre-feet per year would be difficult and may take a multi-year effort to accomplish.

Recommendations

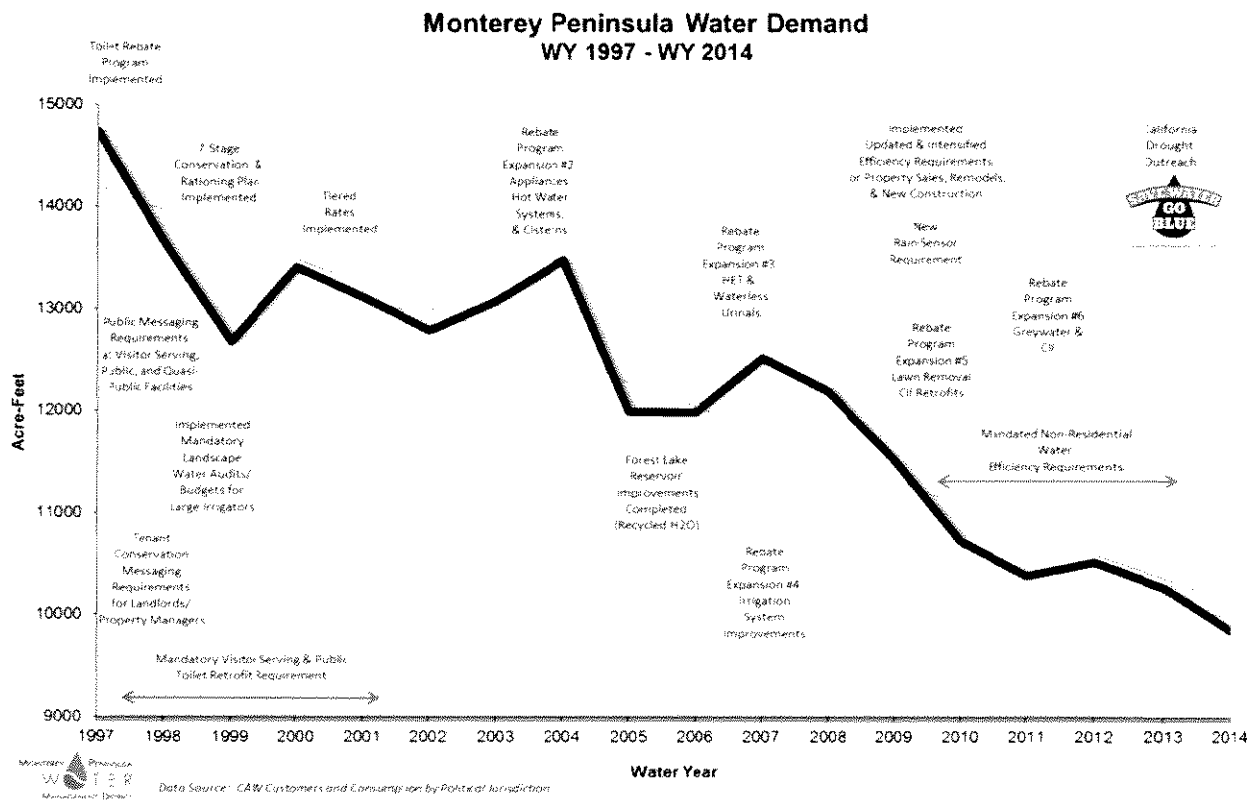
R1. Monterey Peninsula Water Management District (MPWMD) continue conservation efforts to achieve additional water savings, with the goal of conserving an additional 500 acre-feet per year by the end of 2016.

District response: This goal cannot be accomplished by the end of 2016. However, the District will work in partnership with California American Water Company (Cal-Am) to implement programs designed to accomplish an additional 500 acre-feet of savings within a reasonable timeframe.

Conservation programs take time and nuance to implement. As you can see from the chart below, the Monterey Peninsula has a culture of conservation that has taken over twenty years. Through multiple programs affecting both residential and commercial sectors, we have collectively saved over 4,500 acre-feet of water per year since a peak in the mid-1990s. That means additional savings will be challenging and that new programs will have to be carefully designed and executed. Results from any new initiatives will accumulate over several years, but are unlikely to reach 500 acre-feet by the end of 2016.

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R2. MPWMD seek additional funding to offset reduction in rebate program budget by the end of 2015.

District response: It is unlikely the District will successfully implement this recommendation. Conservation programs funded by ratepayers on the Monterey Peninsula from 2015 to 2018 are budgeted at \$1.6 million, down from \$2.3 million the previous three year period. The difference of \$700,000 represents almost half of the District's discretionary revenues. The District has already adopted a budget that dedicates those revenues for other purposes. All other revenues of the District are specifically designated as to use, primarily water supply and environmental stewardship related to water supply impacts. The District will pursue outside funding activities, but such opportunities are both financially and calendar limited. Earlier this year the District applied for grant funding for conservation programs from the State's Proposition 84 grant monies, but the application was not funded. We will certainly apply for Proposition 1 monies during the next round when available.

R3. MPWMD offer incentives for retrofitting multi-family laundry facilities by the end of 2016.

District response: The District expects to implement this recommendation.

R4. MPWMD mandate installation of pressure reducers on all water supply lines by the end of 2016.

District response: This recommendation will not be implemented as written. The District requested funding of a pilot program to investigate impacts of and rebates for the installation of pressure reduction valves during the 2015-2018 period. That funding was approved by the California Public Utilities Commission. However, the use of pressure reducers is location specific and not applicable throughout the service area. It would be inappropriate to mandate them on all supply lines. The District will continue to address this topic and work with both customers and Cal-Am to reduce pressure where appropriate.

R5. MPWMD institute offset programs for new residential and commercial developments that offer incentives for builders to pay for conservation efforts in other structures as part of permit approval beginning in January 2016.

District response: The District expects to implement this recommendation, but may limit initial efforts to public benefit projects.

R6. MPWMD install water saving devices (low-flow toilets, water-efficient washers and dishwashers, aerators) in low-income housing units in conjunction with offset programs.

District response: The District expects to implement this recommendation.

R13. MPWMD and MCWD keep abreast of new technology for conservation and desalination and utilize such technology when economically feasible.

District response: The District expects to implement this recommendation.

R14. MCWD and MPWMD make all possible efforts to form an agreement with the signers of the wastewater MOU with the goal of having such an agreement in place by the end of 2015.

District response: The District expects to implement this recommendation.

Comments on Report

Page 5, second line of first paragraph: The District does not “control” the water on the Monterey Peninsula, rather has regulatory oversight thereof.

Page 5, last line of first paragraph: Those not served by Cal-Am include private wells, the City of Seaside municipal system, Canada Woods Water Company, and several other small water distribution systems.

Page 5, first sentence of third paragraph: The District’s legislation was passed in 1977. Further, the Legislature’s stated purpose for creation of the District was “to prevent waste or unreasonable use of water supplies, to promote the control and treatment of storm water and

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wastewater, and to conserve and foster the scenic values, environmental quality, and native vegetation and fish and wildlife and recreation in the Monterey Peninsula and the Carmel River basin."

Page 6, fourth line: Payments from Cal-Am are not simply for the rebate programs. Cal Am is contractually obligated to the District for reimbursement of District activities in the construction of an Aquifer Storage and Recovery Well project and environmental mitigation along the Carmel River. The District also receives monies from a surcharge on Cal-Am bills for other conservation activities.

Page 6, second full paragraph, beginning in third line: The Company proposed no new water supply projects until 1997. Prior to that, all new water supply efforts were developed by the District. A short history of water supply projects is attached.

Page 6, third full paragraph: MPWMD does not "advise" Cal-Am on rate policy, but it correct that we collaborate with Cal-Am on rate policy. We do not simply "attend" California Public Utilities Commission (CPUC) rate hearings, we intervene and advocate for the interests of the District and ratepayers. Our intervention at the CPUC is not limited to rate cases, rather includes applications for capital projects, rate design, rationing plans, and others.

Page 6, fourth full paragraph: The Cal-Am project is correctly titled the "Monterey Peninsula Water Supply Project" and was introduced in 2012.

Page 7, first line: The proper nomenclature is the "Carmel Valley Alluvial Aquifer."

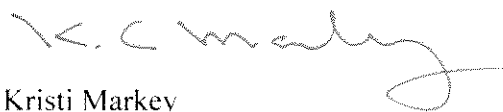
Page 7, third line from the bottom regarding pressure reducers. See District response to Recommendation 4, above.

Page 8, first line: The Reclamation Project also serves a school and is best referenced as "in the Del Monte Forest" rather than "in Pebble Beach."

Thank you for the opportunity to review the Grand Jury report and to provide our responses and comments.

On behalf of the Board of the Monterey Peninsula Water Management District,

Sincerely yours,



Kristi Markey
Chair

Attachment 1

History of Water Supply Project Development on the Monterey Peninsula

Sixteen water projects are referenced below (denominated Projects A through P) that reflect primary efforts of the Monterey Peninsula Water Management District (MPWMD) and/or California-American Water Company (Cal-Am) (or its predecessors in interest), each with the purpose to develop water supplies to benefit the Monterey Peninsula. This list includes structures that were built, some of which have since been de-commissioned, together with other significant primary supply projects proposed over time that were never implemented. A myriad list of project alternatives exists for each listed primary water supply project.

- A. In 1881 the Pacific Improvement Company, a predecessor in interest to Cal-Am, built the Carmel River dam 1,900' below the site of the San Clemente Dam.
- B. In 1921, Del Monte Properties Co. (successor to Pacific Improvement Co.) built the San Clemente Dam, an 85' high concrete arch dam, with an original capacity of 1,425 AF, was built on the Carmel River to replace the function of the 1881 structure. In 2012, CPUC Decision D. 12-06-040 authorized Cal-Am (later successor to Del Monte Properties Co.) to remove this structure, in accord with Application No.10-09-018.
- C. In 1946, California Water and Telephone Company (successor to Del Monte Properties Co and immediate predecessor in interest to Cal-Am) obtained the right to build Los Padres Dam on the main stem of the Carmel River. This 150' high earthen dam with an original capacity of 3,030 AF, was completed 1949. Cal-Am purchased Cal. Water & Tel. properties in 1966.
- D. Monterey Peninsula Water Management District (MPWMD) was created by legislation in 1977 and ratified by a public vote in 1978. In 1980 MPWMD commissioned the U.S. Army Corps of Engineers (USACE) to design the 150,000 AF New San Clement Dam and Reservoir (NSC Dam) on the main stem of the Carmel River, for flood and water supply purposes. (Technical Feasibility Study - Carmel River Dam Sites, Cortright, Clifford J., 1979). (Feasibility Report on Water Resources Development Carmel River, USACE, 1981.)
- E. In 1982, MPWMD filed Application 27614 with the State Water Resources Control Board (SWRCB) seeking water rights for a proposed 29,000 AF New San Clemente Dam and reservoir to be built of compacted concrete on the main stem of the Carmel River, as a more cost effective structure than that designed by USACE.
- F. In 1989, a federal agency panel convened by then-Congressman Panetta gave the proposed NSC Dam a "red light," meaning agency representatives collectively concluded the proposed NSC Dam could never gain required regulatory approvals. MPWMD thereafter re-assigned SWRCB Application 27614 for an alternate project, known as New Los Padres Dam and Reservoir (NLP Dam). (See August 1991 SEIR #88089¹, February 1993 SEIR #91417², and March 1994 Final

¹ The August 1991 SEIR (88089) references an Original Preferred Alternative, a New Preferred Alternative, 9 discrete Projects for Detailed Analysis and 22 Other Projects that are reviewed.

² The February 1993 SEIR (91417) references an Original Preferred Alternative, a New Preferred Alternative and one discrete Project for Detailed Analysis in addition to the Other Projects reviewed in the 1991 SEIR.

EIR³.)

- G. In 1989, Cal-Am Am filed Application No. 89-11-036 for a CPCN seeking CPUC approval for a proposed 25,000 AF off-channel reservoir known as the Canada Reservoir, as an alternate to NLP Dam. The CPUC did not grant this CPCN.
- H. MPWMD began an Interim Water Supply Augmentation Program in 1989 to investigate and implement water supply projects during the period before development of a new long term water supply. This included additional ground water from the Seaside Ground Water Basin. A test well at Cal-Am's Paralta Ave. site was completed within both the Paso Robles and the Santa Margarita Sandstone formations. Thereafter, in 1989 Cal-Am completed the Paralta production well.
- I. In 1993, MPWMD proposed a "Near-Term Desalination Project" designed to produce 3,000 AFA. Voters rejected this proposal by a vote of 47% yes; 53% no. (Measure G, June 1993.)
- J. In 1995, SWRCB Permit 1632 was granted to MPWMD, confirming water rights for Application 27614 to be used for the District's proposed NLP Dam, a 24,000 AF dam and reservoir on the main stem of the Carmel River. Also in 1995, the USACE issued a Section 404 (Clean Water Act) Permit (#20364S09) to MPWMD for the proposed NLP Dam. In November, 1995, voters rejected this proposal by a vote of 43% yes; 57% no. (Measure C, November 1995.) The water right permit number 20808 went unused for this dam, but was eventually repurposed for Aquifer Storage and Recovery (ASR) facilities discussed below.
- K. In 1996, MPWMD began investigating the feasibility of ASR. The District constructed a "proof-of-concept" demonstration project in 1997, followed by a pilot test well in the Seaside Basin. MPWMD thereafter constructed a full-scale, 700-foot deep well in 2001 in the deeper Santa Margarita Sandstone aquifer. Today four separate ASR wells operate based on SWRCB Water Permit 20808.
- L. On March 28, 1997, Cal-Am filed its Application to the CPUC for a CPCN to "Construct and Operate the 24,000 AF Carmel River Dam and Reservoir in its Monterey Division." (Application No. 97-03-052)⁴. This Carmel River Dam and Reservoir Project (CRDP) had a similar physical configuration to the 24,000 AF NLP Dam, but was to be operated in a different manner and thus not supply water for "growth". (Application No. 97-03-052 was later dismissed by the CPUC in 2003, at which time the CPUC directed Cal-Am to file a separate CPCN Application for the proposed Coastal Water Project (CWP).
- M. In 1998, State Law (Keeley Bill, Assembly Bill (AB 1182), Chapter 797, Statutes of 1998) requires the CPUC to prepare a "Plan B" contingency to describe a program or programs for Cal-Am to pursue if the CRDP does not go forward. In 2000, the CPUC issued its Monterey Peninsula Long-Term Water Supply Contingency Plan Component Screening Report (Plan B

³ The March 1994 Final EIR references an Original Preferred Alternative, a New Preferred Alternative and one discrete Project for Detailed Analysis in addition to the Other Projects reviewed in the 1991 SEIR.

⁴ The 1997/1998 SEIR references an Original Preferred Alternative, a New Preferred Alternative and four discrete Projects for Detailed Analysis in addition to 39 Other Projects.

Report⁵) and in 2002 the CPUC issued the CPUC Carmel River Dame Alternative Plan B Project Report. Plan B was identified as 9,430 afa desal plant at Moss Landing combined with a 1,300 afa ASR project.⁶

N. In 2004, Cal-Am filed Application for a CPCN to “Construct and Operate its Coastal Water Project to Resolve the Long-Term Water Supply Deficit in its Monterey District” (Application No. 04-09-019). A 10,500AF Regional Desalination Project plus 1,300AF ASR was an alternate to the CWP. The CEQA assessment also identified these additional alternatives.

- Desal at Moss Landing (9,430AF) plus ASR (1,300AF),
- Desal at Moss Landing (10,500AF) plus ASR (1,300AF)
- Desal at North Marina (11,500AF) plus ASR

O. In 2010, CPUC adopted a revised Alternate Proposed Decision and authorized issuance of a CPCN for the Regional 9,430 AF Desalination Project at Moss Landing, with a 1,300 AF ASR component. This project was terminated in 2012 after the Monterey County District Attorney filed criminal charges based on Gov. C. §1090 against Steve Collins (MCWRA board member) alleging conflicts re Regional Project. Cal-Am informed the CPUC that Cal-Am, MCWD and MCWRA were in mediation and Regional Desalination Project would be delayed, modified, or replaced with an alternate project.

P. In 2012 the Monterey Peninsula Water Supply Project (MPWSP) was proposed as an alternative to the Regional Project. Chapter 7 of the 2015 MPWSP draft EIR shows detailed analysis of project alternatives.

⁵ The 2000 Screening Report evaluated potential Plan B water supply components, and evaluated fifteen components in detail:

1. Carmel Valley Deep Fractured Bedrock Wells
2. Seaside Basin ASR
3. Tularcitos Basin ASR
4. Desalination Plant at Marina
5. Desalination Plant at Moss Landing
6. Desalination Plant at Sand City
7. Water Purchase from CVP
8. Water Purchase from Humboldt Bay
9. Water Purchase from Salinas Valley
10. Pueblo Water Rights (Carmel River)
11. Pueblo Water Rights (Salinas River)
12. Table 13 Rights (Carmel River)
13. CAWD/PBCSD Reclamation Expansion
14. SVRP Expansion
15. Local Stormwater Reclamation Projects

⁶ The 2002 Plan B Project Report also references six discrete Projects for Detailed Analysis and one Other Project.