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**BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA**

In the Matter of the Application of
California-American Water Company (U
210 W) for a Certificate of Public
Convenience and Necessity to Construct
and Operate its Monterey Water Supply
Project to Resolve the Long-Term Water
Supply Deficit in its Monterey District and
to Recover All Present and Future Costs in
Connection Therewith in Rates

Application No. 12-04-019

SUPPLEMENTAL TESTIMONY OF DAVID P. STEPHENSON

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Date: January 11, 2013

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SUPPLEMENTAL TESTIMONY OF DAVID P. STEPHENSON

I. WITNESS QUALIFICATIONS

Q1. Please state your name, business address and telephone number.

A1. My name is David P. Stephenson. My business address is 4701 Beloit Avenue,
Sacramento, California, 95838. My telephone number is (916) 568-4222.

Q2. Have you previously supplied your qualifications in this proceeding?

A2. Yes, I provided my qualifications in my Direct Testimony which was served on
April 23, 2012.

Q3. Are there any changes to your qualifications?

A3. No.

II. INTRODUCTION AND PURPOSE OF TESTIMONY

Q4. What is the purpose of your Supplemental Testimony?

A4. The purpose of my testimony is to provide responses to certain issues raised in
the December 26, 2012 *Administrative Law Judge's Ruling Following Second*

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Prehearing Conference (“December 26th Ruling”) that requires California-American Water Company (“California American Water”) to elaborate on several subjects.

Q5. What specific issues will you cover in your Supplemental Testimony?

A5. I will be addressing the following issues:

- (i) Cost of Social Harm.
- (ii) Net Present Value analysis and implications.
- (iii) What other advice letters on “penalties” have been filed by California American Water.
- (iv) Connection Fees.
- (v) Rationing.
- (vi) The disposition of Surcharge 1.
- (vii) Interaction of Surcharge 2 with Surcharge 1.
- (viii) Analysis of the updated revenue requirements.
- (ix) Customer Bill Impacts.

Q6. You mentioned that your Supplemental Testimony provides responses to certain issues raised in the December 26th Ruling. Will others provide testimony in response to the December 26th Ruling?

A6. Yes, Mr. Patrick Pilz will provide testimony to support price elasticity studies and conservation issues in Monterey; Mr. Richard C. Svindland will provide testimony on all engineering issues, cost contingencies, water rights and governance issues. Lastly, Mr. Jeffrey T. Linam will provide testimony on financing issues and the updated financial model.

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III. COST OF SOCIAL HARM

Q7. Is California American Water concerned about the social harm that could occur as a result of not implementing the Monterey Peninsula Water Supply Project (“MPWSP”) in a timely fashion?

A7. Certainly, California American Water is concerned that the continuation of the existing circumstances with the Carmel River could result in social harms. Indeed, the social harms facing the Monterey County District if California American Water continues to divert water from the Carmel River are both immediate and substantial. As the Commission and several other state and federal agencies have acknowledged, California American Water’s continued reliance on the Carmel River for its water source at today’s levels will result in possibly irreversible harm to the river’s ecosystem as well as the habitat of the Steelhead Trout.

The social harm of continuing to divert water from the Carmel River is not merely environmental but also financial. As will be discussed later, California American Water faces civil and possibly criminal sanctions if it fails to implement a permanent replacement water supply. These penalties may significantly affect California American Water’s ability to serve its ratepayers in a cost-effective manner. Failure to implement a long-term replacement water supply would negatively affect customers to the extent that customers experience forced rationing, service disruptions, and increased costs resulting from the civil and criminal penalties.

An argument could be made that there may be externalities caused by the MPWSP; however, at this time it appears that no other feasible project can be completed in a timely manner. It is the California Public Utilities Commission

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2 (“Commission”) which will determine whether or not these possible scenarios are
3 reasonable and acceptable.

4
5 The proposed MPWSP strikes the appropriate balance between the competing
6 interests and goals that are under consideration in this proceeding, including the
7 need to move forward with a project that will provide a timely resolution for
8 Monterey customers.

9
10 **IV. NET PRESENT VALUE ANALYSIS AND IMPLICATIONS**

11 Q8. Please describe a net present value (“NPV”) analysis and the purpose of such an
12 analysis.

13 A8. As defined in finance, NPV is the sum of the present value of a time series of
14 cash flows for an entity or project. NPV is an important component of a
15 discounted cash flow analysis and is really the main method in analyzing long-
16 term projects in consideration of the time value of money. Basically, the NPV
17 compares the present value of money today to the present value of money in
18 future, taking inflation and returns into account.

19
20 Q9. What is the most important variable in determining an NPV?

21 A9. The rate used to discount future cash flows to the present value is a key variable
22 of this process. A firm’s weighted average cost of capital (after tax) is often
23 used; however, many believe that it is also appropriate to use higher discount
24 rates to adjust for risk or other factors. A variable discount rate with higher rates
25 applied to cash flows occurring further along the time span might be used to
26 reflect the yield curve premium for long-term debt.

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28 Q10. How is the NPV used in decision making?

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A10. NPV is an indicator of how much value an investment or project adds to the firm. With a particular project, if the NPV is a positive value, the project is in the status of positive cash inflow. If the NPV is a negative value, the project is in the status of discounted cash outflow. Appropriately risked projects with a positive NPV could be accepted. This does not necessarily mean that they should be undertaken since NPV at the cost of capital may not account for opportunity cost, i.e., comparison with other available investments.

Q11. Are there common pitfalls in using an NPV relevant to the discussion of the MPWSP?

A11. Yes, using an inappropriate discount rate or a rate that is not applicable to the given situation can result in an inaccurate perception.

Q12. Has California American Water added an NPV calculation to the MPWSP model as directed in the December 26th Ruling?

A12. Yes, California American Water added an NPV calculation to the model that provides an NPV of the annual expected customer payments for the project from the time payments start through the initial 40-year depreciable period.

Q13. Is the NPV added in this model consistent with how an NPV is used in financial analysis?

A13. Not necessarily. The NPV as used in the current MPWSP model is simply taking an NPV of expected customer payments for the project. It is not an analysis of the project's valuation to California American Water.

Q14. Do you see any issues with the NPV analysis included in the model?

A14. Yes. I take issue with the NPV analysis if it is used for any decision making

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2 purpose. Where expectations of returns are known and other variables are
3 controllable, a NPV analysis is a great financial tool in determining the specific
4 long-term value of a project to a corporation. However, the interpretative value
5 of simply discounting a stream of revenues has extremely limited value and really
6 only provides a current value of future cash flows.

7
8 The NPV analysis does not provide any financial impact analysis and
9 interpretation of the financial effects to those that are impacted by the project.
10 Each individual will have a different effective relevant discount factor and, more
11 than likely, this factor will change over time. Consider a person that today makes
12 a great deal on money and has the ability to invest and earn a high return. This
13 person today may require a higher discount rate. But assume that the person is
14 laid off in 5 years, all their investments erode and they have very limited income
15 5 years hence. This would then say that the discount factor is very small since
16 they would have limited future income growth. Every person would have a
17 different and varying discount rate. This makes any NPV analysis as an
18 analytical tool related to customer impacts worth very little.

19
20 Q15. Have you ever used an NPV analysis in proceedings before the Commission?

21 A15. Yes, I was involved in one specific proceeding (“A.00-05-015”)¹ where the
22 Commission used an NPV analysis as an analytical tool to determine long-term
23 cash flow benefits of the acquisition. Since the benefits were project specific, it
24 was easy to follow the standard practice and use the expected rate of return as the
25 discount rate. This is different than the NPV added in the current MPWSP model
26 in that the NPV added into the model is calculating an NPV of a stream of cash

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¹ The Application of California American Water to acquire the water assets of Citizens Utilities of California.

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flows and not developing a benefit analysis. The two uses are very dissimilar. Based on my testimony above, I do not believe an NPV analysis of a stream of revenues is the intended use of an NPV in project analysis.

Q16. Are you aware if the Commission has used an NPV analysis in any other situation?

A16. Yes, it is my understanding that NPV analysis has been used to assess a project's corporate value over the long-term given both cash inflows and outflows. Again, I believe the analysis was used to ensure positive impacts over the term of the project.

Q17. Have you ever prepared an NPV analysis for use in a proceeding as has been requested in this proceeding?

A17. No, not in the 30 plus years that I have been involved in proceedings before this Commission.

V. ADVICE LETTER FILINGS ADDRESSING PENALTIES

Q18. Has California American Water ever recovered penalties related to Carmel River water supply issues through advice letters?

A18. No. California American Water has never filed for direct recovery in rates of "penalties" assessed. What California American Water has recovered through advice letter filings is the payment (payments which were made to the California Department of Fish and Game ("CDFG")) for funding of mitigation projects on the Carmel River. The payments being recovered as a result of Commission approval of advice letter 825 (\$3.5 million; appended hereto and Attachment 1) and 929 (\$2.2 million; appended hereto as Attachment 2) were in conjunction with the Settlement Agreement with the National Oceanic and Atmospheric

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Administration (“NOAA”) (again, payments which were made to CDFG; appended hereto as Attachment 3). The Settlement Agreement states the following:

[California American Water] shall provide funding for projects to improve habitat conditions for, and production of, SCCC steelhead and/or otherwise aid in the recovery of SCCC steelhead in the Carmel River Watershed. [California American Water] shall provide an initial lump sum payment of Three Million Five Hundred Thousand Dollars (\$3,500,000.00) within 60 days of the execution of this Settlement Agreement (“Agreement”). [California American Water] will further provide the sum of One Million One Hundred Thousand Dollars (\$1,100,000.00) on the first anniversary of the Agreement and again on each subsequent anniversary of the Agreement until it expires.

Q19. Has California American Water ever made any other payments to NOAA, or its designated recipients, in conjunction with the Settlement Agreement or its predecessor, the Conservation Agreement?

A19. No. California American Water did not make other payments to NOAA, or any NOAA designated recipients in conjunction with the Settlement Agreement or the Conservation Agreement – appended hereto as Attachment 4. In the Conservation Agreement, California American Water agreed to undertake certain short, mid and long-term activities to mitigate the harm to the Steelhead Trout on the Carmel River. Almost all such activities were performed and costs of those activities were capitalized and are being recovered over the useful life of the projects. One mitigation measure was deemed too expensive to perform and as such, the elimination of the one activity led to the execution of the Settlement Agreement. All the activities performed are listed in the Conservation Agreement.

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Q20. Besides the NOAA Conservation and Settlement Agreements, has California American Water agreed to or been subject to any other funding requirements in lieu of potential fines or penalties related to activities on the Carmel River?

A20. Yes. The State Water Resources Control Board (“SWRCB”) levied a \$168,000 assessment of civil liability (“ACL”) against California American Water because it failed to meet the cutbacks in the second water year, as mandated by SWRCB Order 95-10. However, as noted in a letter, appended hereto as Attachment 5, the SWRCB agreed to suspend the assessment in light of proposed capital improvements and other actions that California American Water agreed to pursue in order to meet the production limitations of SWRCB Order 95-10 in future periods.

Q21. Are you aware of any other payments for projects or other activities made by California American Water, in lieu of proposed penalties, fines or assessments, which it requested to recover through a Commission process in regards to actions on the Carmel River?

A21. No. Not to my knowledge.

Q22. Do you have any idea of the level of fines or penalties that could be assessed for non-compliance with the federal Endangered Species Act (“ESA”), SWRCB Order 95-10, or other regulations, decisions, laws or orders of a governmental agency?

A22. While it is difficult to quantify the amount of the fines and penalties that California American Water may face, it is possible that additional project delays could result in civil and criminal penalties for California American Water. The Commission must not place California American Water in the untenable position of simply paying the fines and continue over-drafting water from Carmel River.

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2 Such an action, one that I am unaware of the Commission ever taking, would not
3 be in the best interests of customers for numerous reasons, including that the
4 costs of these fines and penalties may be passed on to the ratepayers. There are
5 significant financial and legal consequences that can result from project delays.
6 For example, pursuant to the ESA, California American Water can face up to
7 \$32,500 in civil penalties per violation.² Additionally, California American
8 Water may face criminal penalties of \$50,000 per violation and up to one year in
9 prison. California American Water and NOAA agreed that as long as California
10 American Water is in compliance with the Conservation and Settlement
11 Agreements, that NOAA and the National Marine Fisheries Service will agree
12 that prosecution of violations of the ESA is not the preferred course of action as
13 long as California American Water is in compliance with Ordering Paragraph 2
14 of SWRCB Order 95-10. The agreement further directs California American
15 Water to work diligently in pursuit of a long-term water supply solution.

16
17 California American Water offers the following statutory provisions as some of
18 the remedies that may be enforced if the over-draft of the Carmel River water
19 continues. Section 1052 (b) of the California Water Code levies a \$500 per day
20 penalty for the unauthorized diversion of water.³ Additionally, section 1845 (b)
21 of the California Water Code levies a \$1,000 per day fine for each day a person
22 or entity is in violation of a cease and desist order. Pursuant to condition 11 of
23 WRO 2009-0060, SWRCB's Cease and Desist Order (SWRCB Order 95-10)

24 ² Pursuant to the ESA, a civil penalty of \$32,500 can be levied against California American Water for each
25 fish harmed.

26 ³ In 1998, the SWRCB brought an Enforcement Action against California American Water for exceeding
27 the pumping limits outlined in Cease and Desist Order 95-10. In the Enforcement Action, the SWRCB
28 determined the following: 1) California American Water's legal rights are apportioned by month, resulting
in a legal amount of water that can be diverted each month; 2) production by month is then divided into
average daily consumption; 3) legal rights are divided by average daily consumption to arrive at a number
of days in violation for each month.

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2 remains in effect until California American Water certifies to the SWRCB that it
3 “has obtained a permanent supply of water that has been substituted for the water
4 illegally diverted from the Carmel River . . .”⁴
5

6 **VI. CONNECTION FEES**

7 Q23. Does California American Water propose any change in its treatment of new
8 customers due to the proposed increase in the plant size to address lots of record?

9 A23. Yes. In the filing of the application, California American Water proposed to size
10 a plant only large enough to replace the water being displaced under the SWRCB
11 Order 95-10. As the above-captioned proceeding progressed, California
12 American Water decided to increase the plant size to address other water needs,
13 including lots of record. The water needs for the lots of record are “new” needs
14 and as such should pay their fair share of all costs incurred to allow them to be
15 served. Therefore, California American Water proposes that a connection fee
16 should be authorized to be collected by California American Water from all new
17 customer connections.
18

19 Q24. What is California American Water proposing as a connection fee?

20 A24. California American Water proposes that an approximate \$24,000 fee be assessed
21 per acre foot of allocation granted to each customer to supply the lots of record.
22 The \$24,000 fee is reasonable in that it approximates the current assessment
23 levied by MPWMD for new connections to pay for future water sources and is an
24 accepted amount within the community.
25

26 Q25. Does California American Water have any other specifics at this time?

27 A25. No. California American Water proposes that the fee, if authorized, should be
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⁴ Order WR 2009-0060, p. 63.

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2 further discussed in Phase 2 of this proceeding wherein a discussion could also be
3 held as to how the fee should be treated for regulatory and book purposes.
4

5 **VII. RATIONING**

6 Q26. Can California American Water implement rationing to curtail usage in an
7 attempt to comply with SWRCB Order 95-10 and the Seaside Basin Decision?

8 A26. Yes, California American Water has the ability to request implementation of
9 rationing in accordance with Tariff Rule 14.1.1. The current Rule is based on the
10 rationing requirements of MPWMD's Regulation XV, an Expanded Water
11 Conservation and Standby Rationing Plan, is intended to help ensure that all
12 responsible measures are instituted to enable California American Water's
13 Monterey County District compliance with the limitations on productions found
14 in SWRCB Order 95-10 and the Seaside Basin Decision. A copy of Tariff Rule
15 14.1.1 is appended to this testimony as Attachment 6.
16

17 Q27. Does the current rationing plan ensure compliance with the final production
18 limitations in the Cease and Desist Order and the Seaside Basin Decision?

19 A27. While Rule 14.1.1 provides tools and institutes usage restrictions, there is no way
20 to force full compliance without physical production restrictions to ensure
21 customer usage does not drive production over the limits. Additionally, while
22 California American Water has the physical ability to institute rationing, because
23 of severe limitations of SWRCB Order 95-10 and the Seaside Basin Decision, it
24 may not be possible to meet those limitations without jeopardizing the health and
25 safety of customers and/or placing a severe hardship on the economy of the
26 Monterey Peninsula.
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2 **VIII. DISPOSITION OF SURCHARGE 1**

3 Q28. Please briefly describe the history of Surcharge 1?

4 A28. Surcharge 1 was approved in Decision (“D.”) 06-12-040, Ordering Paragraph #1,
5 wherein the Commission authorized California American Water to do the
6 following:

7 [I]mplement the proposed Special Request 1 Surcharge
8 commencing January 1, 2007. Initially, the surcharge shall be 4%,
9 then beginning July 1, 2007, shall increase to 7%. Beginning
10 January 1, 2008, the surcharge shall increase to 10% and remain in
11 place until the full amount authorized for preconstruction costs is
12 collected.

11 In D.08-12-034, Ordering Paragraph #6, the Commission ordered California
12 American Water to do the following:

13 Continue the annual reporting process adopted in D.06-12-040.
14 [California American Water] may file annual applications to
15 address preconstruction costs according to the agreed upon
16 schedule as detailed in the Amended Settlement Agreement. These
17 annual applications shall include the documentation agreed upon in
18 the Amended Settlement Agreement, and a budget and schedule
19 for each existing task order contract.”

18 Finally in D.11-09-039, Ordering Paragraph #1, the Commission granted
19 California American Water’s *Petition for Modification of Decision 06-12-040* “to
20 the extent that Special Request 1 Surcharge is increased to 15% until the full
21 amount authorized for preconstruction costs is collected.”

22
23 Q29. What is the history of authorized costs allowed to be captured in the Surcharge 2
24 balancing account?

25 A29. There is a summary of all activities related to the Surcharge 1 balancing account
26 provided in the Amended Application to Application (“A.”) 12-10-003. The
27 Amended Application is attached hereto as Attachment 7.

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Q30. What is the current balance in the Surcharge 1 balancing account?

A30. As of November 30, 2012, the balance in the Surcharge 1 balancing account was \$14,297,564. Based on the current level of surcharge recovery, I have assumed a December 31, 2012 balance of \$13.7 million.

Q31. Have you made any calculations in regards to when you expect the Surcharge 1 balancing account to be fully collected?

A31. Yes. Based on the assumed January 1, 2013 balance of \$13.7 million and on California American Water’s best knowledge of when currently estimated known changes will occur to the account, I have estimated, in Attachment 8, when I believe that the balance in the account will be fully collected. In addition to the assumption of an annual 15% collection of the authorized revenue requirement, there will be two new movements of costs into the account for recovery. Those two items are: 1) original amounts from A.12-10-003, requesting a little over \$700,000⁵ and 2) the total amount related to the Settlement of Regional Desalination Project (“RDP”) costs with the County of Monterey of a little over \$3.4 million.⁶ The estimated balance also assumes that the currently authorized 4% interest rates will continue on the account.

Q32. Based on the assumptions with regards to surcharge recoveries and cost movements into the Surcharge 1 balancing account, when do you expect that the account balance will be fully collected?

⁵ The original filed amount includes approximately \$460,000 of legal cost and associated interest that were removed from the Amended Application and will be sought for recovery in a separate application to be later filed. California American Water assumes that the Commission will approve recovery of the \$460,000 in legal fees in the Surcharge 1 balancing account.

⁶ The \$3.4 million is the total possible amount in the settlement agreement (assumes movement of all costs in the settlement to the Surcharge 1 balancing account), which includes the amount of approximately \$700,000 to be held in the escrow account. Again, I have assumed that all approved amounts from the Settlement Agreement will be allowed for recovery in the Surcharge 1 balancing account.

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A32. Based on the assumptions discussed, I show in Attachment 8 that the balance will be fully collected as of May 1, 2015.

IX. INTERACTION OF SURCHARGE 2 WITH SURCHARGE 1

Q33. You have described Surcharge 1 above. Can you please now describe California American Water’s request in regards to Surcharge 2?

A33. Yes, California American Water has requested that Surcharge 2 be reinstated as was originally intended and approved in D.06-12-040, but with some modifications. As noted on page 10 in D.06-12-040, “we agree with [California American Water] that the sooner the Commission allows [California American Water] to implement the proposed surcharge[s], the more it will be able to mitigate the rate impact of a long-term water supply solution on Monterey District customers.”

As the Commission previously noted, an important consideration is to mitigate the rate increases resulting from the implementation of a water supply solution. As is explained later in my Supplemental Testimony, there will be a significant “point-in-time” increase in the revenue requirement if Surcharge 2 is not authorized. This significant increase in the revenue requirement has already been recognized as a result that the Commission desires to avoid. California American Water requests that the Commission reauthorize it to implement Surcharge 2 to mitigate the rate impact to customers and ensure that there is no rate shock at the time the revenue requirement from a completed project is added to the rates that then would already be authorized. When it filed its application in this proceeding, California American Water requested that a surcharge of 30% be implemented on July 1, 2013, raised to 45% on January 1, 2014 and, finally,

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2 raised to 60% on July 1, 2014. Surcharge 2 was proposed to be effective for 42
3 months ending on December 31, 2016.
4

5 Q34. Are you proposing any changes to Surcharge 2 in your Supplemental Testimony?

6 A34. Yes. Due to the Commission's revision of the procedural schedule in the above-
7 captioned proceeding, California American Water does not expect a final
8 decision on the certificate of public convenience and necessity ("CPCN") until
9 approximately January 2014. Based on the latest procedural schedule, California
10 American Water now projects that the desalination plant will not be on line until
11 sometime late in 2017. Based on the delayed schedule, California American
12 Water now envisions that Surcharge 2 would begin in April 2014 and end in
13 October 2017, and that the increases would, as noted above, change on a 6-month
14 basis.
15

16 Q35. In consideration of the above analysis of the Surcharge 1 balancing account and
17 estimated time to gain full recovery and the timing of the implementation of
18 Surcharge 2, what is your opinion of the interaction of the two surcharges?

19 A35. In summary the two surcharges appear to coordinate well in regards to customer
20 bill impacts, especially if the timing of the implementation is as forecast above
21 and that once implemented at the 30% level, it means that the total of Surcharges
22 1 and 2 would be as followed:
23

	April 2014	Oct. 2014	April 2015	Oct. 2015 – Oct. 2017
Surcharge 1 Rate	15%	15%	0%	0%
Surcharge 2 Rate	30%	45%	60%	60%
Total Surcharges	45%	60%	60%	60%

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2 Based on the above table, while there would be an initial bump in rates of 30% in
3 April 2014, the overall surcharge rate would only increase once more, in October
4 2015, resulting in a very flat overall revenue requirement as a result of the two
5 surcharges.

6
7 While the two surcharges serve completely separate purposes⁷, the interaction
8 between the two surcharges, as proposed by California American Water, work
9 hand-in-hand to raise rates in a manner that does not result in dramatic
10 fluctuations in customer bills, does not pose an unduly disparate increase at any
11 one time, and results in a seamless transition from the billed surcharges to the
12 water supply revenue requirement impact upon MPWSP completion. In fact, a
13 60% surcharge of a base projected revenue requirement is approximately \$30
14 million, an amount that is very close to the projected 2018 desalination plant
15 revenue requirement of \$32.4 million. This results in a very modest rate increase
16 at the time the revenue requirement for the MPWSP is implemented into base
17 rates.

18
19 **X. REVENUE REQUIREMENT FROM THE PROJECT**

20 Q36. Have you determined the revenue requirement increase resulting from the
21 MPWSP?

22 A36. Yes. In its application, California American Water calculated a number of first
23 year revenue requirements for the proposed MPWSP. California American
24 Water also calculated the interim revenue requirement impacts as a result of
25 various requests made in its testimonies and attachments served in the above-
26 captioned proceeding. California American Water has also provided an updated

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28 ⁷ Surcharge 1 is to recover the authorized pre-construction costs. Surcharge 2 is to fund project costs, including project construction carrying costs, on a pay-as-you-go basis.

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revenue requirement model that produces a great deal of information and results. As noted in Mr. Jeffrey T. Linam’s Supplemental Testimony, California American Water’s current projected first year (2018) revenue requirement for the desalination plant is \$32.4 million. This amount is based on California American Water’s various requests and recommendations as noted in the testimonies and attachments.

Q37. Have you calculated a showing of the overall revenue requirement for the Monterey County District both with and without the impact of the MPWSP in your Supplemental Testimony?

A37. No, I have not included in my Supplemental Testimony any attachment which provides the expected revenue requirement for the Monterey County District both with and without the MPWSP. I have not done so since the current revenue requirement is not significantly different from that previously provided in Attachment 6 to my Direct Testimony. Moreover, the insignificant change demonstrated in the updated revenue requirement only further supports that original point that it is impossible at this point to determine, with any accuracy, the exact overall revenue requirement impact when all the variables inherent in the MPWSP as well as the multiple pending Commission proceedings are taken into account.

Moreover, as noted in my Direct Testimony, California American Water did not propose a revenue requirement increase cap for the MPWSP. California American Water believes that the best that can be done is to set limitations on capital spending as was already done for the California American Water-only facilities for the RDP. This is generally the normal practice for construction projects.

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XI. CUSTOMER BILL IMPACTS

Q38. Have you calculated the bill impact of the revenue requirement of the proposed MPWSP for a typical residential customer?

A38. No. I have not calculated that number as a part of my Supplemental Testimony for a number of reasons. First, as explained above in the revenue requirement section, there was not a significant change in the revenue requirement as a result of updates to the MPWSP. Therefore, the comparisons provided in my Direct Testimony are still appropriate. Second, per the December 26th Ruling, the ALJ stated that the issues of rate design and low income rate relief would be considered in Phase 2 of the above-captioned proceeding.⁸ Therefore, California American Water believes that rate impacts should be provided at the same time as the rate design since the two concepts are interlinked.

Q39. Does this conclude your Supplemental Testimony?

A39. Yes it does.

⁸ See December 26th Ruling, p. 1.

NOTICE OF AVAILABILITY

Attachments 1-8 in support of California American Water's *Supplemental Testimony of David P. Stephenson* exceed 50 pages in length and 3.5 megabytes in size. Therefore, pursuant to Rules 1.9(d)(1)-(2), California American Water hereby provides this Notice of Availability of Attachments 1-8. Beginning on January 11, 2013, California American Water will make Attachments 1-8 available at the following website:

<http://www.watersupplyproject.org/downloads>.

If a party, on whom this Notice of Availability is served, is unable to access the attachments via the website, California American Water will provide a copy of Attachments 1-8 upon written request to:

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Attachments to the *Supplemental Testimony of David P. Stephenson*

Attachment 1 – Advice Letter 825-A

Attachment 2 – Advice Letter 929

Attachment 3 – 2006 National Oceanic Atmospheric Administration (“NOAA”) Settlement Agreement

Attachment 4 – 2001 NOAA Conservation Agreement

Attachment 5 – 1998 Letter from State Water Resources Control Board regarding Administrative Civil Liability Complaint 262.5-6, Carmel River in Monterey County

Attachment 6 – Tariff Rule 14.1.1

Attachment 7 – Application No. 12-10-003, *Amendment to Application of California-American Water Company (U 210 W) for an Order Authorizing the Transfer of Costs Incurred in 2011 for a Long-term Water Supply Project for the Monterey District to its Special Request 1 Surcharge Balancing Account*.

Attachment 8 – Surcharge 1 Recalculation

Dated: January 11, 2013

By: Margaret Bailes
Margaret Bailes