



June 10, 2011

California Department of Water Resources
Division of Integrated Regional Water Management
Financial Assistance Branch
Post Office Box 942836 Sacramento, CA 94236

Attn: Trevor Joseph, Project Manager

SUBJECT: Comments on Department of Water Resources (DWR) Draft Recommendations
Integrated Regional Water Management, Implementation Grant, Round 1
Monterey Peninsula, Carmel Bay, and South Monterey Bay Region Proposal Evaluation

Dear Trevor,

This letter is to comment on the evaluation by DWR of the proposal from the Monterey Peninsula, Carmel Bay, and South Monterey Bay Region for implementing projects with funds from Proposition 84 Integrated Regional Water Management (IRWM) Grant Program, Implementation Grant, Round 1.

I would like to thank you and the DWR staff for taking time to meet this week with representatives of the Region to discuss the evaluation and the rationale for scoring the proposal. Although we understand that DWR evaluates each proposal as a whole, it would be helpful to this Region if DWR could expand on its evaluations in each category to include comments on all projects in the proposal that did not include the details or documentation requested. The review team gave some examples of the deficiencies of certain projects, but we are left to wonder whether projects that are not mentioned in the evaluation met the expected standards or were similarly deficient.

Specific categories of the evaluation that Region representatives have questions about include:

Economic Analysis – Water Supply Costs and Benefits

As noted in the Proposal, the economic analysis of the local value of water was based on documents filed with the California Public Utilities Commission (CPUC) for the Regional Water Supply Project. The \$5,600/acre-foot figure for the cost of desalinated water used in the economic analysis for Project 2 was the figure the PUC deemed as the appropriate capital cost. This amount was reduced to reflect the “most probable” cost of the project, and then increased proportionately to reflect an increase in output capacity of 2,000 AF/yr, resulting in a cost of water equal to \$4,703 per AF. It should be noted that the CPUC decision document describes a range per acre-foot for the Regional Project of \$3,200 to \$8,000. We continue to believe that the economic analysis provided for Project 2 is accurate and

reasonable.

Also, the evaluation describes that “the Region treats up to 25,000 AFY of wastewater annually” and that this could be treated and used in lieu of surface water. The Monterey Regional Water Pollution Control Agency (MRWPCA), which is responsible for treating most of the wastewater in the Region, operates one of the largest recycling plants in the world. Most of the wastewater generated within the Monterey Peninsula Region is sent to the MRWPCA treatment plant and is treated for reuse. Most of the recycled water is contracted to areas in the Greater Monterey County Region for irrigation of farmland and to slow seawater intrusion in the Salinas Valley. The Monterey Peninsula Water Management District (MPWMD) is working with MRWPCA and other local agencies to increase the reuse of the remainder of the wastewater stream; however, the proposed projects and their costs are not well enough developed to substitute their use in an economic analysis.

Most of the remaining wastewater stream in the Region (in Carmel and lower Carmel Valley) is also similarly contracted for and is used for turf irrigation in lieu of using water from the domestic supply system. The Carmel Area Wastewater District (CAWD) expanded its treatment plant twice in the past 20 years at a total cost of about \$65 million in order to supply up to 800 acre-feet per year (AFY) of highly purified water to the Pebble Beach area.

The evaluation describes that transfers of water from agricultural use might be less expensive. There are no significant land areas within the Region that are in traditional agricultural use, although there has been an increase recently in conversions of some upland areas to wine grapes. Outside of the Region, there are two Regions with a large amount of acreage in agricultural use. In the Greater Monterey County Region, Monterey County law prohibits the export of groundwater from the Salinas Valley, which is the nearest area with significant agricultural land use and relies heavily on wells for irrigation. The next nearest area to the Monterey Peninsula Region with significant agricultural water use is the Pajaro Valley, which relies primarily on groundwater for crop irrigation and is an area threatened by seawater intrusion. Although no exhaustive study of the transfer of water from agricultural use has been completed, there appear to be significant constraints to inter-Regional transfers and the amount of intra-Regional agricultural water use is unknown, but not likely to be substantial enough to meet municipal demand.

The evaluation describes that water conservation could play a role. After several decades of actively pursuing water conservation measures, the Region has among the lowest per capita use of water in California (about 68 gallons/day/person in Water Year 2007). MPWMD and California American Water continue to pursue an aggressive water conservation program. But, at this point, the marginal return for each dollar spent on water conservation is diminishing.

The evaluation of Project 7 says that the analysis was inappropriate because water would not be provided from other means in the absence of the project. Currently, the Carmel River lagoon is the focus of several proposals to put water into the lagoon to benefit steelhead habitat. These include a potential project estimated at about \$4 million to treat about one AF/day of reject water from the

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CAWD treatment plant during the dry season and place the water in a nearby wetland for percolation into the lagoon. Other projects being considered include pumping water from nearby wells to the lagoon. The well projects might provide another one to 1.5 AF/day. However, none of the other proposed projects can provide enough water to actually increase the volume of the lagoon (the lagoon loses between four and 20 AF/day through the barrier beach). The only practical source of supply in the foreseeable future that can supply the volume of water that Project 7 can is from the Regional Water Supply Project.

Water Quality and Other Expected Benefits

These types of benefits have, historically, been difficult to quantify and value. However, even though the Project 7 claimed benefits from avoiding take of steelhead were extremely conservative, the evaluation seems to imply that the claimed benefit should have been further reduced (the evaluation stated that smolts are far less valued than adults). We disagree on this last point. Several local, federal, and State agencies appear to value steelhead in the Carmel River quite highly, as the steelhead population in this Region and the environment it depends on is the focus of multiple orders by the State to reduce impacts from use of local water supplies and improve steelhead habitat in the Region.

Work to benefit steelhead and their habitat in the Carmel River includes: 1) local efforts since 1984 by MPWMD to manage existing water sources and protect and enhance habitat (the MPWMD program cost in 2010 was about \$3.8 million); 2) the Regional Water Supply Project (projected cost to ratepayers capped by the CPUC at \$404 million); 3) the removal of San Clemente Dam (estimated at \$83 million by the California Coastal Conservancy); and 4) implementation of several other steelhead enhancement projects in the next seven years through grant funds administered by the California Department of Fish and Game (\$11 million).

Economic Analysis – Flood Damage Reduction

It is unclear whether this category was scored based on a level of benefit provided or the quality of analysis (or both). The evaluation questioned the source of the flood damage benefit estimate due to Project 1. The description of expected flood damage reduction submitted for this project included a discussion of past flood damages in the project area that could be avoided and an estimated cost of those damages was provided by the Monterey County Water Resources Agency, which is the agency responsible for flood control and flood response in unincorporated Monterey County.

Program Preferences

The entire Region, including the DACs within the Region, depends on local supplies. The Region must ramp down its use of Carmel River supplies according to a Cease-and-Desist Order from the State Water Resources Control Board (SWRCB Order WR 2009-0060) and must also ramp down production in the use of the Seaside Groundwater Basin as ordered by the Superior Court (Case No. M66343) (see **Figure 1** attached). In the absence of new water supplies in the very near future (i.e.,

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before 2016) and in order to satisfy these legal mandates, the Region may have to resort to a water rationing program that could impose drastic cutbacks of more than 50% in water use in the Region – including in the DACs. Because the two major local water supplies are managed as a system to meet municipal demand, any project that supplies water to the Region should be viewed as a critical water supply that also applies to the DACs within the Region.

We hope you will consider this information in your final determine of the evaluation for this Region's proposal. If you have questions or comments about this letter, please contact me at (831) 658-5620.

Sincerely,

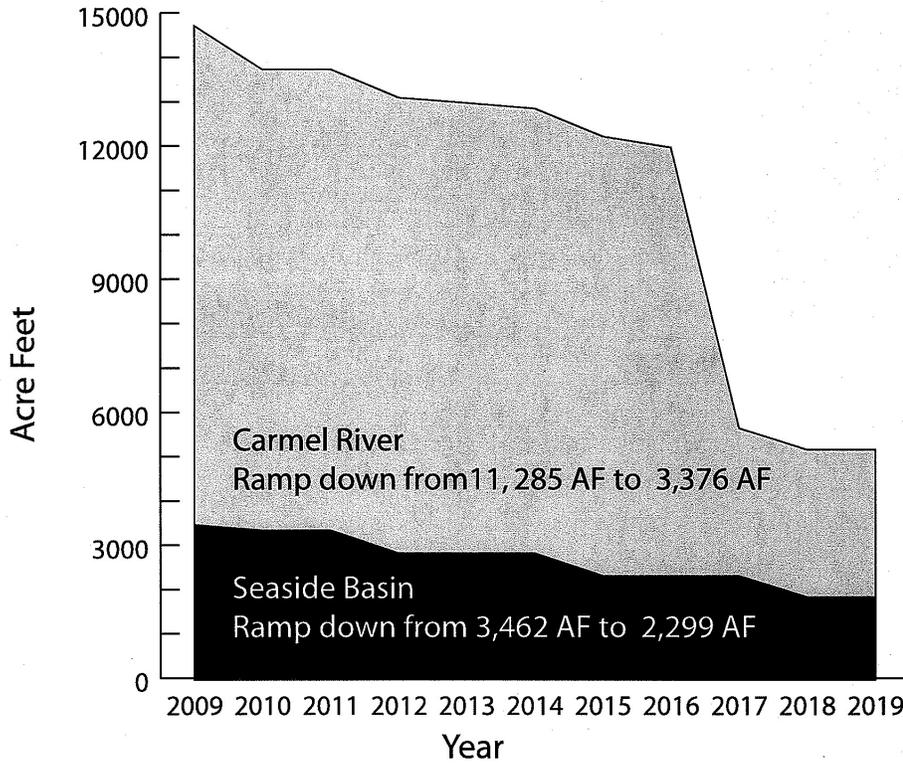
Larry Hampson
District Engineer

Attachments: Figure 1 – Mandated Reductions in Water Supply

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Figure 1

Mandated Reductions in Water Supply



The CDO requires reductions in Carmel River production from 11,285 AF in 2009 to 3,376 AF in 2017. Another court decision requires reductions in Seaside Basin production from 3,462 AF to 2,299 AF over the same time period. Without a new water supply, only 5,675 AF may be available for community use by 2017.

Note: Additional reductions in the ability to produce water from the Seaside Basin for the Cal-Am system may continue beyond the year 2019.