

**GOVERNANCE COMMITTEE
FOR THE
MONTEREY PENINSULA WATER SUPPLY PROJECT**

California American Water • Monterey County Board of Supervisors
Monterey Peninsula Regional Water Authority • Monterey Peninsula Water Management District

March 21, 2013

Mr. Gary Weatherford
Administrative Law Judge
California Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

Dear Judge Weatherford:

This letter is to formally request that the California Public Utilities Commission (CPUC) hold a workshop to develop criteria to be used in determining whether Cal-Am shall be ordered to enter into a water purchase agreement to purchase approximately 3,500 acre feet per year (AFY) from the proposed Groundwater Replenishment (GWR) project.

In application A.12-04-019, California American Water (Cal-Am) proposes to either construct a 9.6 million gallon per day (MGD) desalination plant or, as an alternative, a 6.4 MGD desalination plant coupled with a water purchase agreement for approximately 3,500 AFY from the GWR project proposed by the Monterey Regional Water Pollution Control Agency (PCA) and the Monterey Peninsula Water Management District (MPWMD). The community, as represented by the Monterey County Board of Supervisors, the MPWMD, and the Monterey Peninsula Regional Water Authority supports the portfolio approach of multiple sources of water supply, and has expressed preliminary support for GWR project.

The PCA is performing environmental review and a feasibility study for the GWR project. However, under the current schedule, the CPUC will likely issue its CPCN before the PCA has completed its review. In order to address the timing such that the CPUC can issue a CPCN that can incorporate the GWR project, the recently executed agreement to form the Monterey Peninsula Water Supply Project Governance Committee, (attached hereto) provides that the Governance Committee would make a decision as to whether or not Cal-Am shall request CPUC approval to develop the GWR project in concert with a reduced-sized desalination project. In particular, the Governance Committee agreement states:

“This matter concerns the “GWR Recommendation,” which specifically is whether Cal-Am shall: (i) pursue a water purchase agreement, acceptable to Cal-Am, for the purchase of water from the GWR Project, and consequently Cal-Am shall develop smaller Desalination Infrastructure with a capacity of approximately 6.4 MGD (or as

specified in the CPCN); or (ii) forgo the pursuit of a water purchase agreement for the GWR Project, and consequently Cal-Am shall develop larger Desalination Infrastructure with a capacity of approximately 9.6 MGD (or as specified in the CPCN). If the GWR Recommendation becomes ripe for recommendation, as specified in the paragraph below, before a CPCN is issued upon Application A.12-04-019, the Governance Committee shall not issue any binding recommendation concerning the GWR Recommendation. If the GWR Recommendation becomes ripe for recommendation, as specified in the paragraph below, after a CPCN is issued upon Application A.12-04- 019, the Governance Committee shall decide whether to recommend that Cal-Am pursue the GWR Project or not (as set forth above), which recommendation shall then be subject to CPUC approval or rejection pursuant to the procedure specified herein. The Governance Committee shall make this recommendation based upon criteria to be mutually-agreed to by the Parties, negotiating in good-faith, after the execution of this Agreement.

The GWR Recommendation shall become ripe for a recommendation to be made by the Governance Committee (i) no earlier than the date Cal-Am accepts the 30% Design from the contractor retained for the design of the Desalination Infrastructure, (ii) no later than that date upon which Cal-Am is prepared to issue a notice to proceed to a contractor to commence construction of the Desalination Infrastructure, (iii) after the CEQA lead agency has certified the environmental impact report for the GWR Project and approved the GWR Project, and (iv) while there is sufficient time for the GWR Recommendation to be made and for the CPUC to review and approve that recommendation, without otherwise delaying the Project. The GWR Recommendation shall be made by the Governance Committee, in writing with an explanation of the reasons for its decision, within sixty (60) days following receipt of the Cal-Am Notification concerning this matter. The recommendation issued by the Governance Committee shall be submitted by Cal-Am to the CPUC for approval or rejection pursuant to a Tier 2 Advice Letter (or at the direction of the CPUC, an alternate form of submission) within ten (10) calendar days following issuance of the GWR Recommendation by the Governance Committee for the CPUC's review and approval. To avoid undue delay of the Project, and notwithstanding the ripeness of the GWR Recommendation as described above, if on the date that is ninety (90) days prior to the date upon which Cal-Am anticipates being prepared to issue a notice to proceed to a contractor to commence construction of the Desalination Infrastructure, no public agency has issued a resolution or order that declares that it is prepared to issue a notice to proceed to a contractor to commence construction of the GWR Project, then Cal-Am may make the decision with respect to the GWR Recommendation, in its sole discretion, without soliciting or obtaining the GWR Recommendation from the Governance Committee."

Of note in this agreement is the stipulation that "[t]he Governance Committee shall make this recommendation based upon criteria to be mutually-agreed to by the Parties,

Mr. Gary Weatherford

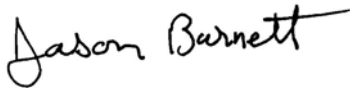
March 21, 2013

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negotiating in good-faith, after the execution of this Agreement." On March 13th, 2013, the Governance Committee held its first meeting and discussed the process and timeline for establishing the criteria for the GWR recommendation. All members of the Governance Committee, including Cal-Am, determined that the preferred process for establishing the criteria would be to request that the PUC hold a public workshop.

We believe it would be of assistance for the PUC to hold such a workshop relatively soon such that the criteria can be established early in the PCA's environmental and feasibility reviews and those reviews can seek to address all relevant criteria.

Respectfully,

A handwritten signature in black ink that reads "Jason K. Burnett". The signature is written in a cursive, flowing style.

Jason K. Burnett, Chair
Monterey Peninsula Water Supply Project
Governance Committee

Enclosure

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I am employed in the City of Monterey, County of Monterey, California. I am over the age of eighteen years, and not a party to the within entitled cause. I am an employee of the Monterey Peninsula Water Management District and my business address is P.O. Box 85, Monterey, CA 93942. On March 22, 2013, I served the within:

on the interested parties in this action addressed as follows:

☒ (BY E-MAIL SERVICE) By transmitting such document electronically from Monterey Peninsula Water Management District, Monterey, California, to the electronic mail addresses listed above. I am readily familiar with the practice of Monterey Peninsula Water Management District for transmitting documents by electronic mail, said practice being that in the ordinary course of business, such electronic mail is transmitted immediately after such document has been tendered for filing.

/s/ Arlene Tavani
Arlene Tavani

Service List

A.12-04-019

March 21, 2013

CALIFORNIA PUBLIC UTILITIES COMMISSION

Service Lists

Proceeding: A1204019 - CAL-AM WATER CO. - F

Filer: California-American Water Company

List Name: LIST

Last changed: March 13, 2013

Parties

RUSSELL M. MCGLOTHLIN BROWNSTEIN HYATT FARBER SCHRECK, LLP 21 EAST CARRILLO STREET SANTA BARBARA, CA 93101 FOR: MONTEREY PENINSULA REGIONAL WATER AUTHORITY	NORMAN C. GROOT MONTEREY COUNTY FARM BUREAU PO BOX 1449 / 931 BLANCO CIRCLE SALINAS, CA 93902-1449 FOR: MONTEREY COUNTY FARM BUREAU
RON WEITZMAN PRESIDENT WATER PLUS PO BOX 146 CARMEL, CA 93921 FOR: WATER PLUS	BOB MCKENZIE WATER ISSUES CONSULTANT COALITION OF PENINSULA BUSINESSES PO BOX 223542 CARMEL, CA 93922 FOR: COALITION OF PENINSULA BUSINESSES
NANCY ISAKSON PRESIDENT SALINAS VALLEY WATER COALITION 3203 PLAYA COURT MARINA, CA 93933 FOR: SALINAS VALLEY WATER COALITION (SVWC)	GEORGE T. RILEY CITIZENS FOR PUBLIC WATER 1198 CASTRO ROAD MONTEREY, CA 93940 FOR: CITIZENS FOR PUBLIC WATER
ROBERT WELLINGTON WELLINGTON LAW OFFICES 857 CASS STREET, STE. D MONTEREY, CA 93940 FOR: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY (MRWPCA)	THOMAS FRUTCHEY CITY MANAGER CITY OF PACIFIC GROVE 300 FOREST AVENUE PACIFIC GROVE, CA 93950 FOR: CITY OF PACIFIC GROVE
DAVID C. LAREDO DE LAY & LAREDO 606 FOREST AVENUE PACIFIC GROVE, CA 93950-4221 FOR: MONTEREY PENINSULA WATER MANAGEMENT DISTRICT (MPWMD)	CARLOS RAMOS 1048 BROADWAY AVENUE SEASIDE, CA 93955 FOR: LATINO WATER-USE COALITION-MONTEREY PENINSULA/LATINO SEASIDE MERCHANTS ASSOC./COMMUNIDAD EN ACCION
GABRIEL M.B. ROSS ATTORNEY SHUTE, MIHALY & WEINBERGER LLP 396 HAYES STREET SAN FRANCISCO, CA 94102 FOR: SURFRIDER FOUNDATION	SARAH E. LEEPER ATTORNEY CALIFORNIA AMERICAN WATER COMPANY 333 HAYES STREET, STE. 202 SAN FRANCISCO, CA 94102 FOR: CALIFORNIA-AMERICAN WATER COMPANY

1 JONATHAN P. KNAPP
2 CALIF PUBLIC UTILITIES COMMISSION
3 LEGAL DIVISION
4 ROOM 5129
5 505 VAN NESS AVENUE
6 SAN FRANCISCO, CA 94102-3214
7 FOR: DRA

MARK FOGELMAN
FRIEDMAN & SPRINGWATER LLP
33 NEW MONTGOMERY ST., STE. 290
SAN FRANCISCO, CA 94105
FOR: MARINA COAST WATER DISTRICT

5 JOHN H. FARROW
6 M.R. WOLFE & ASSOCIATES, P.C.
7 1 SUTTER STREET, STE. 300
8 SAN FRANCISCO, CA 94108
9 FOR: LANDWATCH MONTEREY COUNTY

MICHAEL WARBURTON
EXEC. DIR.
THE PUBLIC TRUST ALLIANCE
187 EAST BLYTHEDALE AVENUE
MILL VALLEY, CA 94941
FOR: THE PUBLIC TRUST ALLIANCE

8 LAURENS H. SILVER
9 ATTORNEY
10 CALIFORNIA ENVIRONMENT LAW PROJECT
11 PO BOX 667
12 MILL VALLEY, CA 94942
13 FOR: SIERRA CLUB

DAN L. CARROLL
ATTORNEY AT LAW
DOWNEY BRAND, LLP
621 CAPITOL MALL, 18TH FLOOR
SACRAMENTO, CA 95814
FOR: COUNTY OF MONTEREY/MONTEREY COUNTY
WATER RESOURCES AGENCY

12 JONAS MINTON
13 WATER POLICY ADVISOR
14 PLANNING AND CONSERVATION LEAGUE
15 1107 - 9TH STREET, SUITE 901
16 SACRAMENTO, CA 95814-3618
17 FOR: PLANNING AND CONSERVATION LEAGUE

15 Information Only

16 BARTON LOUNSBURY
17 ATTORNEY AT LAW
18 ROSSMANN AND MOORE, LLP
19 EMAIL ONLY
20 EMAIL ONLY, CA 00000

BEATRIZ GARZA
CALIFORNIA AMERICAN WATER
EMAIL ONLY
EMAIL ONLY, CA 00000

19 EDWARD FITZGERALD
20 GORDON & REES LLP
21 EMAIL ONLY
22 EMAIL ONLY, CA 00000

EDWARD ONEILL
DAVIS WRIGHT TREMAINE LLP
EMAIL ONLY
EMAIL ONLY, CA 00000

22 JOE GEEVER
23 WATER PROGRAMS MANAGER
24 SURFRIDER FOUNDATION
25 EMAIL ONLY
26 EMAIL ONLY, CA 00000

KENNETH STRONG
GORDON & REES LLP
EMAIL ONLY
EMAIL ONLY, CA 00000

24 SARAH DAMRON
25 SURFRIDER FOUNDATION
26 EMAIL ONLY
27 EMAIL ONLY, CA 00000

DON EVANS
MCWO
8550 WEST CHARLESTON, STE. 102-394
LAS VEGAS, NV 89117

27 JAN DRISCOLL
28 ATTORNEY AT LAW
ALLEN MATKINS LECK GAMBLE MALLORY NATSIS
501 W. BROADWAY, 15TH FLOOR
SAN DIEGO, CA 92101

ANTHONY J. CERASUOLO
CALIFORNIA AMERICAN WATER COMPANY
1033 B AVENUE, STE. 200
SAN DIEGO, CA 92118

1	DAVID SOUSA	KEVIN TILDEN
2	CALIFORNIA AMERICAN WATER COMPANY	CALIFORNIA-AMERICAN WATER COMPANY
	1033 B AVENUE, STE. 200	1033 B AVENUE, SUITE 200
3	CORONADO, CA 92118	CORONADO, CA 92118
4	ROBERT G. MACLEAN	TIMOTHY J. MILLER, ESQ.
	PRESIDENT	CORPORATE COUNSEL
5	CALIFORNIA AMERICAN WATER COMPANY	CALIFORNIA AMERICAN WATER COMPANY
	1033 B AVENUE, SUITE 200	1033 B. AVENUE, SUITE 200
6	CORONADO, CA 92118	CORONADO, CA 92118
7	PAUL L. FINDLEY	ANGELA HOWE
	RBF CONSULTING	SURFRIDER FOUNDATION
8	9755 CLAIREMONT MESA BLVD., STE. 100	PO BOX 6010
	SAN DIEGO, CA 92124	SAN CLEMENTE, CA 92674
9	RYAN C. DRAKE	FRANCES M. FARINA
	BROWNSTEIN HYATT FARBER SCHRECK, LLP	ATTORNEY AT LAW
10	21 EAST CARRILLO STREET	DE LAY & LAREDO
	SANTA BARBARA, CA 93101	389 PRINCETON AVENUE
11		SANTA BARBARA, CA 93111
		FOR: MONTEREY PENINSULA WATER
12		MANAGEMENT DISTRICT
13	CHARLES J. MCKEE	PAUL HART
	COUNTY COUNSEL	WATERPLUS
14	COUNTY OF MONTEREY	16 WEST GABILAN STREET
	168 WEST ALISAL ST.	SALINAS, CA 93901
15	SALINAS, CA 93901	
16	AMY WHITE	DAVID E. CHARDAVOYNE
	LANDWATCH MONTEREY COUNTY	GENERAL MANAGER
17	PO BOX 1876	MONTEREY COUNTY WATER RESOURCES AGENCY
	SALINAS, CA 93902	PO BOX 930
18		SALINAS, CA 93902
19	JANET BRENNAN	JULIE ENGELL
	LANDWATCH MONTEREY COUNTY	LANDWATCH MONTEREY COUNTY
20	PO BOX 1876	PO BOX 1876
	SALINAS, CA 93902	SALINAS, CA 93902
21	LLOYD W. LOWREY, JR.	LLOYD W. LOWREY, JR.
	JOLAND HAMERLY ETIENNE & HOSS	NOLAND, HAMERLY, ETIENNE & HOSS
22	PO BPX 2510	PO BOX 2510
	SALINAS, CA 93902-2510	SALINAS, CA 93902-2510
23		
24	OFFICE MANAGER	JAMES HEITZMAN
	SALINAS VALLEY WATER COALITION	GENERAL MANAGER
25	PO DRAWER 2670	MARINA COAST WATER DISTRICT
	GREENFIELD, CA 93927	11 RESERVATION RD
26		MARINA, CA 93933
27	KEITH ISRAEL	DAVID J. STOLDT
	GENERAL MGR.	GEN. MGR.
28	MONTEREY REGIONAL WATER POLLUTION	MONTEREY PENINSULA WATER MANAGEMENT
	5 HARRIS COURT, BLDG. D	PO BOX 85
	MONTEREY, CA 93940	MONTEREY, CA 93942-0085

1	ANTHONY J. TERSOL SURFRIDER FOUNDATION - MONTEREY CHAPTER 319 FOREST AVE. PACIFIC GROVE, CA 93950	CATHERINE BOWIE CALIFORNIA-AMERICAN WATER COMPANY 511 FOREST LODGE ROAD, SUITE 100 MONTEREY, CA 93950
2		
3	HEIDI A.. QUINN DE LAY & LAREDO 606 FOREST AVENUE PACIFIC GROVE, CA 93950	MICHAEL BOWHAY MONTEREY PENINSULA COUNTRY CLUB PO BOX 2090 PEBBLE BEACH, CA 93953-2090
4		
5		
6	JAVIER NARANJO CALIFORNIA-AMERICAN WATER COMPANY 333 HAYES ST., STE. 202 SAN FRANCISCO, CA 94102	MARGARET BAILES CALIFORNIA-AMERICAN WATER COMPANY 333 HAYES STREET, STE. 202 SAN FRANCISCO, CA 94102
7		
8	NICHOLAS SUBIAS CALIFORNIA-AMERICAN WATER COMPANY 333 HAYES STREET, SUITE 202 SAN FRANCISCO, CA 94102	ROGER B. MOORE PARTNER ROSSMANN AND MOORE, LLP 380 HAYES STREET SAN FRANCISCO, CA 94102
9		
10		
11	ERIC ZIGAS ENVIRONMENTAL SCIENCE ASSOCIATES/WATER 225 BUSH STREET SAN FRANCISCO, CA 94104	ANNA SHIMKO SEDGWICK LAW 333 BUSH STREET, 30TH FLOOR SAN FRANCISCO, CA 94104-2834
12		
13		
14	SIGRID WAGGENER SEDGWICK LAW 333 BUSH STREET, 30THFL. SAN FRANCISCO, CA 94104-2834	RUTH STONER MUZZIN FRIEDMAN & SPRINGWATER LLP 33 NEW MONTGOMERY, STE. 290 SAN FRANCISCO, CA 94105
15		
16	BRIAN J. MOONEY ATTORNEY GORDON & REES LLP 275 BATTERY STREET, SUITE 2000 SAN FRANCISCO, CA 94111	LORI ANNE DOLQUEIST, ESQ ATTORNEY AT LAW MANATT, PHELPS & PHILLIPS, LLP ONE EMBARCADERO CENTER, 30TH FL. SAN FRANCISCO, CA 94111
17		
18		
19	EDWARD O'NEILL DAVIS WRIGHT TREMAINE LLP 505 MONTGOMERY STREET, SUITE 800 SAN FRANCISCO, CA 94111-6533	ROBERT E. DONLAN ELLISON, SCHNEIDER & HARRIS, L.L.P. 2600 CAPITOL AVENUE, SUITE 400 SACRAMENTO, CA 95816-5905
20		
21		
22	MARTHA H. LENNIHAN LENNIHAN LAW, APC 1661 GARDEN HIGHWAY, STE. 102 SACRAMENTO, CA 95833 FOR: MONTEREY REGIONAL WATER POLLUTION CONTROL AGENCY (MRWPCA)	RICHARD SVINDLAND CALIFORNIA-AMERICAN WATER COMPANY 4701 BELOIT DRIVE SACRAMENTO, CA 95838
23		
24		
25	State Service	
26	JOHN BEEMER CPUC LEGAL ROOM 4300 SAN FRANCISCO, CA 00000	JONATHAN KOLTZ CALIFORNIA PUBLIC UTILITIES COMMISSION EMAIL ONLY EMAIL ONLY, CA 00000
27		
28		

1	PRANEET ROW CPUC	RYNINTA ANATRYA CPUC
2	DRA - WATER BRANCH EMAIL ONLY	DRA - WATER BRANCH EMAIL ONLY
3	EMAIL ONLY, CA 00000	EMAIL ONLY, CA 00000
4	ALLISON BROWN CALIF PUBLIC UTILITIES COMMISSION EXECUTIVE DIVISION	AMBER WHITE CALIF PUBLIC UTILITIES COMMISSION WATER BRANCH
5	ROOM 5206 505 VAN NESS AVENUE	ROOM 4208 505 VAN NESS AVENUE
6	SAN FRANCISCO, CA 94102-3214	SAN FRANCISCO, CA 94102-3214
7	ANDREW KOTCH CALIF PUBLIC UTILITIES COMMISSION EXECUTIVE DIVISION	DIANA BROOKS CALIF PUBLIC UTILITIES COMMISSION WATER BRANCH
8	ROOM 5301 505 VAN NESS AVENUE	ROOM 4208 505 VAN NESS AVENUE
9	SAN FRANCISCO, CA 94102-3214	SAN FRANCISCO, CA 94102-3214
10		
11	GARY WEATHERFORD CALIF PUBLIC UTILITIES COMMISSION DIVISION OF ADMINISTRATIVE LAW JUDGES	INDERDEEP ATWAL CALIF PUBLIC UTILITIES COMMISSION WATER BRANCH
12	ROOM 5020 505 VAN NESS AVENUE	ROOM 4208 505 VAN NESS AVENUE
13	SAN FRANCISCO, CA 94102-3214	SAN FRANCISCO, CA 94102-3214
14	JONATHAN J. REIGER CALIF PUBLIC UTILITIES COMMISSION LEGAL DIVISION	LESTER WONG CALIF PUBLIC UTILITIES COMMISSION EXECUTIVE DIVISION
15	ROOM 5035 505 VAN NESS AVENUE	ROOM 5204 505 VAN NESS AVENUE
16	SAN FRANCISCO, CA 94102-3214	SAN FRANCISCO, CA 94102-3214
17	LYNN A. MAACK CALIF PUBLIC UTILITIES COMMISSION WATER BRANCH	MICHAEL ZELAZO CALIF PUBLIC UTILITIES COMMISSION WATER AND SEWER ADVISORY BRANCH
18	AREA 4-B 505 VAN NESS AVENUE	ROOM 3-B 505 VAN NESS AVENUE
19	SAN FRANCISCO, CA 94102-3214	SAN FRANCISCO, CA 94102-3214
20		
21	PETER V. ALLEN CALIF PUBLIC UTILITIES COMMISSION LEGAL DIVISION	RAVI KUMRA CALIF PUBLIC UTILITIES COMMISSION WATER AND SEWER ADVISORY BRANCH
22	ROOM 5031 505 VAN NESS AVENUE	AREA 3-C 505 VAN NESS AVENUE
23	SAN FRANCISCO, CA 94102-3214	SAN FRANCISCO, CA 94102-3214
24	STEPHEN ST. MARIE CALIF PUBLIC UTILITIES COMMISSION EXECUTIVE DIVISION	SUZIE ROSE CALIF PUBLIC UTILITIES COMMISSION WATER BRANCH
25	ROOM 5203 505 VAN NESS AVENUE	ROOM 4208 505 VAN NESS AVENUE
26	SAN FRANCISCO, CA 94102-3214	SAN FRANCISCO, CA 94102-3214
27		
28		

1 TERENCE SHIA
2 CALIF PUBLIC UTILITIES COMMISSION
3 WATER BRANCH
4 ROOM 4208
5 505 VAN NESS AVENUE
6 SAN FRANCISCO, CA 94102-3214

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**AGREEMENT TO FORM THE
MONTEREY PENINSULA WATER SUPPLY PROJECT GOVERNANCE COMMITTEE**

This **AGREEMENT TO FORM THE MONTEREY PENINSULA WATER SUPPLY PROJECT GOVERNANCE COMMITTEE** (“**Agreement**”) is made and entered into as of March 8, 2013, by and among the **MONTEREY PENINSULA REGIONAL WATER AUTHORITY** (“**MPRWA**”), the **MONTEREY PENINSULA WATER MANAGEMENT DISTRICT** (“**MPWMD**”), the **COUNTY OF MONTEREY** (“**County**”), and the **CALIFORNIA-AMERICAN WATER COMPANY** (“**Cal-Am**”). The MPRWA, the MPWMD, the County, and Cal-Am are sometimes referred to individually herein as a “**Party**,” and collectively as the “**Parties**.”

I. Formation of Governance Committee

Pursuant to the terms of this Agreement, the Parties hereby form the Monterey Peninsula Water Supply Project Governance Committee (“**Governance Committee**”) comprised of representatives of the MPRWA, the MPWMD, the County, and Cal-Am to ensure efficient and effective public input into the development and operation of the Monterey Peninsula Water Supply Project (“**Project**”). Cal-Am’s entry into this Agreement is expressly conditioned upon its legal obligations to abide by the orders and decisions of the California Public Utilities Commission (“**CPUC**”). Therefore, should the CPUC order Cal-Am not to participate in this Agreement, Cal-Am shall be relieved of all obligations set forth in this Agreement and this Agreement may be terminated by Cal-Am upon such CPUC order. Further, if the CPUC issues any order or decision that conflicts with any particular provision of this Agreement, Cal-Am shall be relieved of any and all obligations to abide by the conflicting provision of this Agreement.

II. Definitions

A. Application A.12-04-019. 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, filed with the CPUC on or about April 23, 2012.

B. ASR Infrastructure. The facilities used to inject into and extract potable water from the Seaside Groundwater Basin, as described in Application A.12-04-019. These facilities will include the Aquifer Storage and Recovery (“ASR”) wells and related appurtenances, the backflush pipeline, the recirculation pipeline and the ASR pipeline.

C. Brine Discharge Infrastructure. Facilities located outside the desalination plant site that are used to dispose of brine into the ocean. These facilities will include the brine disposal pipeline, the brine receiving station, any modification to the MRWPCA existing outfall, or a new outfall, or potentially the use of other existing outfalls with or without modifications.

D. Cal-Am Notification. The written notification from Cal-Am to the Chair of the Governance Committee that a matter is ready for consideration, consultation, or action by the Governance Committee as provided herein, and as further defined within Section V.B.

E. CEQA. The California Environmental Quality Act.

F. Contracts. One or more of the contracts between Cal-Am and a selected contractor, valued in excess of \$1 million, relating to the design and/or construction of the following facilities: (1) the Desalination Infrastructure, (2) the Source Water Infrastructure, (3) the Brine Discharge Infrastructure contracted for by Cal-Am, (4) the Product Water Pipeline, (5) the Raw Water Pipeline; (6) the ASR Infrastructure, and (7) the Terminal Reservoir Infrastructure. Contracts for one or more of the facilities identified above in this definition may be combined into a single contract. In addition, the design and construction of a single facility identified above in this definition may be combined into a single contract.

G. CPCN. The Certificate of Public Convenience and Necessity, if ordered by the CPUC, within Application A.12-04-019.

H. Desalination Infrastructure. Facilities located within the desalination plant site that are used to create potable water from either an ocean source water, brackish source water or a combination thereof, and appurtenant facilities needed to dispose of brine to the Brine Discharge Infrastructure, dispose of wastewater (i.e. process water and sanitary discharge), and any needed facilities that may be required to prevent export of native Salinas River Groundwater Basin water.

I. Desalination Project. The combination of the Desalination Infrastructure, the Brine Discharge Infrastructure, the Source Water Infrastructure, the Product Water Pipeline, the Raw Water Pipeline, and the Terminal Reservoir Infrastructure.

J. GWR Project. Groundwater replenishment project to be implemented by MRWPCA and/or MPWMD which involves advanced treatment of wastewater and the injection of product replenishment water into the Seaside Groundwater Basin. This project includes facilities for the treatment, conveyance, and injection of the product replenishment water.

K. MRWPCA. The Monterey Regional Water Pollution Control Agency.

L. Product Water Pipeline. Facilities used to convey potable water from the Desalination Infrastructure to the Terminal Reservoir Infrastructure and to Cal-Am's existing distribution system at the Eardley Pump Station.

M. Project. The Monterey Peninsula Water Supply Project as proposed in Application A.12-04-019, and as it may be modified by the CPCN issued in response to that Application.

N. Public Entity Members of the Governance Committee. The MPRWA, the MPWMD, and the County. Cal-Am is not a Public Entity Member of the Governance Committee.

O. Raw Water Pipeline. Facilities used to convey feedwater (i.e., raw water) from the Source Water Infrastructure to the Desalination Infrastructure.

P. Source Water Infrastructure. Wells and appurtenant facilities (or alternative contingent intake facilities) that are used to extract and convey feedwater (i.e., raw water) to the Raw Water Pipeline. These facilities will include the slant intake wells and related appurtenances (if permitted) as well as alternate contingent intakes such as a Ranney Well or open ocean intake as submitted by Cal-Am in its contingency plans.

Q. Terminal Reservoir Infrastructure. Facilities used to pump and store potable water in storage tanks east of the City of Seaside along General Jim Moore Boulevard. These facilities will include the terminal reservoir, terminal reservoir pump station, overflow facilities and related appurtenance needed to assist in the moving of water to and from the ASR Infrastructure, other ASR facilities, and Product Water Pipeline.

R. Value Engineer. The professional engineer(s) to be retained by, or to consult with, Cal-Am to perform a value engineering analysis for the Desalination Project to potentially lower the costs of, or maximize the value of, the Desalination Project to Cal-Am's ratepayers, including matters concerning the cost effectiveness, performance, reliability, quality, safety, durability, effectiveness, or other desirable characteristics of the Desalination Project.

The Parties acknowledge that the Project is still under development and several aspects of the Project may be modified as planning continues and as may be ordered by the CPUC. If necessary to address future modifications to the Project, the Parties agree to cooperate in good faith to reach agreement to amend the definitions set forth herein as necessary to fulfill the purpose of this Agreement.

III. Membership and Voting

Each of the Public Entity Members of the Governance Committee shall be represented on the Governance Committee by one elected official of such entity and one alternate who shall also be an elected official. No individual person may be appointed as the primary or alternate representative of more than one Party. If MPRWA ceases to exist, then the cities that are members of the MPRWA at the time of the MPRWA's termination shall collectively choose a "city representative" that will take the place of the MPRWA representative on the Governance Committee. Cal-Am shall be represented by the President of Cal-Am or the President's alternate, whom the President may designate to act on his or her behalf at anytime. The Governance Committee shall appoint a "Chair" and "Vice-Chair" from the primary (non-alternate) elected officials appointed to the Governance Committee. Each of the Public Entity Members of the Governance Committee shall have a single equal vote in decision-making. Cal-Am shall not have a vote for purposes of the issuance of decisions or recommendations by the Governance Committee. However, Cal-Am shall, unless it abstains from doing so, state its preference with respect to any decision or recommendation made by the Governance Committee (the "**Cal-Am Preference**") at the time that any decision or recommendation is made by the Governance Committee and the Cal-Am Preference shall be recorded within the meeting minutes together with a summary of any explanation provided by Cal-Am for the Cal-Am Preference.

IV. Powers

A. Purpose. The purpose and function of the Governance Committee shall be to: (i) consult with, advise and, in some circumstances, provide direction to, Cal-Am concerning the design, permitting, construction, operations, maintenance, repairs, and replacements of the components of the Desalination Project; and (ii) serve as the entity which Cal-Am regularly updates as to Desalination Project status and issues. The members of the Governance Committee shall diligently consider all matters and cause the Governance Committee to timely and promptly issue decisions or recommendations brought before it as provided pursuant to the terms of this Agreement.

B. Waiver of Action. Upon motion and affirmative vote of the Governance Committee (pursuant to Section VII of this Agreement), the Governance Committee may choose to waive its right to issue a decision or recommendation with respect to any matter for which the Governance Committee is afforded such right herein. The purpose of the Governance Committee's right to waive its right to make any specified decision or recommendation herein is to empower the Governance Committee to avoid issuing any decision or recommendation, which, in its determination, would violate any law, unreasonably delay efforts to develop water supplies for the Monterey Peninsula, or otherwise compromise the public interest.

V. Governance Committee Action; Procedures

A. Matters Subject to Governance Committee Action. Matters for consideration, consultation, decision, or recommendation by the Governance Committee shall be divided among three categories, with varying processes for consultation, recommendations, and/or decision-making, as follows:

Category A: The Governance Committee makes the decision or recommendation respecting the matter after receipt of a written recommendation from Cal-Am, and upon issuance of its decision or recommendation, the Governance Committee provides a written explanation of the reasons for its decision to Cal-Am within seven (7) calendar days following its decision or recommendation. Thereafter, Cal-Am will comply with the decision or recommendation issued by the Governance Committee so long as the decision or recommendation is consistent with the terms of this Agreement. However, notwithstanding any provision of this Agreement, for any matter covered by Category A that relates to an action which may cause either a direct physical change in the environment, or a reasonably foreseeable indirect physical change in the environment, as defined by section 21065 of the California Public Resources Code, no decision or recommendation shall be made by the Governance Committee as to the subject matter unless

and until such time as the action has been subject to review by an appropriate agency in accordance with CEQA. The foregoing provision shall not be construed as an agreement or determination by or among any of the Parties that CEQA applies to any action of the Governance Committee. This Agreement is itself not a “project” as defined by section 15378 of the CEQA Guidelines (California Code of Regulations, Title 14, Chapter 3) because it is an organizational activity that will not result in direct or indirect physical changes in the environment and this Agreement makes no commitment to any project.

Category B: The Governance Committee makes a recommendation respecting the matter after receipt of a written recommendation from Cal-Am. However, Cal-Am may determine, at its sole discretion, whether or not to follow the Governance Committee's recommendation, provided that if Cal-Am chooses not to follow the recommendation, Cal-Am shall provide a written explanation of Cal-Am's reasons for its decision not to follow the recommendation within ten (10) calendar days following the issuance of the Governance Committee's recommendation. Further, should Cal-Am choose not to follow the recommendation of the Governance Committee, then any Party may raise the issue for review by the CPUC during Cal-Am's next general rate case.

Category C: Cal-Am makes the decision respecting the matter after receiving a recommendation from the Governance Committee. Cal-Am need not issue a written explanation for its decision, although should Cal-Am choose not to follow the recommendation of the Governance Committee, then any Party may raise the issue for review by the CPUC during Cal-Am's next general rate case.

B. Procedure for Cal-Am Notification. Whenever Cal-Am is presented with, or becomes aware of, a matter that falls within any of the subjects identified herein for consideration, consultation, decision or recommendation by the Governance Committee that is ripe for presentation to the Governance Committee, Cal-Am shall, in writing, promptly notify the Chair of the Governance Committee (“Cal-Am Notification”), who shall schedule the matter for consideration by the Governance Committee. For purposes of this Agreement, a matter shall be deemed ripe for presentation to the Governance Committee at such time as either specified within the matters set forth below, or for any matter for which no specification is provided, Cal-Am shall determine the time(s) at which the matter is appropriate for presentation for consultation, decision, or recommendation by the Governance Committee consistent with the purpose of this Agreement. Unless a different period is specified herein, for all matters for which a decision or recommendation is to be made by the Governance Committee, the Governance Committee shall issue its decision or recommendation within ten (10) calendar days following receipt of the Cal-Am Notification. If the Public Entity Members of the Governance Committee determine that the Governance Committee requires more than the prescribed time period provided for in this Agreement to act on any matter that is the subject of the Cal-Am Notification, the Chair of the Governance Committee may, within seven (7) calendar days following receipt of the Cal-Am Notification, request a reasonable extension of time by written request to Cal-Am, and Cal-Am and the Public Entity Members of the Governance Committee shall cooperate in good faith to agree upon and set a reasonable alternative deadline for action on the subject matter to the extent that such an extension would not unreasonably delay the Project, not unreasonably delay required CPUC filings by Cal-Am, or otherwise compromise the public interest. So as to avoid undue delay, if the Governance Committee fails to make any decision or provide any recommendation upon any matter brought before it (including all Category A decisions) on or before the expiration of the prescribed period for action by the Governance Committee (or the period of any extension agreed to by Cal-Am), or if the Governance Committee affirmatively waives its right to make a decision or recommendation respecting a matter before it, then Cal-Am may make the subject decision without a decision or recommendation, as applicable, by the Governance Committee.

C. Cal-Am Status Presentations and Governance Committee Recommendations Thereon. At each meeting of the Governance Committee, Cal-Am shall provide a report as to the status of the Project, which shall be presented by one or more individuals knowledgeable about the material aspects of the Project. Upon reasonable advance written notice, the Governance Committee may request that Cal-Am include within its status presentation to the Governance Committee the status of any matter that is set forth in any of the three categories for decision, recommendation, or consultation established

below, together with an explanation of any pending or soon-to-be-pending decisions or options concerning the subject matter. The Governance Committee may issue, in writing, any recommendation concerning a subject matter included within Cal-Am's presentation. Cal-Am may determine, at its sole discretion, whether or not to follow the recommendation, provided that if Cal-Am chooses not to follow the recommendation and the subject matter is a matter covered by either Category A or Category B, Cal-Am shall, within ten (10) calendar days following issuance of the Governance Committee's recommendation, provide a written explanation of the reason(s) for Cal-Am's decision not to follow the recommendation. If the subject matter is a matter covered by Category C or is not set forth within any of the three categories set forth below, Cal-Am need not issue a written explanation of Cal-Am's reasons for its decision not to follow the recommendation.

D. Categories for Matters Subject to Governance Committee Action. Matters for consideration, consultation, decision, or recommendation by the Governance Committee shall be divided among the following three categories as follows:

Category A

1. This matter concerns the "GWR Recommendation," which specifically is whether Cal-Am shall: (i) pursue a water purchase agreement, acceptable to Cal-Am, for the purchase of water from the GWR Project, and consequently Cal-Am shall develop smaller Desalination Infrastructure with a capacity of approximately 6.4 MGD (or as specified in the CPCN); or (ii) forgo the pursuit of a water purchase agreement for the GWR Project, and consequently Cal-Am shall develop larger Desalination Infrastructure with a capacity of approximately 9.6 MGD (or as specified in the CPCN). If the GWR Recommendation becomes ripe for recommendation, as specified in the paragraph below, before a CPCN is issued upon Application A.12-04-019, the Governance Committee shall not issue any binding recommendation concerning the GWR Recommendation. If the GWR Recommendation becomes ripe for recommendation, as specified in the paragraph below, after a CPCN is issued upon Application A.12-04-019, the Governance Committee shall decide whether to recommend that Cal-Am pursue the GWR Project or not (as set forth above), which recommendation shall then be subject to CPUC approval or rejection pursuant to the procedure specified herein. The Governance Committee shall make this recommendation based upon criteria to be mutually-agreed to by the Parties, negotiating in good-faith, after the execution of this Agreement.

The GWR Recommendation shall become ripe for a recommendation to be made by the Governance Committee (i) no earlier than the date Cal-Am accepts the 30% Design from the contractor retained for the design of the Desalination Infrastructure, (ii) no later than that date upon which Cal-Am is prepared to issue a notice to proceed to a contractor to commence construction of the Desalination Infrastructure, (iii) after the CEQA lead agency has certified the environmental impact report for the GWR Project and approved the GWR Project, and (iv) while there is sufficient time for the GWR Recommendation to be made and for the CPUC to review and approve that recommendation, without otherwise delaying the Project. The GWR Recommendation shall be made by the Governance Committee, in writing with an explanation of the reasons for its decision, within sixty (60) days following receipt of the Cal-Am Notification concerning this matter. The recommendation issued by the Governance Committee shall be submitted by Cal-Am to the CPUC for approval or rejection pursuant to a Tier 2 Advice Letter (or at the direction of the CPUC, an alternate form of submission) within ten (10) calendar days following issuance of the GWR Recommendation by the Governance Committee for the CPUC's review and approval. To avoid undue delay of the Project, and notwithstanding the ripeness of the GWR Recommendation as described above, if on the date that is ninety (90) days prior to the date upon which Cal-Am anticipates being prepared to issue a notice to proceed to a contractor to commence construction of the Desalination Infrastructure, no public agency has issued a resolution or order that declares that it is prepared to issue a notice to proceed to a contractor to commence construction of the GWR Project, then Cal-Am may make the decision with respect to the GWR Recommendation, in its sole discretion, without soliciting or obtaining the GWR Recommendation from the Governance Committee.

2. The Governance Committee shall select a Value Engineer(s) to facilitate and report on the proposed value engineering for the Desalination Project, with consideration given to any

recommended engineer submitted by any member of the Governance Committee. Cal-Am shall conduct the procurement for the Value Engineer and, consistent with the processes set forth in Categories B(1), B(2) and C(2) relating to Contracts, seek recommendations from the Governance Committee for the contract between Cal-Am and the Value Engineer. After reviewing the results of the procurement process, the Governance Committee shall decide which engineer is to be retained by Cal-Am as the Value Engineer for the Desalination Project. This matter shall be ripe for decision before Cal-Am accepts the 30% Design from the contractor retained for the design of the Desalination Infrastructure, or at any other time that Cal-Am intends to retain a Value Engineer for any other infrastructure constructed as a component of the Desalination Project.

3. Subsequent to the issuance of the CPCN and subsequent to the selection of any design-build contractor(s) for the Desalination Infrastructure, the Governance Committee may issue decisions concerning architectural renderings for the Desalination Project. The Governance Committee shall be presented with architectural renderings for decisions regarding the same when such architectural renderings are complete and upon any subsequent modifications thereto. The Governance Committee may also, in its discretion, appoint a representative to consult with Cal-Am regarding other external features or aesthetics of the Desalination Project. Upon a determination of the Governance Committee or its representative, the Governance Committee's representative and Cal-Am shall present to the Governance Committee options pertaining to the Desalination Project's external feature or aesthetics, upon which the Governance Committee may decide which option to pursue. Notwithstanding any provision of this paragraph, the Governance Committee may not issue a binding decision concerning the Desalination Infrastructure's architectural renderings, or the Desalination Project's external features or aesthetics, if the decision would in the opinion of the design-build contractor, increase the capital or operational cost of the Desalination Infrastructure.

4. Subsequent to the issuance of the CPCN, the Governance Committee may issue decisions concerning procurement of alternative (non-Pacific Gas & Electric) energy supplies for the Desalination Infrastructure, including but not limited to waste-to-energy, so long as such decisions result in lowering the Desalination Infrastructure's estimated unit price for power. This matter shall be ripe for decision at any time a formal written proposal concerning alternative power is presented by one or more of the Parties for consideration.

Category B

1. Prior to the issuance of a request for qualifications, request for proposals, or request for bids, as applicable, relating to the procurement of a Contract, the Governance Committee may recommend qualifications and selection criteria for such Contract.

2. Prior to the execution of any Contract not executed on or before the date that is thirty (30) calendar days after the effective date of this Agreement, and upon presentation and recommendation by Cal-Am to the Governance Committee after Cal-Am has reviewed and evaluated proposals or bids, as applicable, and negotiated with the contractor a Contract that, in the opinion of Cal-Am, is ready for execution by and between Cal-Am and the contractor, the Governance Committee may recommend which contractor should be retained under the Contract, and issue any recommendations concerning the terms of the final Contract. When presenting a Contract to the Governance Committee for its consideration and recommendation, Cal-Am shall provide to the Governance Committee a copy of all responsive proposals or bids received for the pertinent work, except for any proprietary information provided by contractors submitting responsive proposals or bids, together with a written description of the process Cal-Am undertook to select a recommended Contractor, a summary of the considerations that Cal-Am deems pertinent to support its recommendation, and any other information that Cal-Am believes will assist the Governance Committee in its review of the recommended Contract and contractor.

3. The Governance Committee may review and issue recommendations concerning major changes to the Desalination Project at key stages of the design process, including:

- Basis of Design

- 30% Design
- 60% Design
- 90% Design, and
- Final Design

As used in this paragraph, major changes to the Project shall include changes causing an increase or decrease in costs of the Desalination Project that exceed \$1 million.

4. The Governance Committee may issue recommendations concerning the establishment of a community outreach program.

5. The Governance Committee may recommend the Desalination Project's aesthetic attributes and design consistent with community values if not covered by Category A(3) above;

6. The Governance Committee may coordinate with Cal-Am and recommend solutions to issues concerning the use of the Brine Discharge Infrastructure;

7. The Governance Committee may review and recommend whether to adopt any value engineering recommendations issued by the Value Engineer;

8. The Governance Committee may review and recommend whether to approve any change order pertaining to any component or components of the Desalination Project, if the change order exceeds \$1 million.

Category C

1. Cal-Am shall monitor the design, engineering, and permitting of all elements of the Desalination Project, and report on such monitoring to the Governance Committee as described in Section VI. The Governance Committee shall discuss Cal-Am's report and may issue recommendations to Cal-Am pertaining to the Desalination Project;

2. Prior to Cal-Am's commencement of negotiations with a selected contractor relating to a Contract, the Governance Committee may review and issue recommendations concerning contract terms relating to such Contract;

3. The Governance Committee may review and issue recommendations concerning the preparation and quarterly update of an overall construction budget for the Desalination Project;

4. The Governance Committee may review and issue recommendations concerning a plan for acceptance testing, including follow-up reporting, for the Desalination Project;

5. The Governance Committee may annually review and issue recommendations concerning the Desalination Project operations and maintenance budget and rate impacts;

6. The Governance Committee may review and issue recommendations to Cal-Am with respect to local and regional permit requirements; and

7. The Governance Committee may review and issue recommendations concerning the preparation of quarterly progress reports during major design milestones (i.e., 30% design, 60% design, 90% design, and final design) and information on any material challenges to the Project design.

E. Additional Matters. If agreed unanimously by all members of the Governance Committee, including Cal-Am, additional matters not provided for herein may be added to Category A for decision or recommendation by the Governance Committee or to Category B for recommendation from the Governance Committee. Additional matters may also be added to Category C for recommendation

from the Governance Committee upon affirmative vote of the Governance Committee unless Cal-Am determines that the addition of the matter to Category C would unreasonably delay the Project or otherwise compromise the public interest. If Cal-Am determines that a matter affirmed by the Governance Committee for addition to Category C should not be so added, Cal-Am shall issue a written explanation to the Governance Committee within ten (10) calendar days following the Governance Committee's vote to add the matter to Category C that explains the reasons supporting Cal-Am's determination.

VI. Meetings and Action of the Governance Committee; Agendas and Minutes

A. Meetings. Governance Committee meetings shall be conducted in compliance with the Ralph M. Brown Act (Government Code sections 54950, et seq.). The first meeting of the Governance Committee shall be scheduled by the primary representative of the MPWMD, and that representative shall preside over the first meeting at which a Chair and Vice-Chair shall be selected. Thereafter, the Chair, or in his or her absence, the Vice-Chair, shall schedule and preside over all meetings of the Governance Committee. During the pre-construction and construction phases of the Desalination Project, regular meetings of the Governance Committee shall be scheduled by the Chair, or in his or her absence, the Vice-Chair, and held on a monthly basis. During the operational phase of the Desalination Project, regular meetings of the Governance Committee shall be scheduled by the Chair, or in his or her absence, the Vice-Chair, and held on a quarterly basis for the first two years of the Desalination Project's operation and semi-annually thereafter. Special meetings of the Governance Committee, including for purposes of responding to a Cal-Am Notification, may be called by the Chair, or in his or her absence, the Vice-Chair, or by any member of the Governance Committee upon request of the Chair, or in his or her absence, the Vice-Chair.

B. Action by the Governance Committee. All decisions and recommendations of the Governance Committee issued to Cal-Am shall be in writing, signed by the Chair or Vice-Chair. All other actions of the Governance Committee shall be by motion recorded in written minutes.

C. Agendas, Correspondence, and Minutes. Agendas, correspondence, and minutes of the meetings of the Governance Committee shall be taken, maintained, and distributed by a designated staff member of the MPWMD.

VII. Quorum and Affirmative Action of the Governance Committee

To constitute a quorum at all meetings of the Governance Committee for the transaction of business, the primary or alternate elected official representative of at least three of the Parties must be present, in person. Action by the Governance Committee shall require the affirmative vote of at least two of the three Public Entity Members of the Governance Committee.

VIII. Submission of Project Information to the Governance Committee; Project Inspections

Concurrent with Cal-Am's submission of any documents concerning the Project to the CPUC, Cal-Am shall provide a copy of the documents (in paper or electronic form) to the Chair of the Governance Committee. The Chair may notice a meeting on his or her own initiative, or upon the request of any member of the Governance Committee, to review any financial matter addressed by the documents. Cal-Am, upon request of the Chair of the Governance Committee, shall be afforded an opportunity to provide a presentation or any oral explanation relating to the noticed financial matter. Further, upon reasonable advanced, written notice and subject to safety and security concerns and precautions as determined in good faith by Cal-Am, any member(s) of the Governance Committee may inspect any physical facility or structure constructed or being constructed as an element of the Desalination Project, and Cal-Am shall provide an employee, consultant, or other representative, who is knowledgeable of the aspects and elements of the physical facility or structure, to accompany the member(s) of the Governance Committee during the inspection.

IX. Term and Termination of Agreement

This Agreement shall continue in effect until the earlier of (1) the date that is forty (40) years after the effective date of this Agreement (March 8, 2053), or (2) the date that Cal-Am ceases to operate the Desalination Project, the earlier such date to be known as the "Expiration Date." Further, this Agreement may be terminated, prior to the Expiration Date, as follows: (1) by Cal-Am, following the issuance of an order from the CPUC ordering Cal-Am not to participate in this Agreement, as provided for in Section I above; (2) by Cal-Am, if the CPUC denies or rescinds Application A.12-04-019 or denies Cal-Am's development of, or subsequently rescinds Cal-Am's authority to develop, the Desalination Project; or (3) by the written agreement of no less than three of the four members of the Governance Committee. If, on September 8, 2052, the Desalination Project is still being operated by Cal-Am, the Parties shall, within thirty days thereafter, meet and commence negotiations in good faith to seek a renewal of this Agreement, upon mutually acceptable terms, to provide continued public oversight and input concerning the operation, maintenance, repair, modification, and/or replacement of the Desalination Project after the Expiration Date. If this Agreement is terminated by Cal-Am as a result of a CPUC order denying or rescinding Application A.12-04-019 or Cal-Am's authority to develop the Desalination Project, but Cal-Am intends to seek CPUC approval to develop a substitute project to provide water supplies for its Monterey District, then the Parties shall meet and negotiate in good faith to seek agreement, upon mutually acceptable terms, for a substitute agreement to provide public oversight and input concerning the design, permitting, construction, operation, maintenance, repair, modification, and/or replacement of such substitute project.

X. Miscellaneous

A. Further Assurances. The Parties shall execute such further documents and do any and all such further things as may be necessary to implement and carry out the intent of this Agreement.

B. Construction. The provisions of this Agreement shall be liberally construed to effectuate its purposes. The language of this Agreement shall be construed simply according to its plain meaning and shall not be construed for or against any Party, as each Party has participated in the drafting of this Agreement and had the opportunity to have their counsel review it.

C. Choice of Law. This Agreement shall be governed and construed under the laws of the State of California, with venue proper only in Monterey County.

D. Severability. If any term or provision of this Agreement is determined to be illegal, unenforceable, or invalid in whole or in part for any reason, such illegal, unenforceable, or invalid provision or part thereof, shall be stricken from this Agreement, and such provision shall not affect the legality, enforceability, or validity of the remainder of this Agreement. If any provision or part of this Agreement is stricken in accordance with the provisions of this section, then the stricken provision shall be replaced, to the extent possible and as agreed to by the Parties, with a legal, enforceable and valid provision that is as similar in content to the stricken provision as is legally possible.

E. Dispute Resolution. If a dispute arises between two or more of the Parties relating to this Agreement, or the rights and obligations arising therefrom, and if the Parties in dispute are unable to resolve the controversy through informal means, the Parties in dispute may, upon mutual agreement, submit the dispute to mediation, upon terms mutually agreed to by the Parties in dispute. Any Party not in dispute as to the disputed matter shall be afforded an opportunity to participate in the mediation. In addition, if the Parties in dispute are unable to resolve the controversy through mediation, the Parties in dispute may, upon mutual agreement, submit the dispute to binding arbitration, upon terms mutually agreed to by the Parties in dispute. Any Party not in dispute as to the disputed matter may, upon the mutual agreement of the Parties in dispute, be invited to participate in any binding arbitration.

F. Members to Bear their Own Costs. Each Party shall bear its own costs relating to the rights and obligations of each Party arising from this Agreement and its participation in the Governance

Committee and, therefore, no Party shall be entitled to any reimbursement from another Party as a result of any provision of this Agreement.

G. Notices and Communication. Any notice or communication hereunder shall be deemed sufficient if given by one Party to another Party or Parties, as appropriate, in writing and either (1) delivered in person, (2) transmitted by electronic mail and acknowledgment of receipt is made by the receiving Party(ies), (3) deposited in the United States mail in a sealed envelope, certified and with postage and postal charges prepaid, or (4) delivered by a nationally-recognized overnight delivery courier service, and addressed as follows:

If to Cal-Am: California-American Water Company
Attn: Robert MacLean
President
1033 B Avenue, Suite 200
Coronado, CA 92118
Email: robert.maclean@amwater.com

with a copy to: California-American Water Company
Attn: Anthony Cerasuolo
Vice President - Legal
1033 B Avenue, Suite 200
Coronado, CA 92118
Email: acerasuolo@amwater.com

If to the MPRWA: Monterey Peninsula Regional Water Authority
Attn: Lesley Milton
Clerk
City of Monterey
351 Madison St. Monterey, CA 93940
milton@monterey.org

with copies to: Monterey Peninsula Regional Water Authority
Attn: Donald Freeman
General Counsel
West Side of San Carlos & 8th
P.O. Box 805
Carmel, CA 93921
cityatty@ix.netcom.com

Monterey Peninsula Regional Water Authority
Attn: Russell McGlothlin
Special Counsel
21 E. Carrillo St.,
Santa Barbara, CA 93101
rmcglathlin@bhfs.com

If to the MPWMD: Monterey Peninsula Water Management District
Attn: David J. Stoldt
General Manager
5 Harris Court – Bldg G
Monterey, CA 93940
Email: dstoldt@mpwmd.net

with a copy to: Monterey Peninsula Water Management District
Attn: David C. Laredo

General Counsel
5 Harris Court – Bldg G
Monterey, CA 93940
dave@laredolaw.net

If to the County: County of Monterey Board of Supervisors
C/O Clerk of the Board of Supervisors
168 West Alisal Street
1st Floor
Salinas, CA, 93901
112-clerkoftheboardeveryone@co.monterey.ca.us

with a copy to: Monterey County Counsel
Attn: Charles J. McKee
168 West Alisal Street
3rd Floor
Salinas, CA 93901
mckeejc@co.monterey.ca.us

or to such other address or to such other person as each Party shall have last designated for receipt of notices pursuant to this Agreement. Where this Agreement provides for written notices or communication from Cal-Am to the Governance Committee, such written notice, explanation, or communication shall be directed to the Chair of the Governance Committee at the address set forth above for notices to the public entity from which the Chair is appointed, and when provided shall be deemed provided to all Public Entity Members of the Governance Committee. The effective date of any written notice, explanation, or communication shall be the earlier of the date of actual receipt, acknowledgment of receipt, or three days following deposit in the United States mail.

H. Successors and Assigns. This Agreement shall be binding on and shall inure to the benefit of the Parties and their respective legal representatives, successors, and assigns.

I. No Third Party Rights. Nothing in this Agreement, whether express or implied, is intended to confer any rights or remedies under or by reason of this Agreement on any persons other than the Parties to this Agreement and their respective successors and assigns, nor shall any provision in this Agreement give any third persons any right of subrogation or action over or against any Party to this Agreement.

J. Signatures - Counterparts. This Agreement may be executed in two or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. The Parties authorize each other to detach and combine original signature pages and consolidate them into a single identical original. Any of such completely executed counterparts shall be sufficient proof of this Agreement.

K. Effective Date. This Agreement shall take effect on date first stated above.

IN WITNESS WHEREOF, the Parties have executed this Agreement as of the date first stated above.

[signature page follows]

California-American Water Company

By: Robert MacLean
Robert MacLean,
President

Monterey Peninsula Regional Water Authority

By: _____
Chuck Della Sala
President

Agreed as to form:

By: _____
Donald Freeman
General Counsel

Monterey Peninsula Water Management District

By: _____
David Pendergrass
Chair

Agreed as to form:

By: _____
David Laredo
General Counsel

County of Monterey

By: Fernando Armenta
Fernando Armenta
Chair of the Board of Supervisors

Agreed as to form:

By: Charles McKee
Charles McKee
County Counsel

California-American Water Company

By: Robert MacLean
Robert MacLean,
President

Monterey Peninsula Regional Water Authority

By: Chuck Della Sala
Chuck Della Sala
President

Agreed as to form:

By: Donald Freeman
Donald Freeman
General Counsel

Monterey Peninsula Water Management District

By: _____
David Pendergrass
Chair

Agreed as to form:

By: _____
David Laredo
General Counsel

County of Monterey

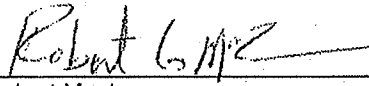
By: _____
Fernando Armenta
Chair of the Board of Supervisors

Agreed as to form:

By: _____
Charles McKee
County Counsel

Execution Copy – March 8, 2013

California-American Water Company

By: 
Robert MacLean,
President

Monterey Peninsula Regional Water Authority

By: _____
Chuck Della Sala
President

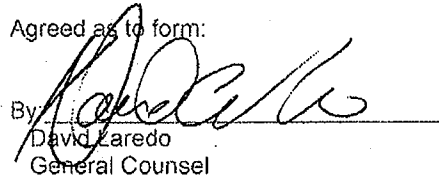
Agreed as to form:

By: _____
Donald Freeman
General Counsel

Monterey Peninsula Water Management District

By: 
David Pendergrass
Chair

Agreed as to form:

By: 
David Laredo
General Counsel

County of Monterey

By: _____
Fernando Armenta
Chair of the Board of Supervisors

Agreed as to form:

By: _____
Charles McKee
County Counsel