

**San Lorenzo Valley Water District/California American Water  
Joint News Release on Felton Water System  
May 30, 2008  
Final**

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**SAN LORENZO VALLEY WATER DISTRICT & CALIFORNIA AMERICAN  
WATER AGREE ON FELTON WATER SYSTEM ASSET TRANSFER**

**SANTA CRUZ, CA** – The San Lorenzo Valley Water District (SLVWD) and California American Water have reached a tentative agreement to transfer ownership of the Felton water system to SLVWD. The terms of the stipulated judgment were announced today in Santa Cruz Superior Court, subject to formal approval by the SLVWD Board at its regular June 5 meeting.

Under terms of the agreement, SLVWD will pay \$13.4 million for the operating assets of the water system that serves approximately 1,330 customers in Felton. The payment includes a \$10.5 million cash payment to California American Water and the assumption by the District of \$2.9 million in debt related to the Safe Drinking Water Bond Act used to build the Kirby Street water treatment plant and other facilities.

Additionally, California American Water agreed to donate all non-operating assets of the company to the SLVWD, including 250 acres of watershed land adjacent to Fall Creek State Park. The donation includes a deed restriction, consistent with long-held SLVWD policies, that the timber on the land will not be commercially harvested and that the land will be used for water production, water supply and conservation.

“We are glad to have reached this settlement with California American Water and look forward to adding the community of Felton to our water system,” said James Mueller, SLVWD General Manager. “In July 2005 Felton voters approved an \$11 million ballot initiative known as Measure W to provide funds for this acquisition. We will begin transition activities as soon as possible.”

“Our agreement to the asset transfer is a result of the unique circumstances related to Felton,” said Kent Turner, president of California American Water. “We received premium value to rate base for our operating assets and were able to protect the timberland for future generations. Additionally, Felton was a remote part of our California American Water system and the potential for future growth and business development in the area was limited.”

California American Water officials briefed the employees in the Felton District of the agreement Thursday.

“We are committed to taking care of our employees and we will work closely with them to transition them into employment either with the District, with our company or otherwise,” said Turner. “Our customers can count on the fact that our employees will continue to provide high-quality water and reliable service during the transition to new ownership.”

The trial on valuation was scheduled to begin on June 2.