

**SELECTED PROVISIONS FROM
WATER PURCHASE AGREEMENT FOR
PURE WATER MONTEREY PROJECT**

THIS WATER PURCHASE AGREEMENT is made this ____ day of _____, 2015 (“Agreement”) by and between California-American Water Company, a California corporation, hereinafter referred to as the “Company,” Monterey Regional Water Pollution Control Agency, hereinafter referred to as the “Agency,” and Monterey Peninsula Water Management District, hereinafter referred to as the “District.” Collectively, the Company, the Agency, and the District are hereinafter referred to as the “Parties.”

RECITALS

- A. The Company has a statutory duty to serve water in certain cities on the Monterey Peninsula and in a portion of Monterey County for the boundaries of which are described in **Exhibit A** attached hereto and incorporated herein, which area is hereinafter referred to as the “Service Area.”
- B. The Company has been ordered by the State Water Resources Control Board in orders 95-10 and WR 2009-0060 to find alternatives to the Carmel River to fulfill its duty to serve, and the Company has applied to the California Public Utilities Commission (“CPUC”) for an order seeking a Certificate of Public Convenience and Necessity for the construction of water supply facilities and authorizing the recovery of the costs for such construction in rates.
- C. The Agency will be responsible for the design, construction, operation, and ownership of facilities for the production and delivery of advanced treated recycled water, such facilities known as the Pure Water Monterey groundwater replenishment project, hereinafter referred to as the “Project,” and additionally described in **Exhibit B** attached hereto and incorporated herein.
- D. The District will buy advanced treated recycled water from the Agency for purpose of securing the financing of and paying the operations costs of the Project. The District will sell the advanced treated recycled water to the Company subject to the terms of this Agreement.
- E. The Company desires to buy advanced treated recycled water from the District for the purpose of fulfilling its duty to serve its customers within the Service Area and the District is

willing to sell advanced treated recycled water to the Company for this purpose on the terms and conditions provided for herein.

NOW, THEREFORE, the Parties agree as follows:

1. Purpose of Agreement.

The purpose of this Agreement is to provide for the sale of advanced treated recycled water from the Agency to the District and from the District to the Company derived from the Pure Water Monterey groundwater replenishment project owned and operated by the Agency, and to serve the Company's customers within the Service Area. The Parties confirm that this Agreement constitutes a contractual right to purchase advanced treated recycled water and that no water right is conferred to the Company.

2. Definitions

“Drought Reserve” means the cumulative amount of Project Water provided at the point of delivery in a Calendar Year in excess of the Project Allotment, and which is not the Operating Reserve, that would be available to provide part of a subsequent year Project Allotment during a Calendar Year when the Monterey County Water Resources Agency requests additional irrigation water from Agency sources.

“Operating Reserve” means the Project Water provided at the point of delivery in excess of the Project Allotment, and which is not the Drought Reserve, that would be available to provide part of a subsequent year Project Allotment during an interruption in Project operations.

3. Water Deliveries.

The amounts, times, and rates of delivery of water to the Company during any Calendar Year shall be in accordance with operations as determined by the Agency.

- (a) Upon initial operation of the Project, the first 1,000 acre-feet of Project Water delivered shall be designated as Operating Reserve and not available for the immediate use of the Company. The Project Allotment for the first Fiscal Year will be reduced by delivery to the Operating Reserve. If after delivery to the Operating Reserve, the remaining Fiscal Year is a partial Fiscal Year, the Project Allotment will be reduced pro rata.
- (b) In each subsequent Fiscal Year, Project Water delivered up to the Project Allotment shall be delivered before and deliveries to reserves and immediately available for use by the Company.

- (c) In a Fiscal Year, once the Project Allotment has been delivered, the District may deliver additional Project Water for injection and storage as the Drought Reserve or Operating Reserve, but not for immediate use by the Company. The District will designate the amounts to be allocated to the Drought Reserve or the Operating Reserve.
- (d) Under certain conditions, the Monterey County Water Resources Agency may request additional irrigation water from Agency sources. When such a request is made, the District may make available to the Company Project Water from the Drought Reserve in order to satisfy the Project Allotment. In no instance shall the Agency reduce Project Water deliveries to make available additional irrigation water to the Monterey County Water Resources Agency from its sources in an amount exceeding the balance available in the Drought Reserve. Only the District, with Agency consent, shall determine how much of the Project Allotment is to be comprised of releases from the Drought Reserve in a Fiscal Year.
- (e) During an interruption in Project operations, the District may make available to the Company Project Water from the Operating Reserve in order to satisfy the Project Allotment. Only the District, with Agency consent, shall determine how much of the Project Allotment is to be comprised of releases from the Operating Reserve in a Fiscal Year.
- (f) In no event shall the Company withdraw more Project Water than has been delivered.
- (g) Failure of the District to deliver to the Company the Project Allotment in a Fiscal Year shall be an event of default subject to remedies as described in Section 20.

4. Rate of Payment for Project Water.

For Project Water furnished to the Company under this Agreement, the Company shall pay Project Water Payments to the District on a monthly basis the costs allocable to the portion of the Project Allotment delivered the previous month. The Company shall not pay for deliveries to the Operating Reserve and the Drought Reserve until such reserves are designated by the District as a portion of the Project Allotment in a month.

Estimated Fixed Project Costs and Project Operation and Maintenance Expenses for the first year of project operation are attached as **Exhibit D**.

The Company shall have the right, at its cost, to have an independent engineering firm review the estimated costs contained in **Exhibit D**.

The rate of payment for Project Water shall be \$_____ per acre-foot and is computed as the sum of Fixed Project Costs and Project Operating and Maintenance Expenses as shown in Exhibit D divided by 3,500 acre-feet.

The rate of payment shall be adjusted each year by the escalation in Project Operating and Maintenance Expenses in that year.

If the actual aggregate of the Fixed Project Costs and Project Operation and Maintenance Expenses will exceed the total estimated costs set forth in the CPUC Decision, the Company shall seek CPUC approval for costs in excess of those authorized. If the actual aggregate of Fixed Project Costs and Project Operation and Maintenance Expense are less than the total estimated costs set forth, the rate of payment shall be reduced accordingly. The Company shall have no obligation to make Project Water Payments in excess of the amount set forth in the CPUC Decision unless and until the CPUC approves payment and recovery of those payments in rates.

The District covenants and agrees to pay to the Agency the revenues received from the Company from the Project Water Payments, provided however it will reduce the payment amount by any portion of the Fixed Project Costs and Project Operating Expenses paid directly by the District.

5. Time and Method of Payments.

The District shall send the Company a monthly statement of charges due for all Project Water actually delivered to meet the Project Allotment during the preceding month as measured by the Agency meters, as described in Section 10, which shall be read on a monthly basis. The Company shall pay all complete and unchallenged statements within forty-five (45) days after receipt. Statements shall be mailed to the Company at the following address:

California American Water Company
Director of Operations
511 Forest Lodge Rd # 100
Pacific Grove, CA 93950

The Company shall not be billed for Project Water delivered, but determined by the District and Agency to be deliveries to the Drought Reserve or Operating Reserve. The Company will be billed for amounts taken from the Drought Reserve and/or Operating Reserve as determined by the District pursuant to Section 11. The monthly statement shall identify amounts allocable to the Project Allotment, to/from the Drought Reserve, and to/from the Operating Reserve.