

August 13, 2021

NOTE: Some items redacted due to attorney-client privilege

David C. Laredo
District Council
Monterey Peninsula Water Management District
606 Forest Avenue
Pacific Grove, CA 93950

Subject: Scope of Services and Budget for Formal Appraisal and Rate Study

Dear Mr. Laredo:

In accordance with your request, we are providing this supplemental scope and budget to update the formal appraisal of the Monterey Water System, currently owned and operated by California-American Water Company (CAW), and to update the water rate study for this system. Descriptions of our anticipated scope of services and budget estimate for this effort are provided below.

Task 1 - Appraisal

This task consists of finalizing the appraisal of the Monterey Water System, and includes the following subtasks:

- a. *Information Gathering and Review.* Raftelis will gather, review, and evaluate relevant additional information associated with the Monterey Water System that is made available by CAW or the California Public Utilities Commission (CPUC), or through other publicly available sources. As part of information gathering and review effort, we will prepare formal information requests, as appropriate, and work with the District to obtain access to the Monterey Water System facilities in order to complete a visual system inspection.
- b. *Appraisal Update.* Based on the additional information gathered and reviewed, Raftelis will prepare an appraisal of the system as of an updated specified date. The analysis will include completing refinements to our prior valuation analysis. We have assumed that the District will also secure an updated real estate appraisal of real estate associated with the Monterey Water System which was previously provided to the District. We will incorporate the real estate appraiser's updated valuation results into our analysis.
- c. *Appraisal Report.* Raftelis will prepare an appraisal report consistent with the Uniform Standards of Professional Appraisal Practice (USPAP) and other industry guidelines.
- a. *Meetings.* Raftelis will participate in meetings with the District and the District's deal team. We have assumed participating in two meetings in Monterey, one associated with

the system facilities inspection, and another to discuss the appraisal report and the bona fide offer. We have assumed other meetings will be held via teleconference on an as-needed basis.

- d. *Bona Fide Offer Assistance.* Raftelis will assist the District in preparing a bona fide offer for the Monterey Water System, including consideration of which regulatory assets and asset additions should be included in the offer.

Task 2 – Water Rate Study

This task consists of completing an updated water rate study to (1) identify and evaluate water rate alternatives that would be allowed under California Proposition 218, and (2) forecast water rates under the alternatives for comparison with CAW’s existing water rates as established in its most recent General Rate Case. Completion of this task assumes the receipt of detailed customer information from CAW. Specifically, this task will entail the following:

- b. *Information Gathering and Review:* Raftelis will prepare a data request to gather additional water consumption and cost data that may be available from CAW or the CPUC as part of the ongoing rate case. Upon receipt of this additional information, we will review, analyze and incorporate it into the water rate projections, as described below.
- c. *Financial Plan:* Raftelis will update the “cost of service” analysis that was completed for the District previously to show the cost differential between public and private ownership, reconfirm the inputs and assumptions based on any additional information that is made available, and then identify the forecasted yearly revenue needs to cover O&M, capital improvements, reserves and debt service payments related to the acquisition of the Monterey Water System that will be used in the water rate calculations. In completing the financial plan, we will rely upon operating and capital cost estimates prepared by the District’s other consultants (e.g., Close & Associates and Jacobs).
- d. *Cost of Service Analysis:* We will complete a revised preliminary customer class level cost of service analysis, which will provide the cost-rate nexus needed to meet Proposition 218 requirements, including for tiered water rates. [REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]
- e. *Rate Design:* We will prepare water rate structure alternatives that meet Proposition 218 requirements for District review. Based on input from the District and data availability, we will complete a rate analysis for approximately two rate structure alternatives. [REDACTED]
[REDACTED]
[REDACTED]

[REDACTED]

[REDACTED] In the case of limited customer consumption data, we will rely upon our professional experience and typical industry customer peaking factors to complete the preliminary rate design.

- f. Residential Water Bill Comparisons. We will compare the proposed water rate structure options to current water rates under CAW ownership if CAW leaves the steep tiers in place, or if CAW implements the proposed tiered rate structure. We will also prepare a rate comparison of the current CAW rates and proposed District rates with the rates of nearby water agencies.
- g. [REDACTED]
- h. Rate Study Report. We will prepare a formal rate study report that summarizes rate study results. Draft and final versions of the report will be prepared.
- i. Meetings. We have assumed two meetings under this task. Once we have all or most of the data and have reviewed it, we will schedule a meeting with the District to discuss the financial plan assumptions, potential rate structures, and data gaps. This meeting will be held in parallel with a system facility inspection. The second meeting will be held to discuss the draft rate study results held with the District once the financial plan and rate structure is substantially complete. The purpose of this meeting is to review the financial plan and draft rates with the District. We have assumed other meetings will be held via teleconference on an as-needed basis.

Budget and Schedule

Raftelis proposes to complete this scope of services on a time-and-expense basis for a not-to-exceed amount of \$226,475 in accordance with our standard 2021 billing rates. We anticipate completing this scope of services on or about March of 2022.

Thank you for the opportunity to continue to provide support to the District regarding this important effort. If you have any questions or need any additional information, please do not hesitate to contact either John or me.

Sincerely,



William Stannard, PE
Chairman



John M. Mastracchio, CFA
Vice President