

**EXHIBIT "A"**

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

BEFORE THE CALIFORNIA  
STATE WATER RESOURCES CONTROL BOARD

In the Matter of Draft Cease and Desist  
Order No. 2008-00XX-DWR Against  
California American Water Company

**TESTIMONY OF MARK STILWELL  
PEBBLE BEACH COMPANY**

I, Mark Stilwell, provide the following prepared testimony under penalty of perjury in relation to the California State Water Resources Central Board ("State Water Board") hearing, Phase 1, to determine whether to adopt a draft Cease and Desist Order ("CDO") against California American Water ("Cal-Am") regarding its diversion of water from the Carmel River in Monterey County.

**Q1. Please State Your Name And Position.**

1. My name is Mark Stilwell. I am Executive Vice President and General Counsel for Pebble Beach Company.

**Q2. Please Describe Your Responsibilities With Respect To The CAWD/PBCSD Wastewater Reclamation Project.**

2. I am responsible for managing all aspects of Pebble Beach Company's involvement with the Carmel Area Wastewater District ("CAWD")/Pebble Beach Community Services District ("PBCSD") Wastewater Reclamation Project (the "Reclamation Project"). This includes planning, engineering, construction, operation, and financing of the Reclamation Project. I sit as a member of the Management Committee for the Reclamation Project with members of CAWD and the PBCSD, and, as such, am familiar with the issues regarding

1 construction, operation, and maintenance of the Reclamation Project. In as much as Pebble  
2 Beach Company is the guarantor of payment of the certificates of participation issued for the  
3 capital costs of the Reclamation Project, and the guarantor of the operating expense deficiencies  
4 of the Reclamation Project, I am intimately involved and familiar with the financial aspects of  
5 the Reclamation Project.

6 **Q3. Please Describe The Function And Purpose Of The Reclamation Project.**

7 3. The Reclamation Project provides reclaimed water for irrigation of the golf  
8 courses and certain other recreational open spaces located in the unincorporated Del Monte  
9 Forest area of Monterey County. The Reclamation Project was completed in September of 1994  
10 and began delivering reclaimed water at that time for irrigation in lieu of the potable water  
11 previously supplied by Cal Am for irrigation. Since that time, the Reclamation Project has  
12 continuously to the present date delivered reclaimed water to the Del Monte Forest golf courses  
13 and other open spaces for irrigation in lieu of potable water previously used.

14 **Q4. Please Describe How The Reclamation Project Has Performed And What Its  
15 Present And Future Expected Performance Is.**

16 4. The Reclamation Project was originally designed to deliver at least 800 acre feet  
17 of reclaimed water on average annually, freeing up at least 800 acre feet of potable water  
18 annually for other uses and for conservation. On completion of the original Reclamation Project,  
19 however, it was discovered that the salinity of the reclaimed water stressed the golf courses,  
20 requiring periodic flushing of the golf courses with potable water, and further that, because of  
21 unanticipated water conservation, insufficient storage capacity had been designed for the project  
22 to meet peak demand, also requiring supplementation with potable water during peak demand  
23 periods. As a consequence, until 2006, the Reclamation Project supplied an average of 681 acre-  
24 feet of reclaimed water for irrigation annually, and required an average of 287 acre-feet of  
25 potable water supplementation to satisfy all irrigation demand, as shown and calculated in  
26 Exhibit MS-1.

27 5. Starting in water year 2005/2006, however, two improvements were instituted to  
28 address each of these issues of the project performance. First, the Forest Lake Reservoir was

1 completed, providing currently 325 acre feet of reclaimed water storage. This has rectified the  
2 storage problem during peak demand, thereby eliminating approximately half of the potable  
3 water previously required for supplementation during peak demand, as shown in Exhibit MS-1.  
4 Second, improvements to the Carmel Area Wastewater District Treatment Plant are currently  
5 under construction and are scheduled to be completed this year which will reduce the salinity of  
6 the reclaimed water through desalinization facilities. The improvements will eliminate the  
7 salinity problem and the requirement for potable water to flush the golf courses. Once the Forest  
8 Lake Reservoir is filled with desalinized reclaimed water during the winter of 2008/09, the  
9 Reclamation Project is expected to satisfy all of the irrigation needs of the golf courses and open  
10 spaces in Del Monte Forest with no potable water supplementation required, thus conserving an  
11 additional 285+ acre feet of potable water from the amount of potable water deliveries existing  
12 until 2006.

13 **Q5. Please Describe How The Reclamation Project Has Been Funded.**

14 6. The Reclamation Project was made possible only with the guarantee of financing  
15 with private funds. Pebble Beach Company guaranteed \$33.9 million dollars in the capital costs  
16 of the Reclamation Project, and has guaranteed net operating deficiencies of the Reclamation  
17 Project. In return for its financial guarantees, Pebble Beach Company was granted a 365 acre  
18 "Water Entitlement," representing a vested right to potable water granted by the Monterey  
19 Peninsula Water Management District ("MPWMD") for use on lands owned by Pebble Beach  
20 Company, pursuant to the Wastewater Reclamation Project Fiscal Sponsorship Agreement  
21 between MPWMD and Pebble Beach Company dated as of October 3, 1989, included as Exhibit  
22 MS-2. The financing for the Reclamation Project, including Pebble Beach Company's Water  
23 Entitlement, was validated in a judicial action before the Superior Court of California. A copy of  
24 the Judgment of Validation is included as Exhibit MS-3.

25 7. In order to finance the recent improvements to the Reclamation Project (Forest  
26 Lake Reservoir for additional storage and desalination improvements at the Carmel Area  
27 Wastewater District plant, which will collectively cost approximately \$34 million dollars),  
28 Pebble Beach Company was authorized by MPWMD Ordinance to sell to other landowners in

1 Del Monte Forest up to 175 acre feet of its 365 acre feet water entitlement for use by those  
2 landowners. The sale of portions of the water entitlement to these other landowners to date has  
3 totaled approximately 118 acre feet, generating approximately \$24 million dollars of the \$34  
4 million dollar additional cost of the project improvements. The balance of this cost of the second  
5 phase of the Reclamation Project will be advanced by Pebble Beach Company.

6 **Q6. Please Describe How The Reclamation Project Has Helped Conserve Water From**  
7 **The Carmel River.**

8 8. The Reclamation Project has been seen as a substantial, if not the most  
9 significant, contributor to water conservation efforts and the reduction of withdrawals from the  
10 Carmel River system. The State Water Board has recognized this, both in Footnote 2 of Order  
11 95-10, a copy of which is included as Exhibit MS-4, and in the letter dated March 27, 1998, from  
12 Edward Anton, Chief, Division of Water Rights to Darby Fuerst of MPWMD and Larry Foy of  
13 California American Water Company, a copy of which is included as Exhibit MS-5 and provides  
14 further explanation of the Reclamation Project. In recognition of the efforts of the Pebble Beach  
15 Company and the holders of the Water Entitlement, the State Water Board has permitted  
16 withdrawals from the Carmel River to fully serve the Water Entitlement, over and above any  
17 limitations applicable to Cal Am.

18 **Q7. Please Describe Cal-Am's Role In This Conservation Effort.**

19 9. The Reclamation Project was an extraordinarily complex project to put together,  
20 requiring the participation and cooperation of many public agencies and private entities, backed  
21 up complex agreements and commitments. Cal Am was a significant participant in the project,  
22 entering into important agreements and cooperating with the various entities to make the project  
23 a reality, primarily with its commitment to serve the Water Entitlement under the various  
24 agreements among the public agencies and private entities. This cooperation by Cal Am was  
25 important to the realization of the Reclamation Project and its subsequent demonstrated  
26 conservation of potable water and withdrawals from the Carmel River, and in this respect has  
27 been in compliance with and in furtherance of the terms and conditions of Order 95-10 and Cal  
28 Am's obligations there under.

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

I declare under penalty of perjury that the foregoing is true and correct, except as to those matters stated on my information and belief, and as to those matters I believe them to be true.

Executed this 6<sup>th</sup> day of June 2008 at Monterey, California.

Mark Stilwell  
Mark Stilwell