



## EXHIBIT 16-B

### MONTEREY PENINSULA WATER MANAGEMENT DISTRICT

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July 7, 2009

Craig Anthony, General Manager  
California American Water  
PO Box 951  
Monterey, CA 93942-0951

**Subject: Hidden Hills Unit of California American Water Distribution System –  
Notice of Violation of District Rule 40-D and Suspension of Receipt of  
Applications For New or Intensified Water Use**

Dear Mr. Anthony:

This letter is a follow-up to my letter dated March 20, 2009 regarding the Hidden Hills system and the Board hearing dated May 21, 2009 regarding appeals of my decision that the Pro Rata Expansion Capacity (PREC) for the Hidden Hills system had been exceeded and, as a consequence, receipt of applications for new or intensified water use was suspended, effective March 20, 2009. In my March 20, 2009 letter, I noted that California American Water (Cal-Am), as owner and operator of the Hidden Hills system, is required to prepare and implement a plan to bring the system back into balance. To date, the District has not received any information from Cal-Am regarding its plan to bring the Hidden Hills system back into balance, e.g., to reduce the current amount of average annual amount of production needed to meet the current average annual demand of each Hidden Hills system connection, i.e., 0.521 acre-feet per year per connection as described in March 20, 2009 letter, to less than or equal to the permitted PREC value of 0.482 acre-feet of production per connection for the Hidden Hills system. Please let the District know in writing when Cal-Am will provide its plan to bring the Hidden Hill system into balance so that all permitted connections will receive water service.

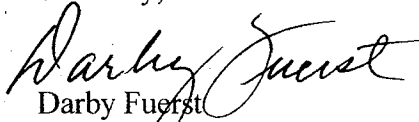
To assist you, District staff has developed a "Solutions Matrix" that lists possible means to address the three appeals of my decision that were received and that would be consistent with District rules and regulations. This matrix is enclosed and includes physical and regulatory actions. The matrix also includes information regarding the process and timing for implementing each action. District staff is available to discuss the matrix with you and your staff.

Lastly, please note that the District Board's hearing to consider Cal-Am's appeal of my decision was continued and will be considered at the Board's July 20, 2009 meeting. Any information that you wish to provide in advance should be submitted to the District's Water Demand Manager, Stephanie Pintar, no later than Tuesday, July 14, 2009.

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Thank you for your cooperation in this matter.

Sincerely,

  
Darby Fuerst  
General Manager

Enclosures:

1. Hidden Hills PREC Solutions Matrix, dated July 7, 2009

Cc: MPWMD Directors  
Henrietta Stern, Project Manager  
Stephanie Pintar, WDD Manager  
David C. Laredo, General Counsel  
Lloyd Lowery, HHSRA Counsel

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**HIDDEN HILLS PREC SOLUTIONS MATRIX**  
**Possible Means to Address Appeals and Be Consistent with MPWMD Rules & Regulations**  
**July 7, 2009**

ACTION	PROCESS	TIMING	NOTES
<b>PHYSICAL</b>			
1. CAW reduces unaccounted for water (UAW) use to meet CPUC and MPWMD standards.	CAW can act at any time, but will likely request assurance of CPUC reimbursement for costs. MPWMD could require action based on water waste ordinance.	Uncertain—depends on CAW action. MPWMD water waste action could be within 1-2 months.	MPWMD standard for UAW use is 7%. Industry standard in CPUC order is 10%. Allowed standard in current CPUC rate case is 13.8%. Actual UAW use is 14.2% for WY 2008. Strongly recommend full CAW system audit, and replacement of all substandard pipelines in the system. Consider public-private partnership and other creative funding mechanisms to fix leaks rather than wait for 2012 CPUC rate case.
2. Merge Hidden Hills with other Hwy 68 Systems (Ryan Ranch and/or Bishop).	CAW must apply to amend WDS permit; CEQA review needed (may not be exempt); public hearing.	6-9 months for CEQA and permit on fast track	Goal is greater flexibility and treatment of three Hwy 68 systems as one unit, consistent with adjudication. Adjudication directive toward zero use for Hwy 68 systems is a formidable issue.
3. Permanent intertie of Hidden Hills to "main system" (Carmel River + Seaside Coastal).	CAW must apply to amend WDS permit; CEQA review needed (would not be exempt); public hearing.	1+ year due to environmental review	Significant environmental issues re: use of Carmel River, cumulative effects. Potential concerns re: main system customers subsidizing perceived excessive use in Hidden Hills due to large homes and extensive landscaping.
<b>REGULATORY</b>			
4. Increase Production Limit to increase baseline PREC.	CAW must apply to amend WDS permit; CEQA review (not exempt); public hearing.	6-9 months for CEQA and permit on fast track	Rule 22 requires denial if action will create or exacerbate an existing overdraft. Adjudication orders eventual reduction of CAW supply to zero for Hwy 68 systems. Changing PREC to match Bishop system's number (suggested at hearing) is not supportable because each system had an EIR or other assessment to support the original system limits. Questionable feasibility.
5. Decrease Connection Limit to increase baseline PREC.	Same as above.	4-9 months, depending on CEQA	Need careful assessment of CAW connection data; how tabulated; why does monthly number vary so greatly? Must assess how many vacant lots remaining. See also #4 above.
6. Reduce consumer demand, including County enforcement of its existing landscape restrictions and/or new, strict MPWMD outdoor water use rules.	Current and near-term rate changes, incentives, education to reduce consumer use. Work with County to enforce their landscape restrictions. MPWMD rule changes would require ordinance process and CEQA.	Education can begin immediately; County timing uncertain; at least 4 months for new MPWMD rules.	Requires coordination and cooperation with MPWMD, Monterey County, CAW and CPUC. Uncertain commitment by County to revise/enforce its regulations. MPWMD could adopt strict outdoor water use rules, but this would only impact new construction. Explore options under "water emergency."

**HIDDEN HILLS PREC SOLUTIONS MATRIX**  
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<b>7. County limits future home size in Hidden Hills to match PREC.</b>	Request County to limit number of fixtures and size of home to match PREC average for any new approval.	Uncertain – new County ordinance?	This entails action by Monterey County to limit fixtures and landscaping in any new home approved to meet PREC average. Such restrictions are in place for new subdivisions, but have not been applied to an already approved subdivision nearing buildout.
<b>8. MPWMD allows only certain projects in progress to go forward – continue moratorium.</b>	Board directive to keep moratorium, but allow projects that have achieved specified milestones to move forward.	Immediate action by Board	Must decide how far along in County process to set cutoff and what date. Assess water use for projects already permitted but not built, plus those in progress. Compare to anticipated use in WY 2009 to see if adverse risk of exceeding production limit. Assess water use data for WY 2009 through May (115 AF) and projected likely use for June-September (e.g., 98 AF for WY 2008). If total is reasonably below 229.9 AFY (it is 213 AF in this example), this may be a viable idea. Must have enough cushion to facilitate permitted projects that have yet to be built, and not go over 229.9 AF limit.
<b>9. MPWMD lifts moratorium, but accepts only applications for homes within PREC limit.</b>	Board directive to lift moratorium, but accept new applications only if estimated water use amount is $\leq$ PREC average	Immediate action by Board	See #8 re: assess if below 229.9 AFY for WY 2009. Increases risk of going over limit and automatic shutdown. Include weekly monitoring of all permits and monthly water use in system.
<b>10. MPWMD lift moratorium only if specified action taken by CAW.</b>	Board directive to lift moratorium and specify the action needed.	Immediate action by Board with multi-month timelines for CAW action	Suggest combining #9 and #10, if approved. Action should include required replacement of inadequate pipe. Alternatives are (1) lift moratorium now and re-impose if no timely action, or (2) do not lift until CAW achieves specified milestone first (e.g., contract to replace leaky pipe).
<b>11. Relax PREC analysis triggers.</b>	Board determines not to impose PREC restrictions unless actual PREC value is outside a specified “uncertainly margin” (e.g., $\pm$ 5%)	Requires new ordinance to amend Rule 40-C, D and E, with CEQA review	As an example, if goal PREC is 0.50 AFY/connection, then Rule 40-D enforcement would not occur unless a value of 0.525 AFY is exceeded consistently. This provides “wobble room” to account for errors. However, it also enables greater use than was planned for in baseline EIRs and permits.