

1. Implement Approved Conservation Measures

The Company will continue to recommend and implement all conservation measures approved by the California Public Utilities Commission [CPUC]. As a regulated public utility, the Company does not have the authority to unilaterally impose new rate structures or other conservation measures, but must obtain approval from the CPUC. The Company has proceedings currently pending before the CPUC to approve additional and more stringent conservation measures. In addition to these current efforts, the Company will work with State Water Resources Control Board [State Water Board] Division of Water Rights, the State Water Board's prosecution team, outside consultants, and other industry experts to identify additional feasible conservation measures that could be recommended to the CPUC for approval.

We note that, unlike the Draft Cease and Desist Order [DCDO], we are not proposing specific reductions in water appropriation based on conservation. This is because the Company cannot control the willingness of the individual customer in Monterey to maximize the conservation measures implemented by the Company. Hence, the Company can agree to implement CPUC-approved conservation measures, but the Company cannot guarantee a specific reduction in water consumption.

2. Acquire Water From All Reasonably-Priced Alternative Water Supplies

The Company has always sought additional sources of water. A number of alternative sources of water have recently been made available to the Company.

Prior to the issuance of the DCDO – and as evidence of our diligent pursuit of each of the three options for complying with Condition No. 2 of Order 95-10 – the Company has already entered into an operating lease with the City of Sand City to operate their desalination facility. This will result in an immediate 300 acre-feet per annum [afa] increase in water supplies. These supplies will dwindle over the next twenty years but the bulk of that supply will be available as temporary offsets to existing system demand while the Coastal Water Project is being permitted and constructed. Another project previously implemented is the ASR Phase I project. That project, on average, will reduce the Company's unpermitted diversions from the Carmel River by 900 afa. In addition, after discussions with the State Water Board Division of Water Rights in December regarding the level of work to process the Table 13 applications, the Company has been working diligently on perfecting those rights – totaling 2,894 afa – and is on track to deliver a revised application in Spring 2008.

In addition, the Company has also discussed reactivating the Marina Coast Water District's [MCWD] desalination facility that would produce up to an additional 300 afa, and the Company has been negotiating with other water rights holders to temporarily acquire additional supplies that could exceed 3,000 afa of water. Those discussions continue.

California American
Water
303 H Street
Suite 250
Chula Vista, CA 91
T 619.409.7703
F 619.409.7701
Kent.turner@amwater.com