

Staff Recommendation

Outline of Comments on Proposed Decision for Oral Argument

California Public Utilities Commission

August 22, 2018

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1. The Legislature created MPWMD in 1977 to “conserve and augment supplies by integrated management of ground and surface water, to control and conserve storm and wastewater, and to promote reuse and reclamation of water.” This Commission, in Decision No. 89195 (1978) stated the District is “the appropriate public agency to be concerned with such matters as the solution to the development of a supplemental long-term water supply if needed, and administration of water rationing programs in the event of future droughts.” The Commission reinforced this view in Decision No. 0902006 (2009) stating “we recognize MPWMD is charged by legislative statute with the responsibility to manage and conserve the water resources within the Monterey Peninsula Water Resource System.”
2. The District’s board supports issuance of the CPCN for a 6.4 MGD desalination facility
3. The District applauds the Commission’s commitment and patience through this process over more than 6 years.
4. The District supports the Commission’s effort to balance ratepayer and shareholder risk , especially relating to actual future cost and performance versus representations made in testimony and supporting evidence.
5. Importantly, however, the Proposed Decision (PD) missed three key areas of risk apportionment, two not addressed in the PD and one lacking sufficient specificity. Our written comments will address these concerns, but I highlight them here.
6. Events following issuance of the CPCN that may cause delay and the inability of Cal-Am to timely complete the project and thereby miss a State Water Board milestone. The District urges the Commission to retain jurisdiction so it can reopen the application and/or immediately issue an order instituting an investigation into alternative interim water supply projects, or otherwise keep Application 12-04-019 open until December 31, 2018, unless extended, to assess near-term challenges (if any) to successful execution of the CPCN and to consider interim alternative projects, if necessary.
7. In several years of project operations, a situation could arise that demonstrates physical harm to another aquifer volume, groundwater levels, or production from an active supply well. The PD identifies potential future physical harm via the Mitigation Monitoring and

Reporting Program (MMRP) in Appendix D to the PD but fails to fully address or mitigate this risk. Mitigation in the MMRP provides "...facilitating an interim or long-term replacement of water supply, constructing a new well, or compensating the owner for increased pumping costs. Any interim or long-term replacement water supply shall be of the same or better quality..." The District believes the CPCN should require the full cost of this mitigation be determined as a shareholder risk.

8. Statements in the PD signal a portion of the cost of the facility may be removed from ratebase if the facility "operates below production capacity levels" in Order paragraph 31, "fails to operate appropriately" in Order paragraph 34, or "operate at an appropriate capacity to minimize costs to ratepayers" in Order paragraph 35. The District is concerned this standard is ambiguous and lacks definition. Further, Cal-Am must not be incentivized to operate the desalination plant at the expense of less costly supply sources such as Seaside groundwater, the Carmel River and Pure Water Monterey.
9. As written, the PD attempts to protect ratepayers from inappropriate financial risk. The PD, unfortunately, lacks sufficient assurances to the ratepayers and community at large this proceeding will produce an adequate supply of real water. We urge modification of the PD to assure these goals will be met.
10. Thank you for the opportunity to provide oral argument. Our written comments will expand on these issues and may touch on additional topics.