

TESTIMONY OF B. KENT TURNER
before the
STATE WATER RESOURCES CONTROL BOARD
STATE OF CALIFORNIA
in the
HEARING ON PETITION TO ADD POINTS OF DIVERSION AND PLACE OF
STORAGE UNDER PERMITS 7130B AND 20808
(APPLICATIONS 11674B AND 27614)

PHASE I ASR PROJECT
CARMEL RIVER IN MONTEREY COUNTY

September 14, 2007

I. Introduction

My name is B. Kent Turner. I am President of California American Water. I am responsible for maintaining our California regulated water and wastewater utilities' financial health; enhancing the operating efficiency and reliability of the business; and assuring that all functions (e.g., planning, engineering, construction, production, distribution, customer service, accounting, regulatory and human resources) are carried out in compliance with all local, state and federal laws and standards of good business practice.

I have over 30 years of water industry experience. I have been with American Water since 1999, most recently serving as Vice President of Business Development for the Western Region, which encompasses California, Arizona, Hawaii, New Mexico and Texas. From 2000-2004, I also served as Vice President, Treasurer and Chief Financial Officer (CFO) of the Western Region, where I was responsible for all accounting, finance, customer service and information systems functions. Before joining American Water, I held various positions over a 20-year period at Continental Water Companies, prior to that company's 1999 merger with American Water. My Statement of Qualifications is attached to my written testimony as CAW Exhibit 1A.

California American Water is a California corporation authorized to conduct business within the State of California. It is a wholly owned subsidiary of American Water Works Company, Inc. California American Water has been issued a Certificate of Public Convenience and Necessity by the California Public Utilities Commission to operate as a privately owned Class A regulated water and wastewater utility.

The business of California American Water is that of collecting, treating and distributing water for public and private use and consumption, and for fire protection within the defined service area. California American Water provides water service in the

following California counties: San Diego, Los Angeles, Monterey, Ventura, San Mateo, Santa Cruz, Sonoma, Sacramento, and Placer. California American Water also provides wastewater collection services in various areas of California, including portions of Monterey County. California American Water is the municipal water service provider for most of the Monterey Peninsula, including the Cities of Carmel, Del Rey Oaks, Monterey, Sand City and Seaside. As of 2004, the Monterey District had over 38,000-metered customers.

California American Water's mission is to provide a safe, reliable and affordable water supply to the Monterey Peninsula. To that end, it has been a priority, since my becoming President of California American Water, to work cooperatively with the Monterey Peninsula Water Management District (MPWMD) in aggressively addressing the water supply issues that have beset the Monterey Peninsula for over a decade.

II. Monterey Peninsula Water Supply Shortages and Limitations

California American Water's sources of supply on the Monterey Peninsula are the Carmel River and the Seaside groundwater basin. Significant restrictions have been imposed on California American Water's use of water from both sources.

A. WR Order 95-10

The first set of restrictions came as a result of the State Water Resources Control Board's (SWRCB) issuance of Order 95-10. The SWRCB determined that California American Water held the right to appropriate 3,376 acre-feet per year from the river; however, California American Water had been diverting over 14,000 acre-feet per year to provide potable water to the local population and serve fire protection needs. Order 95-10 limited California American Water's total appropriations from the Carmel River to 14,106 acre-feet per year, and also imposed mandatory conservation measures. Order 95-10 further requires California American Water to maximize production from the Seaside groundwater basin, and either: (a) perfect entitlements to water from the Carmel River; or (b) secure water from another source. This ASR project is among California American Water's efforts, in collaboration with the MPWMD, to perfect rights to water from the Carmel River consistent with the SWRCB's directive.

B. Seaside Groundwater Basin Adjudication

Additional restrictions on California American Water's water supply resulted from the 2006 Seaside groundwater adjudication. While Order 95-10 requires California American Water to maximize production from the Seaside groundwater basin, the Monterey County Superior Court limited the amount of water that could be produced from the basin. In its order, the court found that the natural safe yield of the Seaside Basin is between 2,581 and 2,913 acre-feet annually (afa). For purposes of determining over-production, however, the court assumed that any extraction, which exceeds 3,000 afa, is over the natural safe yield of the basin.

Prior to the adjudication, annual groundwater production was cumulatively between 5,100 to 6,100 afa. Based upon this historical pumping, the court established a

temporary operating yield for the basin of 5,600 afy. Under the court's order, beginning in 2008 and triennially thereafter, the operating yield is reduced 10% (and accordingly the volume available for production) until the operating yield is reduced to the natural safe yield. The reductions in the permissible groundwater production over time are shown in CAW Exhibit 1B.

CAW Exhibit 1B reflects the court's order by showing that overlying groundwater users (Alternative Production Allocation) are given a priority to pumping before the appropriative water users (Standard Production Allocation). California American Water is by far the largest standard producer in the basin. Therefore, reductions over time in the operating yield will significantly impair California American Water's ability to produce water from the Seaside groundwater basin.

III. Activities to Augment Existing Supplies and Comply with Order 95-10

The permits which are the subject of this hearing were issued to the Monterey Peninsula Water Management District for the direct diversion and diversion into storage at a proposed New Los Padres reservoir. When constructed, the New Los Padres Project was expected to address the deficiencies in California American Water's entitlements under Order 95-10. Since the New Los Padres Project was never built, other alternatives for complying with Order 95-10 are being pursued.

The Coastal Water Project is the name California American Water has given to its effort to implement the so-called "Plan B" identified in the California Public Utilities Commission AB 1142 report issued in August of 2002. This report was generated as required by Assembly Bill 1142, passed by the Legislature in 1998. The report identifies desalination as an alternative long-term solution to the Monterey Peninsula's water supply deficiency. The Coastal Water Project has three components: (i) a desalination operation; (ii) aquifer storage and recovery infrastructure for the Seaside groundwater basin; and (iii) a conveyance system to move water between the desalination operation, the groundwater basin, and California American Water's existing distribution system.

California American Water submitted a document entitled the "Proponent's Preliminary Environmental Assessment" or "PEA" to the Public Utilities Commission (PUC) in July of 2005. This document is required by PUC rules, and it contains the basic information necessary for the PUC to review the environmental effects from the Coastal Water Project.

As of August 20, 2007, the PUC has determined that an environmental impact report will be required for the Coastal Water Project, and has retained an outside consultant to prepare the EIR. A draft EIR is expected sometime in 2008.

IV. Phase 1 ASR

In 2006, California American Water and the MPWMD entered into the Aquifer Storage Recovery Management and Operations Agreement, attached hereto as Exhibit 1C. By this Agreement, California American Water and MPWMD clarified their

respective roles with regard to the operation and ownership of existing facilities for Phase 1 ASR.

Significantly, California American Water and the MPWMD agreed to cooperate in the acquisition of all permits or approvals required for implementation of Phase 1 ASR and to support each other's efforts relating to the development of future ASR. As a result of the ASR Agreement, California American Water is a joint owner of the water rights that are the subject of this Petition for Change along with the Monterey Peninsula Water Management District.

V. Benefits of the ASR Project to California American Water and Local Water Supply

There are several benefits of this ASR project to California American Water and local water supply. First, it represents a small step in the company's efforts to comply with SWRCB Order 95-10. Perfecting existing permits to divert water from the Carmel River is one option for satisfying the requirements of Order 95-10. This would augment California American Water's Coastal Water Project and the joint efforts of California American Water and the MPWMD to perfect additional entitlements necessary to ensure a reliable supply of water for the Monterey Peninsula.

The other primary benefit of this ASR project is that this ASR project can facilitate the balanced management of water for the Monterey Peninsula by capturing high river flows, storing the water in a basin that needs fresh water to combat seawater intrusion, and then allow extraction of the stored water in a manner that balances municipal needs with fishery needs.

Finally, this project inures to the benefit of local ratepayers in that, when the required flows are present on the Carmel River, California American Water will be able to obtain water at a low cost relative to other supply options on the Monterey Peninsula, again allowing balanced management of water supplies throughout the Peninsula to provide water service at lower costs, and with some protection for public trust resources.

VI. Permit Conditions Negotiated with Fisheries Agencies to Protect Public Trust Resources

California American Water, MPWMD, the Department of Fish and Game (DFG), and the National Oceanic and Atmospheric Administration (NOAA) have engaged in negotiations for over two years regarding these applications. Those negotiations have focused on how implementation of the ASR project can serve water supply needs while not harming – and potentially benefiting – public trust resources. The Applicants have tentatively agreed to certain conditions, subject to resolution of the protest.

The first point of agreement between the parties is that the rights granted under this application would be to divert up to 2,426 acre-feet of water per year diverted between December 1 and May 31 of the successive year. By far the most important point of agreement is the requirement for and the quantification of minimum in-stream flows that must exist before diversion can occur.

VII. Conclusion

California American Water supports the Petition submitted by the MPWMD. California American Water has worked cooperatively with the MPWMD, DFG and NOAA to reach a consensus on how the operation of this project can be mutually beneficial to both water supply and fisheries. California American Water requests the State Water Resources Control Board to grant the petition for change subject to the conditions agreed upon by the parties, using the devices within its jurisdiction.