

agreement, is not void. On November 10, 2016, the Supreme Court of California denied MCWD's final appeal of this judgment, which allows further proceedings to determine the amount of damages that may be awarded in the proceeding.

In July 2015, Cal Am and MCWRA filed a Complaint in San Francisco County Superior Court against MCWD and RMC Water and Environment, a private engineering consulting firm ("RMC"), seeking to recover compensatory damages in excess of \$10 million associated with the failure of the RDP, as well as punitive and treble damages, statutory penalties and attorneys' fees. Shortly thereafter, complaints seeking similar damages were filed in the same court by MCWD and RMC against Cal Am and MCWRA in excess of \$19 million in the aggregate. In December 2015, the court consolidated all of these complaints into a single action, which remains pending.

Monterey Peninsula Water Supply Project

The Water Supply Project is intended to reduce water diversions from the Carmel River and involves construction of a desalination plant, owned by Cal Am, and purchase of water by Cal Am from the GWR Project. Cal Am's ability to move forward on the Water Supply Project is subject to extensive administrative review by the CPUC and other government agencies, obtaining necessary permits, and intervention from other parties. On March 17, 2016, the CPUC's Energy Division issued a notice of further schedule delays for the Water Supply Project's environmental review, with environmental certification currently scheduled for completion in November 2017. On January 12, 2017, the CPUC issued a Draft Environmental Impact Report/Environmental Impact Statement.

On September 15, 2016, the CPUC unanimously approved a decision to authorize Cal Am to enter into a water purchase agreement for the GWR Project and to construct a pipeline and pump station facilities and recover up to \$50 million in associated costs, subject to meeting certain criteria. If construction costs exceed \$50 million, Cal Am would be allowed to seek additional cost recovery.

A preliminary step to building the Water Supply Project desalination plant is the construction and operation of a test slant well to confirm the suitability of the property on which intake wells will be located to draw water from under Monterey Bay. In November 2014, the California Coastal Commission (the "Coastal Commission") approved coastal development permits for the test slant well, enabling Cal Am to construct the portion that will be under state lands (beneath the ocean floor). In January 2015, Cal Am obtained from the California State Lands Commission (the "State Lands Commission") a required lease as to the state lands. In October 2015, the Coastal Commission approved an amendment to Cal Am's coastal development permits.

In December 2014, the MCWD and the Ag Land Trust, an agricultural land conservancy, filed petitions against the Coastal Commission and Cal Am, which were ultimately transferred to the Santa Cruz County Superior Court, seeking to vacate the Coastal Commission's approval of the coastal development permit and to permanently restrain Cal Am and the Coastal Commission from constructing the test slant well pending full compliance with the California Environmental Quality Act and the California Coastal Act. The court denied these petitions, and on January 11, 2017, the Supreme Court of California denied MCWD's petition for review of this decision. MCWD filed a similar petition in January 2015 against the State Lands Commission and Cal Am, which remains pending.

In November 2015, MCWD filed a Petition for Writ of Mandate and Complaint for Declaratory and Injunctive Relief in Santa Cruz County Superior Court against the Coastal Commission and Cal Am challenging the amendment of the coastal development permits and seeking an injunction against further test well pumping. On September 15, 2016, the court denied MCWD's petition with respect to all claims, except claims related to those raised in the December 2014 petitions discussed above.

Based on the foregoing, Cal Am estimates that the earliest date by which the Water Supply Project desalination plant could be completed is sometime in 2019. There can be no assurance that Cal Am's application