

Senate Bill ____

Monterey Peninsula Water Supply Project Water Rate Relief Bonds

Senator William Monning

SUMMARY

The need for infrastructure to expand sources of water on the Monterey Peninsula has been heightened by the lack of legal water supplies resulting from a State Cease and Desist Order (CDO), the State Water Resources Control Board (SWRCB) Order WR 95-10, the listing of the California red-legged frog and the steelhead trout as threatened species under the federal Endangered Species Act, and the limitations on water from the Seaside Groundwater Basin adjudication. California American Water Company (Cal-Am) has proposed the Monterey Peninsula Water Supply Project, including a sizable desalination facility, to address the need for new supply.

Senate Bill ____ will enable an alternative financing mechanism, "Water Rate Relief Bonds" that will result in lower costs to customers of Cal-Am as compared to traditional utility financing mechanisms. To use alternative financing mechanisms, the Public Utilities Commission must be empowered to issue financing orders to allow the issuance of bonds secured by water supply property.

BACKGROUND

The Monterey Peninsula receives its water supply from surface and sub-surface water in the Carmel River and water in the Seaside Groundwater Basin.

Cal-Am's lawful right to obtain water supplies from the Carmel River was determined in SWRCB Order No. WR 95-10, dated July 6, 1995. The SWRCB found that Cal-Am did not possess the legal right to divert from the Carmel River system in the amount of water historically (and presently) being diverted, ordered Cal-Am to terminate its unpermitted diversions from the Carmel River, to maximize its production from the Seaside Groundwater Basin, and required Cal-Am to diligently pursue a substitute legal water supply.

Subsequently, the SWRCB issued a Cease and Desist Order ("CDO") against Cal-Am in October 2009 as Order

No. WR 2009-0060. The CDO prescribes a series of significant cutbacks to Cal-Am's production from the Carmel River through December 2016. Pursuant to the CDO, Cal-Am's customers are subject to a moratorium on water permits for new construction and remodels, and may be subject to water rationing and/or fines if Cal-Am production limits are exceeded.

Cal-Am's ability to produce water from the Seaside Groundwater Basin also has been limited by the adjudication of the Monterey County Superior Court. The 2006 final judgment imposes a series of pumping reductions designed to limit production of natural basin water.

In order to meet the mandated reductions in water supply, Cal-Am has proposed a desalination plant, plus conveyance and storage facilities that are estimated to cost \$320 to \$400 million.

THIS BILL

This bill would not be a State mandate. It would:

- Allow the California Public Utilities Commission (CPUC) to issue a financing order allowing the use of an alternative financing mechanism "Water Rate Relief Bonds";
- Create ratepayer savings estimated at over \$10 million in year one;
- Create cumulative ratepayer savings of up to \$66 million in net present value (2013 dollars); and
- Apply only to water supply property serving the Monterey Peninsula

PRECEDENTS

SB ____ provides powers similar to those under:

- AB 850 (2013) for Los Angeles Department of Water and Power;
- SB 772 (2004) for Pacific Gas and Electric; and
- AB 1890 (1996) for 4 California investor-owned electric utilities

BILL SPECIFICS

Amends several sections of the California Civil Code to, among other things, facilitate the transfer or assignment of "water supply property" defined under the Public Utilities Code.

Amends the California Public Utilities Code to include the "Monterey Peninsula Water Supply Securitization Act" to create definitions specific to the Monterey Peninsula Water Supply Project and this financing mechanism, to authorize the CPUC to issue financing orders for this purpose, to allow the utility to impose and collect a "water supply charge" for repayment of the financing.

Ensures that neither financing orders nor water rate relief bonds issued under the Act shall constitute a debt or liability of the state or of any political subdivision thereof (except a public financing entity as provided in the Act).

Creates a bankruptcy remote, non-bypassable nature to the water supply charge.

Allows the water supply charge security interest to be transferred.

Allows the Monterey Peninsula Water Management District or other public agency to issue water rate relief bonds including for the purpose of purchasing water rate relief bonds issued by another financing entity pursuant to a financing order.

Ensures that the District will remain in existence for the life of the Water Rate Relief Bonds.

PUBLIC OUTREACH

The Monterey Peninsula Water Management District has made presentations on the proposed legislation and benefits to ratepayers to the following local organizations. Additional presentations are being scheduled. It is expected that letters of support for the legislation will be requested from the organizations.

- Carmel-By-The-Sea – City Council
- Carmel Valley Association
- Coalition of Peninsula Businesses
- Del Rey Oaks – City Council
- League of Women Voters
- City of Monterey – City Council
- Monterey Peninsula Chamber of Commerce
- Monterey County Hospitality Association
- Monterey Commercial Property Owners Association
- Monterey County Association of Realtors
- National Association of the Remodeling Industry (NARI) – Local Chapter
- Pacific Grove – City Council
- Pacific Grove Chamber of Commerce
- Sand City – City Council
- Seaside – City Council

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