CA-25

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates.	A.12-04- (Filed April 23, 2012)

DIRECT TESTIMONY OF DAVID P. STEPHENSON

(FURTHER ERRATA VERSION)

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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. By whom are you employed and in what capacity?

A2. I am employed by California-American Water Company ("California American Water" or "the Company") as Director of Rate Regulation for California and Hawaii.

Q3. What are your responsibilities?

A3. I am responsible for preparing, filing, and processing all requests for rate adjustments, financing, acquisition, or any other application before the California Public Utilities Commission ("Commission") and the Hawaii Public Utilities Commission.

Q4. Briefly describe your education background.

A4. I received a Bachelor of Science in Business Administration, with an emphasis in Accounting, from San Diego State University. Additionally, I have attended and instructed at various seminars on different aspects of the water industry, including the Biannual Utility Rate Seminar sponsored by the National Association of Water Companies ("NAWC") to educate members of the National Association of Regulatory Utility Commissioners and their staff about regulated water utilities.

Q5. Have you had any other formal training?

A5. Yes. I have attended various seminars on different aspects of the water industry and rate evaluations, including the Biannual NAWC Utility Rate Seminar.

Q6. Please describe your professional experience.

A6. I have been employed by the American Water Works System since 1978. The various positions I have held with the Company are: Accountant – 1978; Accounting Superintendent for the Los Angeles Region – 1981; Assistant Director of Accounting for the Western Region – 1983; Assistant Director of Rates and Revenues for the Western Region – 1984; Director of Rates and Revenues for the Western Region – 1986; Manager Rate Regulation for Hawaii, California and New Mexico – 2005; Manager of Rate Regulation for California American Water – 2007; Director of Rate Regulation for California American Water – 2008; Director of Rate Regulation for California American Water and Hawaii American Water – 2012.

Q7. Have you testified before any regulatory agencies?

A7. Yes. I have testified on numerous occasions before public utility regulatory agencies in the states of Arizona, California, and New Mexico. I also participated in regulatory matters before the public utility regulatory agencies for the states of Hawaii and Texas.

II. INTRODUCTION AND PURPOSE OF TESTIMONY

Q8. What is the purpose of this direct testimony?

A8. The purpose of my testimony is to:

(i) Provide details on the need and necessity for the requested Commission authorizations in this application;

(ii) Provide background on prior Commission decisions regarding water supply solutions in Monterey;

(iii) Explain the relationship of prior decision authorizations to the requests in this application;

(iv) Discuss specific ratemaking issues applicable to the requests in this application;

(v) Explain aspects of the overall revenue requirement;

(vi) Explain the expected changes in customer bills as a result of the proposals in this application; and

(vii) Explain the proposed low-income program changes.

Q9. Before discussing further the issues for which you are responsible in this application, can you please provide a brief summary as to why California American Water is filing this application?

A9. Yes. As noted in the testimony of Mr. Richard Svindland, issues arose during the implementation of the Regional Desalination Project approved by the Commission in Decision ("D.") 10-12-016. California American Water determined that a modified solution was necessary in order to ensure compliance with the State Water Resources Control Board's ("SWRCB") Cease and Desist Order ("CDO"). Information regarding the need to pursue an alternative solution was provided to the assigned Administrative Law Judge ("ALJ") at a Pre-Hearing Conference ("PHC") held on January 24, 2012. In light of the discussion held at the PHC, the ALJ set a timeline for various required filings and recommended that if a change to the authorizations approved in D.10-12-016 were deemed warranted, and then a new application would be the appropriate vehicle in which to pursue such modifications. Based on that recommendation, California American Water prepared the application for which this testimony provides support.

Q10. You mentioned that your testimony provides support for the application. Are others providing testimony in support of the application?

A10. Yes, as mentioned above Mr. Richard Svindland is also providing testimony in this application. His testimony covers the engineering aspects of the proposed project as well as the necessary changes made to the original project, which the Commission authorized in D.10-12-016. In addition to Mr. Svindland's testimony, Mr. Jeffrey T. Linam, Mr. Eric J. Sabolsice, Mr. F. Mark Schubert, Mr. Kevin Thomas, and Mr. Keith Israel, General Manager for the Monterey Regional Water Pollution Control Agency, are also providing testimony on behalf of California American Water. Mr. Linam is providing testimony supporting the financial modeling of the proposed project, including support for the proposed instruments to be used to finance the proposed project and the overall revenue requirement derived from the models. Mr. Sabolsice is providing testimony on the operation and maintenance of the facilities as well as support for O&M savings resulting from reduced operation of existing facilities. Mr. Schubert will provide testimony on all necessary infrastructure that will need to be constructed to deliver the water from the desalination plant beyond the delivery point to storage facilities and customers in the Monterey system and other facilities such as additional Aquifer Storage and Recovery ("ASR") facilities that will also need to be constructed. Mr. Thomas will be providing environmental testimony to support the proposed project. Mr. Israel will address the Monterey Peninsula Groundwater Replenishment Project's (GWR) role as part of the water solution for the Monterey Peninsula.

Q11. Before moving on to the specific requests in your testimony, do you have a general concern that needs to be expressed as to the calculations of revenue requirements and customer bill impacts?

A11. Yes. This application is being filed at a time when California American Water has multiple proceedings open before the Commission. Many of these proceedings will impact revenues, revenue requirements, percentage increases, and customer billing in the

Monterey District. A list of the currently open proceedings is as follows: 1) A.10-07-007, Phase 1, a general rate case to determine the revenue requirements for all districts of California American Water; 2) A.10-07-007, Phase 2, a proceeding to determine rate design and issues related to the Water Revenue Adjustment Mechanism (WRAM)/ Modified Cost Balancing Account ("MCBA") mechanism in Monterey; 3) A.11-05-001, et.al., a cost of capital proceeding to determine the going forward cost of capital for investments, for the 4 large Class A water utilities, including California American Water; 4) A.10-04-019, an application of California American Water to determine the appropriate revenue requirement related to the Sand City Desalination Plant in Monterey; 5) A.10-09-018, an application of California American Water to determine the appropriate revenue requirement related to the San Clemente Dam Removal and Carmel River Reroute Project in Monterey; 6) A.10-01-012, an application of California American Water to determine the appropriate revenue requirement related to payments made to the Monterey Peninsula Water Management District ("MPWMD") for mitigation and well development in Monterey; 7) R.11-11-008, an investigation of the Commission to determine the appropriateness of some mechanism to mitigate high cost rate areas through rate design alternatives. All of these proceedings could have an impact of the current revenue requirements and rate design in Monterey. Each of these proceedings is currently pending as of the date the application is filed and California American Water cannot predict the outcomes. As such, this application is being filed based on previous authorizations. California American Water has in this application and testimony endeavored to estimate the impacts of these open proceedings so that we are providing as best as possible actual future costs and bill impacts. However, the assumptions in the Application are based on current authorizations. For example, while the revenue requirement for the facilities in this application are currently projected based on the present authorized capital structure of 42% equity at 10.2% and 58% debt at an average cost of 5%, we expect the Commission to authorize a revenue requirement on the proposed project based on the then in place authorized capital structure for California American Water, which soon will change as a result of A.11-05-001, et.al., and will change again as a result of an application that the Company will file in May of 2014.[1] The current rates are based on a capital structure of 42% equity at a rate of 10.2% and 58% debt at a weighted average cost of 6.48%. A settlement in A.11-05-001, et. al., if adopted, would allow a capital structure of 53% equity at a rate of 9.99% and 47% debt at a weighted average cost of debt of 6.63%. In this application and testimony California American Water provides estimates of revenue requirements and bills impacts that include all the open proceedings, except rate design, to demonstrate the overall expectations, but these are only rough projections and not actual results.

Q12. Since California American Water filed the application on current authorizations, does this mean that the Company is seeking authorization to use these current assumptions to develop the final revenue requirement related to this project?

A12. No. California American Water requests that all material changes in revenue requirement assumptions, cost of capital assumptions, rate design assumptions, and all other assumptions that result from future decisions affecting California American Water be applied prudently to the requests so made in this application. To ensure that customers are provided with the information on the possible impacts of this and other proceedings, California American Water will ensure that notices contain expectations on total expected bills considering this application as well as the results of the other proceedings.

III. PRIOR COMMISSION APPROVALS REGARDING WATER SUPPLY SOLUTIONS

Q13. Please briefly explain the background history for this application.

A13. In 1995, the SWRCB issued Order 95-10 which stated that California American Water: (a) had the legal right to divert only 3,376 acre-feet (“AF”) annually which was only about

[1] We are however requesting in this application that the actual cost of debt used to finance this project be used and not the weighted average cost as determined in a cost of capital proceeding.

31 percent of the water supplied to California American Water customers at that time and had been diverting over 10,000 acre feet of water per year without a valid basis in right; and (b) that these diversions adversely affect the public trust resources of the river. The SWRCB ordered California American Water to obtain additional water rights or an alternative water supply. As a result of this order, California American Water filed Application ("A.") 97-03-052 in 1997 in order to proceed with a project similar to the New Los Padres Reservoir Project ("NLP"). The MPWMD served as the lead agency under the California Environmental Quality Act ("CEQA") but did not certify the EIR related to the project.

After California American Water filed its application, the State legislature adopted legislation (Assembly Bill 1182, Chapter 797, Stats. 1998, Keeley) directing the Commission to identify a long-term water supply contingency plan to the Monterey Peninsula's water supply deficit. The Commission released its report, colloquially known as the "Plan B" report, in 2002.

In response to the findings in the Plan B report, California American Water filed two motions and an amendment to A.97-03-052. The Company's amendment requested a certificate of public convenience and necessity to construct the Coastal Water Project[2] consisting of a desalination facility and aquifer storage and recovery component instead of the previously proposed Carmel River Dam.

In D.03-09-022 the Commission designated itself as the lead agency for environmental review of the Monterey Bay Desalination Coastal Water Project, resolved certain ratemaking issues related to the Coastal Water Project and an earlier Carmel ~~Coastal~~ River Dam project, and dismissed A.97-03-052 without prejudice with the requirement that

[2] The proposed Coastal Water Project is the same as the project identified in the Plan B Project Report to replace the 10,730 acre feet of water from the Carmel River. ~~We will refer to Cal-Am's current proposal as the Coastal Water Project.~~

California American Water file a new application. As part of the ratemaking approvals, the Commission approved a memorandum account to track all costs related to the development of the Coastal Water Project.

In D.06-12-040 the Commission approved both Surcharge 1 for the collection of approved costs tracked in the memorandum account and Surcharge 2 which funded the construction of the water supply solution on a pay-as-you-go basis.

In D.10-12-016 the Commission approved the proposed Settlement Agreement, as amended, that California American Water jointly filed with the Marina Coast Water District, Monterey County Water Resources Agency, Monterey Water Regional Pollution Control Agency, the Surfrider Foundation, the Public Trust Alliance, and Citizens for Public Water. The Settlement Agreement proposed a public/private partnership, known as the Regional Project, to solve the long-standing water supply deficit on the Monterey Peninsula.

Because of the need to implement a timely and cost effective project, California American Water filed the current application to move forward with a project that will address the water supply issues on the Monterey Peninsula.

Q14. Are there any specific approvals in past Commission decisions dealing with proposed projects that are relevant to the requests in this application?

A14. Yes, there are a number of relevant approvals in past decisions that the Commission should recognize as the basis for authorizations requested in this application. Those prior approvals are as follows:

(i) In D.03-09-022, Ordering Paragraph #6, the Commission authorized California American Water "to establish a memorandum account, with interest at the 90-day commercial paper rate, to track ongoing costs of the Coastal Water Project."[3]

(ii) In D.06-12-040, Ordering Paragraph #1, the Commission authorized California American Water "to implement the proposed Special Request 1 Surcharge commencing January 1, 2007. Initially, the surcharge shall be 4%, then beginning July 1, 2007, shall increase to 7%. Beginning January 1, 2008, the surcharge shall increase to 10% and remain in place until the full amount authorized for preconstruction costs is collected."

(iii) In D.06-12-040, Ordering Paragraph #2, the Commission authorized California American Water "to implement the proposed Special Request 2 Surcharge after the Commission issues a Certificate of Public Convenience and Necessity (CPCN) for the Coastal Water Project, or alternative long-term supply solution, in Phase II of this proceeding. Initially, the surcharge shall be 15%, increasing to 30%, 45%, and 60%, respectively, on January 1 and July 1 of each year, and shall continue at the 60% level until the project is completed."

(iv) In D.08-12-034, Ordering Paragraph #6, the Commission ordered California American Water to "continue the annual reporting process adopted in D.06-12-040. [The Company] may file annual applications to address preconstruction costs according to the agreed upon schedule as detailed in the Amended Settlement Agreement. These annual applications shall include the documentation agreed upon in the Amended Settlement Agreement, and a budget and schedule for each existing task order contract."

(v) In D.10-12-016, Finding of Fact #129, the Commission noted that "[t]he Water Purchase Agreement provides that to the extent the costs of the loan or credit line provided by [California American Water] are not recovered in

[3] The use of the 90-day commercial paper rates was later revised to a 4% rate in D.11-09-039.

the price of the Product Water, the principal and interest shall be recoverable in rates, i.e. the Public Agencies will repay the loans, but the costs of such repayment will be passed onto [the Company's] ratepayers."

(vi) In D.10-12-016, Conclusion of Law #46, the Commission stated that "[f]or the [California American Water] facilities, it is reasonable to determine that, once constructed; the conveyance, pumping, and reservoir facilities will be designated as used and useful for ratemaking purposes, even if the Regional Project is delayed for some reason."

(vii) In D.10-12-016, Conclusion of Law #64, the Commission stated that "[i]t is reasonable to state our intent that all future Commissions recognize and give full consideration and weight to the fact that this settlement and implementing agreements, as modified, have been approved based on the expectations and reasonable reliance of the parties and this Commission that all its terms and conditions will be implemented by future Commissions."

(viii) In D.10-12-016, Ordering Paragraph #1, the Commission approved "[t]he Settlement Agreement and Implementing Agreements, filed on April 7, 2010, and updated by the Settling Parties on August 31, 2010 . . ."

(ix) In D.10-12-016, Ordering Paragraph #3, the Commission stated the following: "To the extent that the Public Agencies, in exercising their duties to be transparent and accountable to their constituencies, find that particular aspects of the Regional Project are not reasonable and cost-effective, then California American Water Company must bring this issue to the Commission for its review and consideration, by filing the appropriate pleading."

(x) In D.10-12-016, Ordering Paragraph #11, the Commission stated that the " . . . Special Request 2 Surcharge authorized in [D.]06-12-040 is no longer applicable."

(xi) In D.11-09-039, Ordering Paragraph #1, the Commission Ordered "The Petition for Modification of Decision 06-12-040 by California-American Water Company is granted to the extent that Special Request 1 Surcharge is increased to 15% until the full amount authorized for preconstruction costs is collected."

IV. IMPACT OF PRIOR COMMISSION APPROVALS TO REQUESTS IN THIS APPLICATION

Q15. Which of the above prior approvals impact the requests that California American Water makes in this application?

A15. All of the above prior approvals impact the requests in this application. As will be discussed later in this testimony, and based on the above approvals, California American Water is requesting that the Commission: 1) maintain a memorandum account for all pre-construction costs related to the water supply solution for the Monterey District; 2) reinstitute Surcharge #2; 3) follow the same procedure as authorized in D.10-12-016 related to the overall project cost cap; 4) continue to authorize the ratemaking treatment approved in D.10-12-016 for the California American Only facilities; and 5) authorize a separate phase in which to determine an appropriate rate design once a project is in service.

Q16. Are there other requests for approvals in addition to those listed in A15?

A16. Yes, the five requests listed in A15 are specific to my testimony and based on prior authorizations. I will also discuss other necessary requests which were not contained in prior Commission decisions. My colleagues will touch upon other requests in their testimonies.

Q17. Please describe the requests of California American Water in regards to the continued memorandum account treatment for all pre-construction costs related to a Monterey Peninsula water supply solution.

A17. California American Water requests that for better tracking and transparency that the memorandum account approved in D.03-09-022 be sub-divided into three categories. The first sub-account will be used to track the remaining pre-construction costs related to the RDP. The second sub-account will be used to track the final costs to unwind the RDP. The third part will be used to track costs related to moving the requested project in this application forward.

Q18. What are the specific requests of California American Water in regards to the sub-categorization of costs related to the unwinding of the RDP partnership?

A18. The first sub-categorization would continue tracking and recovering pre-unwinding costs in the manner authorized by D.03-09-022 and D.06-12-040.

Second, California American Water requests that the Commission, as noted above, allow the Company to track all costs related to the unwinding of the RDP partnership in a sub-categorization of the current memorandum account. California American Water requests that the Commission allow California American Water to address these RDP partnership unwinding costs through the existing annual application process established in D.08-12-034 for recovery in the Surcharge 1 balancing account. The unwinding sub-category will remain open until all costs are incurred and no further costs are anticipated.

Third, California American Water requests that the Commission allow it to track all costs related to the development and approvals necessary to develop the proposed project requested in this application in a third sub-category of the approved memorandum account. Further, California American Water requests that the Commission consider all costs incurred prior to a final decision in this proceeding as pre-construction costs and allow the Company to request recovery for these costs through a separate application to be filed 90 days after the final decision.[4]

Q19. ~~Please describe the composition of the costs that will be charged to the memorandum account considered as RDP partnership pre-unwinding costs.~~

A19. ~~The pre-unwinding costs cover costs incurred in 2011 and 2012 related to the original Coastal Water Project. The total amount is approximately $860,000 and includes costs for legal, engineering, customer education, company labor, interest / AFUDC and other minor related items such as overheads and taxes. Provided below is a table with these costs.~~

~~**WORK TYPE**~~	~~**2011**~~	~~**2012**~~	~~**TOTAL**~~
~~AFUDC/INTEREST~~	~~$167,888.32~~	~~$70,626.55~~	~~**$238,514.87**~~
~~LABOR & OH's~~	~~$31,618.70~~	~~$0.00~~	~~**$31,618.70**~~
~~CONTRACTOR~~	~~$10,883.40~~	~~$0.00~~	~~**$10,883.40**~~
~~EMPLOYEE EXPENSE~~	~~$470.83~~	~~$11.00~~	~~**$481.83**~~
~~ENGINEERING~~	~~$517,609.24~~	~~$29,892.43~~	~~**$547,501.67**~~
~~OTHER~~	~~$31,097.72~~	~~$0.00~~	~~**$31,097.72**~~
~~**TOTAL YEARLY EXPENDITURES**~~	~~**$759,568.21**~~	~~**$100,529.98**~~	~~**$860,098.19**~~

Q20. ~~Please describe the composition of the costs to be charged to the memorandum account to be considered as RDP partnership unwinding costs.~~

A20. ~~Estimated costs are provided in Attachment 1. The costs that may be associated with the unwinding of the RDP partnership include, but are not limited to, the following categories: (a) MCWD's claimed expenses since January 1, 2010 for RDP development; (b) claimed expenses by the MCWRA for its post January 1, 2010 costs; (c) MCWD's claim for legal fees to defend the Ag Land Trust lawsuit; (d) funds provided to MCWD and MCWRA~~

[4] Some cost considered pre-construction costs may in fact later be considered construction costs and treatment for those costs will be addressed in the separate application to be filed 90-days after a decision in this application.

~~under the Credit Line Agreement and Reimbursement Agreement; and (e) California American Water's legal fees~~.

Q21. Please describe the composition of the costs that will be charged to the memorandum account that would be considered pre-construction costs related to the proposed project in this application.

A21. The pre-construction costs cover costs related to this Application and include costs for legal, consultants, CPUC CEQA work, customer education, company labor, land and costs to install a slant test well all as needed to move the project along during the period of review by the CPUC. Provided below are two tables with these estimated costs and a description of the costs.

Item	Budget	Task
Consultants	$ 500,000	Supplemental PEA, CEQA Work, Plant Sizing & Cost Estimates
Consultants	$ 20,000	MWRPCA Outfall Analysis
CPUC / ESA	$ 500,000	CEQA Work for Project
Legal	$ 250,000	Legal work on PEA, CEQA and Water Rights
Legal	$ 550,000	Legal work on CPUC Filing
Legal	$ 200,000	Land Work
Land	$ 200,000	Cost to Option Land and get easement for test wells
Travel Expenses	$ 30,000	Travel for Staff for 2012 & part of 2013
Company Labor & OH	$ 300,000	For Engineering team to offset Capex
Contingency	$ 110,000	
Sub-total	$ 2,660,000	
Overhead (10%)	$ 266,000	
Total	**$ 2,926,000**	

Item	Budget	Task
Slant Test Well	**$ 5,000,000**	Cost to install slant test well for WR and WQ data

Q22. You mentioned above that some pre-construction costs may actually be later considered construction costs. Please explain.

A22. Yes, as explained in the testimony of Mr. Svindland, California American Water determined that a test slant well and some piping need to be constructed now to provide necessary water quality information for analytical purposes. If the well and associated pipeline became an operationally useful part of an approved project, then we would request that the facilities constructed that will be part and parcel to the completed project be moved from the surcharge 1 pre-construction memo account to the surcharge 2 memo account at the time a decision is issued. If the well and associated pipeline do not become an operationally useful part of an approved project, then the expenditures necessary to construct the facilities should remain part of the surcharge 1 memo account request that would allow them to be moved to the surcharge 1 balancing account to allow recovery.

Q23. Is California American Water requesting any further specific requests in regards to the development of the test well and associated pipelines?

A23. Yes, California American Water requests that the Commission issue an interim order in this proceeding recognizing the need for the development of the test well and associated pipelines and authorize California American Water to develop the well and pipelines and charge the costs to the surcharge 1 memo account.

Q24. Please describe the prior surcharge approvals that California American Water requests be continued or modified in conjunction with this application.

A24. California American Water requests that surcharge 1 be continued until all costs in the surcharge 1 balancing account are recovered with a slight modification of prior approvals. California American Water also requests that surcharge 2 be reinstated as was originally intended as approved in D.06-12-040, but with some modifications.

Q25. Please further explain the request in regards to the continuation of surcharge 1.

A25. Yes, and again referring to D.06-12-040, the Commission approved recovery of all pre-construction costs through a surcharge recovery. This treatment currently provides for recovery of the balance in the balancing account at a rate of 15% of all bills to customers in designated areas of the Monterey District, with the balancing (and memorandum) account accruing interest on the average unrecovered balance at a rate of 4%. This method of recovery results in a relatively short-term recovery methodology in which no return on equity is provided. On page 22 of D.06-12-040 the Commission stated "We find that authorizing CalAm to implement the proposed decision surcharges is wholly consistent with prior Commission case law that there are valid exceptions to the general rule limiting recovery of capital project expenditures to projects that are used and useful. The proposed decision properly finds that CalAm's "need to comply with the SWRCB Order 95-10 and the estimated $191 million cost of a project to comply with that order creates special circumstances warranting a departure from standard rate making practice, which allows project costs to be included in rates only after the project is found to be 'used and useful.'" ~~However, California American Water requests that the surcharge collection percentage be modified to ensure recovery of all pre-construction costs prior to the implementation of a final revenue requirement, currently anticipated to be January 1, 2017.~~

Q26. Is California American Water requesting modification of the surcharge 1 collection?

A26. No, California American Water is not requesting that the Commission modify the recovery mechanism related to the surcharge 1 balancing account. ~~We have made an~~

~~assessment to determine if in the current 15% ensures the recovery of amounts in the surcharge 1 balancing account in a timely manner. While at present we don't actually have a firm estimate of all future costs that will be charged to the memorandum account, we do have a reasonable idea of costs that will be transferred to the account for pre-unwinding costs as well as a reasonable estimate of costs related to pre-construction costs for the currently requested project. At this point it is much too early to speculate on what the final level of costs will be related to the un-winding of the RDP. Attachment 1 provides a schedule that shows the recovery that will occur given facts that are known as of today. What this schedule shows is that the 15% is currently anticipated to recover the entire amount in the surcharge 1 balancing account by early in 2017.~~

Q27. Please explain the request related to surcharge 2.

A27. California American Water is requesting that the approval granted in D.06-12-040 be honored as it was intended in that decision. As noted on page 10 in D.06-12-040 "we agree with CalAm that the sooner the Commission allows CalAm 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 to customers as a result of implementing a water supply solution. As is explained later in this 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 it be again authorized 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.

Q28. Hasn't the Commission already dismissed surcharge 2 and determined that it should not be implemented?

A28. Yes, at the time the Commission adopted the RDP settlement agreements in D.10-12-016, the Commission found that surcharge #2 was no longer applicable (Ordering Paragraph #11). This outcome was expected and was consistent with the Commission's finding in D.06-12-040 that it would re-consider the appropriateness of assessing a surcharge to fund a project if California American Water decided to transfer ownership of the project to a public agency. In D.10-12-016, the Commission dismissed surcharge 2 because it was no longer necessary as the funding for the project would be through public financing. With the request in this case that California American Water own and finance the facilities, surcharge 2 is again necessary just as authorized in D.06-12-040. It would be harmful to customers to not allow the surcharge to be reinstated as originally envisioned.

Q29. What did the Commission authorize in regards to surcharge #2 in D.06-12-040?

A29. The Commission authorized the surcharge to begin immediately after the Commission issues a Certificate of Public Convenience and Necessity (CPCN) for the Coastal Water Project, or alternative long-term supply solution. Initially, the surcharge would be 15% on customer bills, increasing to 30%, 45% and 60%, respectively, on July 1 and January 1 each year, and would remain at the 60% level through completion of the approved long-term water supply project. The revenues collected would be treated as a customer contribution to reduce the capital cost of the approved long-term supply project.

Q30. Is California American Water requesting any change in the surcharge #2 implementation different from that approved in D.06-12-040?

A30. Yes, we are requesting several changes to the approvals granted in D.06-12-040. What we are specifically requesting in regards to surcharge 2 is as follows:

(i) The surcharge begin immediately after the Commission issues a Certificate of Public Convenience and Necessity (CPCN) for the requested Project,

(ii) The surcharge will initially be 30% on customer bills, increasing to 45% on January 1, 2014 and 60% on July 1, 2014. These are the maximum percentages that will be charged upon initiation of each of the surcharges.

(iii) The surcharge will be intended to produce a maximum coverage of project costs of $99.1 million,

(iv) California American Water will file a tier 1 advice letter on May 15 and November 15 of each succeeding year after approval, until the surcharge ceases, to adjust the rate downward or upward if the 45% or 60% rate will be estimated to cause a greater than 5% variance in recovery of the maximum $99.1 million proposed surcharge amount,

(v) The tier 1 advice letter will be effective on July 1and January 1 of each year,

(vi) The surcharge collections will cease if the project is temporarily held up by litigation or any other reason for an estimated period of longer than 3 months,

(vii) The surcharge will be in place until the new water supply project is in service, and

(viii) The surcharge collections as well as all project costs will be tracked in a memo account. Because the surcharge collections will offset costs, those costs should therefore not be included in the capitalized costs and the surcharge collections would not be included as contributions.

Q31. Is California American Water proposing any customer protections in regards to the surcharge should the project herein requested be stalled or terminated?

A31. Yes, as stated above California American Water proposes that if the project is stalled for an estimated 3 month period or longer that surcharge #2 would cease immediately and would not again be initiated until a tier 1 advice letter is filed showing that the project can again move forward. If the project terminates then California American Water would file an application within 120 days proposing how to dispose of the surcharge 2 collections that are over and above the prudently incurred costs.

Q32. Have you prepared any showings that demonstrate the proposed surcharge 2 and how the advice letter would estimate changes in future surcharge percentages?

A32. Yes, included as Attachment 2 to this testimony are the following exemplary showings which demonstrate how the proposed surcharge 2 works:

(i) Surcharge for 9.0 MGD project with no change in timing or cost,

(ii) Surcharge for 9.0 MGD project with no change in timing or cost, but a projected 20% shortfall from the $99.1 million proposed collection ,

(iii) Surcharge for 5.4 MDG project with no change in timing or cost,

(iv) Surcharge for 5.4 MGD project with no change in timing or cost, but a projected 20% shortfall from the $99.1 million proposed collection ,

Q33. How does California American Water propose to account for the surcharge 2 collections?

A33. As noted above, California American Water requests that the surcharge 2 collections be accounted for as a recovery of costs and tracked in a memo account along with total costs to construct the project. The memo account will draw interest at the same rate as would the costs incurred for the project. Once the project is complete and the surcharge ceases – the remaining balance in the memo account will be transferred to plant in service as the total cost of the project. This will in effect reduce the total project cost by accounting for the surcharge collections as a reduction of cost, and not as a contribution offset to the project, resulting in lower capital costs as well as eliminating the recording of contributions.

Q34. What is the overall revenue impact of the proposed project with and without the collection of surcharge 2 and assuming the Commission approves surcharge 2?

A34. For the 9.0 MGD project, the revenue requirement in 2017 with the collection of the full $99.1 million of surcharge 2 collections and SRF financing, is $28.9 million. If the same 9.0 MGD project only collected approximately $50 million of surcharge 2 collections then the first year revenue requirement in 2017 would be $34.6 million. If the same 9.0 MGD project was to collect no surcharge 2 collections then the first year revenue requirement in

2017 would be $40.3 million. The main causes of the increasing revenue requirement as the surcharge 2 collections go down are: 1) lower surcharge collections, 2) increases in construction financing costs, 3) increased reliance on long-term debt and equity, 4) increased property taxes, and 5) increased depreciation. Without the surcharge 2 collections as requested in this application, there is a high probably of rate shock occurring at the time the project is placed into the revenue requirement.

Q35. Please explain what the Commission authorized in D.10-12-016 in regards to a cost cap on desalination plant facilities.

A35. In its authorization of the Regional Desalination Project, the Commission adopted a cost cap on the non-CAW facilities[5] in the amount of $297.6 million. In discussing the cost cap the Commission noted that "The Commission will take a strict view before allowing cost recovery for amounts greater than $297.5 million. Unforeseen and unknown costs will be the sole burden of Cal-Am unless it is demonstrated that these costs were due to extraordinary circumstances. Since large contingency amounts are already accounted for in the capital cost cap, the burden for recovering any amounts above the cost cap ceiling will be high."[6]

Q36. What is California American Water's request in regards to a cost cap in this application?

A36. California American Water is requesting that a cost cap of $268.2 million be established for the 9.0 MGD facility and a cost cap of $218.1 million be established for a plant with a 5.4 MGD capacity. These cost caps include estimated capitalized AFUDC . However, the cost caps will need to be adjusted upward to reflect other changes in Commission authorizations which occur beyond the filing date of this application. The above cost caps have been determined using a capital structure of 42% equity and 58% debt, and an

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[5] In the Water Purchase Agreement, adopted by the Commission in D.10-12-016, the parties designated certain pipeline and conveyance facilities as "CAW Only Facilities". The $297.5 million did not include the costs of the CAW Only Facilities.

[6] D.10-12-016 page 86

uncollectible rate of 0.2643%. Please see the testimony of Mr. Svindland for details on the project cost and please see a later discussion of AFUDC in this testimony.

Q37. What does California American Water propose in regards to project costs that exceed the cost cap requested above?

A37. California American Water proposes that the Commission allow it to file a request to recover all costs in excess of the cost cap. Such costs would be subject to a heightened level of scrutiny, and recovery would only be allowed upon a showing that these costs were the result of extraordinary circumstances. This is the same standard that the Commission authorized in D.10-12-016 for the California American Only Facilities.

Q38. What requests is California American Water seeking related to the ratemaking treatment for the GWR?

A38. First, California American Water requests that it be allowed to file a tier 2 advice letter when California American Water is ready to construct the desalination facility (currently estimated to be in late 2014) to designate whether it will construct and build either the 9.0 MGD facility or the 5.4 MGD facility. If it files to construct the 5.4 MGD facility then it further requests that it be allowed to file another tier 2 advice letter once GWR is in the final process of being delivered to California American Water. The second tier 2 advice letter filed will authorize California American Water to include in the revenue requirement and rates charged to customers for the costs related to the purchase and use of the GWR water, all of which will be considered purchase water costs. All GWR costs will be tracked in a then authorized balancing account for purchased water costs.

V. RATEMAKING ISSUES IN MODELING

Q39. Are there various assumptions that have been made in the modeling for which you are providing support for the proposed ratemaking treatment?

A39. Yes, there are four aspects of the modeling for which I will support the proposed ratemaking treatment. Those three items are:

(i) Pipeline, ASR, Reservoir, Boosters and Other Facilities necessary to be built beyond the connection point to the desalination supply pipeline

(ii) Property Taxes,

(iii) Allowance For Funds Used During Construction ("AFUDC"), and

(iv) State Revolving Fund ("SRF") financing.

A. Pipeline, ASR, Reservoir, Boosters and Other Facilities

Q40. What is the general request in regards to the facilities that need to be constructed to deliver water into the Monterey service area, store desalinated water and deliver water to customers as a result of the proposed desalination project?

A40. California American Water is requesting that ratemaking treatment afforded to the facilities referred to in D.10-12-016, as the "California American Only Facilities", be authorized in this application without modification. In this application we will continue to refer to these facilities as the California American Only Facilities ("CAW Facilities").

Q41. What is the composition of the CAW Facilities?

A41. For a complete description of the facilities, please see the testimony of Mr. Schubert.

Q42. Can you please describe the approvals that were granted relative to the CAW Facilities in D.10-12-016?

A42. Yes, in D.10-12-016, the Commission approved with minor modification to the requested interest rate, the exact request made by the Settling parties. The Settlement Agreement provided that:

(i) There be a capital cost cap of $106.875 million for the Cal-Am-owned facilities,

(ii) That certain of the Cal-Am facilities should be treated as used and useful as soon as they are constructed, even if the full Regional Project is delayed for some reason,

(iii) That other than the Transfer Pipeline, Cal-Am will record the total cost of the Cal-Am facilities, subject to the capital cost cap and AFUDC calculation, that are completed and used to provide service to customers in its Utility Plant In Service Account,

(iv) That the total cost of the projects that are not providing service to customers will be recorded in the Construction Work in Progress (CWIP) Account,

(v) That rate base for the Cal-Am facilities will be calculated by determining the sum of Utility Plant in Service and CWIP, less any grant funds and less any accumulated depreciation,

(vi) That the Commission authorize Cal-Am to file a Tier 2 advice letter on a semi-annual basis to include all prudently expended costs related to construction of the Cal-Am facilities into rate base as either CWIP or UPIS,

(vii) That the semi-annual filings are to occur on May 15 and November 15 each year to allow all project expenditures through April 30 and October 31 into rate base and base rates as of July 1 (May 15 filing) and January 1 (November 15 filing),

(viii) That until allowed in rate base, all project costs are to earn AFUDC,

(ix) That the Commission staff to process the advice letters in 45 days, subject to true-up, if the staff review is not completed.

(x) That the rate increase is effective on January 1, or July 1 regardless of the status of the review by Commission Staff since the increase is subject to true-up,

(xi) That it is more appropriate to adopt an initial AFUDC rate that is more representative of current rates, and allow this rate to be trued-up to reflect actual carrying costs. Thus, we set the initial AFUDC rate at 4.00%, and

(xii) That on a monthly basis, Cal-Am will calculate the AFUDC, or the carrying costs for the project), by applying the actual costs of the borrowed funds and the post-tax return on equity.

(xiii) Recovery of costs greater than $106.875 million will only be approved for ratepayer recovery upon a showing that these costs were the result of extraordinary circumstances and subject to a heightened level of scrutiny.

Q43. Are there any ratemaking change(s) that you are requesting as part of this application?

A43. California American Water is not requesting any ratemaking changes as a result of this application. I have included as Attachment 3 a copy of the ratemaking treatment afforded through the approval of the Settlement agreement in D.10-12-016 with red-line modifications to exemplify changes that the Commission made in D.10-12-016 related to the AFUDC rate.

Q44. Please explain why you believe the Commission should not modify the prior treatment for the California American Water only facilities?

A44. In D.10-12-016 the Commission stated: "Cal-Am will file a Tier 2 advice letter twice a year to recover the costs of the Cal-Am only facilities. As envisioned by the Settling Parties, Commission staff would have 45 days to review the advice letter for "prudency" and the rates would go into effect, subject to true-up if the review could not be completed during that timeframe. [. . .] Because we have established a capital cost cap on costs that can be recovered from ratepayers, we do not require the more extensive review on each filing. We agree with Cal-Am and the Settling Parties that it is reasonable to allow semi-annual advice letter filings and that a true-up process is reasonable. This approach will provide some certainty as to cash flow, and can be adjusted during the prudency review process." There is nothing in the current application that would change the need for the above process. In fact, if anything, there is greater need for the cash flow recovery provided by this ratemaking approach since the full burden of financing the entire project now falls onto California American Water. There needs to be some ongoing recognition of recovery of expended costs, and this prior approved mechanism provides just such recognition.

Q45. What is the basis for the cost cap of $106.875 million and what protections does the cost cap ensure?

A45. The basis of the cost cap is that it is an amount midway between the most probable cost estimate and the high-cost scenario. The estimated capital costs are just that – estimates. To the extent that actual costs are lower than the cost cap adopted by the Commission, the lower amount will be reflected in rate base. Similarly, if actual costs are greater than the proposed cost cap, and the Commission approves these higher amounts, these amounts will be recorded in rate base. At this point, it is reasonable to adopt the cost estimate $106.875 million. This is an amount midway between the most probable cost estimate and the high-cost scenario and it is reasonable to adopt a capital cost ceiling to provide certainty for ratepayers and investors. Additionally, we have already agreed that to recover all costs in excess of the cost cap that recovery only be allowed upon a showing that these costs were the result of extraordinary circumstances and subject to a heightened level of scrutiny. This provides an extra protection to ensure that costs above the cap are absolutely necessary and prudent.

Q46. Are there other protections that are listed in the Settlement in A.04-09-019 that will ensure that the facilities are built cost effectively?

A46. Yes, California American Water agrees to establish cost containment and project management measures, including establishing measurable goals and objectives, setting design criteria to meet those goals and objectives, freezing the project size and configuration as early as possible, utilizing a transparent system of review, and utilizing value engineering in order to reduce costs.

Q47. Based on D.10-12-016, is California American Water suggesting that it is appropriate to adopt an initial AFUDC rate that is more representative of current rates, and allow this rate to be trued-up to reflect actual carrying costs, and the initial adopted rate should be 4%?

A47. Yes, in a manner of speaking. It has come to our attention that the Commission order on this point is controversial. There is no definition as to the true-up procedure. While D.10-12-016 sets the initial AFUDC rate at 4.00%, it also provides for a "true-up to reflect actual carrying costs." Furthermore, because the mechanism the Commission created in D.10-12-016 incorporates costs into rates through a bi-annual rate increase and not a memorandum account, the only way to "true-up" the AFUDC rate is in the bi-annual advice letter filing itself. There is no other place to do the true-up since the project costs and AFUDC go into base rates. The proper method to make the true-up is in the advice letter, where California American Water should show the actual instruments and costs that it used to finance the construction prior to the allowance of the costs into rate base and current rates. This showing should be no more than a demonstration of the change in balance sheet amounts for equity, long-term debt and short-term debt. California American Water agrees that if short-term debt increases in sufficient quantity and there are no other Commission recognized requirements for that increase, that the higher of 4% or the short-term rate should be used as the AFUDC rate for that semi-annual filing. If short-term debt is insufficient to cover the cost of construction, then a composite should be used of all instruments acquired to provide that the higher of the weighted average rate of the composite or 4% should be used. California American Water does agree that the upper limit in any filing should be the post-tax weighted average cost of capital as last determined in a cost of capital proceeding. If there is not enough of an increase in the total of all these financing instruments, then it has to be assumed that other capital sources were used, like depreciation and the rate for that other source should be the weighted average cost of capital. With this clarification, California American Water agrees to this methodology as adopted by the Commission in D.10-12-016.

Q48. Why is it appropriate to allow the costs of revenue increase from each filing to be approved through a tier 2 advice letter that is unilaterally effective in 45 days, subject to true-up?

A48. This approach will provide some certainty as to cash flow, and can be adjusted during the prudency review process. If the review takes longer than the 45 day period – then a true-up can be made in the following advice letter. Because this is such a large project and because it is important to keep AFUDC limited to only the period of construction cost expenditures before the effective date of the advice letter, this procedure protects the customers from accrual of excess AFUDC and allows the Company a set procedure so that it will reduce uncertainty and cash flow issues. Also, California American Water continues to agree to the quarterly meeting with DRA and DWA on this project and that process will also provide an additional level of review that helps to protect customer interests.

Q49. Have you calculated the AFUDC effect on the total costs if the advice letter was not authorized to be effective in 45 days?

A49. No I have not calculated an overall effect on the total costs to be capitalized. However, as an example, if you assume that you spent $10 million in a six-month advice letter period and you were able to secure low cost financing so that the 4% rate could be used, then a significant increase in AFUDC would occur if the approval of the advice letter was delayed for 6 months. The AFUDC that would be accrued under the proposal herein where the advice letter would be approved in 45 days is $150,000.[7] If the approval was

[7] ($10,000,000/2 * .04/12 * 6) + $10,000,000 * .04/12 * 1.5) = $150,000

delayed for 6 months before it was allowed in rates, then an additional $200,000 [8] would be accrued. Please note that this calculation is a simple interest calculation and does not include compounding that will occur in an AFUDC calculation. This calculation is also made at the low end interest rate, and not at the full cost of capital which would more than double the effect. Additionally, since this is a $106,875,000 project, if all advice letters were delayed – the effect could be as much as 10.7 times greater at the 4% rate, or $2.1 million, and if the interest rate was consistently at the cost of capital, then the effect would be 2.1 times greater again, or almost $4.5 million. So, besides creating cash flow issues if not approved in 45 days, if all advice letters were approved in 225 days, then there could be more than $4.5 million capitalized to the project for AFUDC. California American Water is trying to keep the total investment as low as reasonably possible and simply compounding AFUDC when there is a reasonable alternative that has been used previously authorized would not be appropriate.

Q50. Are there any other issues with the current approval process that you believe need clarified?

A50. Yes, one other issue that has kept arising in the approval of the advice letters is the fact that the prior approved process is not clear on the exact numerical presentation that is required. It is unclear whether costs are to be provided in the filing by sub-project in the CAW Facilities, or in total. In my opinion, it is not appropriate to require the costs to be provided in any greater detail than in total. We are seeking a total project cap of $106.875 million. While there are four sub-projects within this total, many of the costs are applicable to all projects, such as engineering, permitting, design, and overheads. I do not see a need to breakdown cost to the sub-categories when there is an overall project cap. To require such segregation when in fact for record keeping purposes such segregation is not performed, seems to create an additional accounting cost for no reason. Costs can just as easily be reviewed for reasonableness and prudency in total as they can sub-divided.

[8] ($10,000,000 * .04/12 * 6) = $200,000

Q51. Have you calculated the revenue requirement of the CAW Facilities under the assumption that the facilities could be financed with SRF financing, and if so what is that revenue requirement as compared to the revenue requirement under California American Water current cost of capital financing assumption?

A51. Yes, I have made two revised calculations using SRF financing for the debt component in the capital structures instead of assuming the latest approved weighted average cost of debt. Based on the current authorized debt/equity structure of 42% equity and 58% debt, the first year revenue requirement of the California American Water only facilities with an assumption of no SRF debt would be $13.8 million, and under an assumption that considered SRF financing that same first year revenue requirement would be $11.5 million, or a $2.3 million, or 16.7% reduction. Based on the current settlement debt/equity structure in A.11-05-001, et.al., of 53% equity and 47% debt, the first year revenue requirement of the California American Water only facilities with an assumption of no SRF debt would be $15.2 million, and under an assumption that considered SRF financing that same first year revenue requirement would be $13.2 million, or a $2.0 million, or 13.2% reduction. Besides the reduction to the revenue requirement for the lower cost of debt, I have also assumed that the portion of the facilities paid for by SRF debt would not be subject to property taxes nor would the portion so financed be depreciated as the SRF financing assumes that the annual payment considers both principal and interest repayment. I have also assumed that the first year revenue requirement would be in 2017 to match the expected in-service date for the desalination facility. I have included as Attachment 4 a copy of the calculations for the above revenue requirements.

Q52. Is there any change in the proposed facilities that are to be considered a part of the former CAW Facilities?

A52. No, so again it makes sense to continue to allow the same ratemaking treatment as previously authorized with the modification as noted above.

B. Property Taxes

Q53. Please explain the proposed ratemaking treatment of property taxes.

A53. Property taxes on real property in California have to be assessed in compliance with what is known as Proposition 13. The assessment is rendered based on a flat 1% of the assessed value of the subject property. The assessment can only increase by a maximum 2% annually. For utility property, the assessed value is normally approximated by rate base for ratemaking purposes. There are various methods used to determine the assessed value such as cost approaches and income approaches. In addition to the normal assessed value and the applicable 1% tax rate, other assessments and bond repayment costs may also be added to the tax bill as approved by taxpayers.

Q54. What are the issues that arise in regards to the determination of the property taxes for the current proposed water supply project?

A54. The issues that arise are how to treat contributions received from surcharge 2, how to treat the portion of the project funded by SFR loans, and whether the possessory interest doctrine applies.

Q55. Do surcharge 2 collections result in lower property taxes than would otherwise occur had surcharge 2 not been in place?

A55. Yes the portion of the investment funded through surcharge 2 collections is being excluded from a property tax assessment. This is in line with past practices where we have always excluded plant paid for by others from a property tax assessment because such plant is excluded from rate base. Reviewing the Property Tax Assessor's Handbook, I also found specific language on page 15 of AH542 as follows "In valuing CIAC property an appraiser or auditor-appraiser should consider all approaches to value, and whether or not the CIAC property adds value to the entire appraisal unit. However, since CIAC is related only to regulated utilities, historical cost led depreciation ("HCLD") and the income approach will tend to be the most valid indicators of value for the company as a whole. CIAC should not typically be added to the value indicators derived using these approaches. When HCLD is a valid indicator, CIAC generally has a zero value because the CPUC does not allow the company to earn a return on the property." This provides a very good indicator that the portion of the plant funded by contributions is not to be assessed for real property tax purposes. While we are not specifically requesting that the surcharge 2 collections be treated as contributions, we are requesting that the actual rate base value of the plant be determined as the net amount of the total cost incurred by California American Water, less surcharge 2 collections, which therein result in the same assessment determination for property tax purposes.

Q56. Have you had any communications with members of the Board staff of the State Board of Equalization in regards to how the valuation of property funded by others for assessment purposes will be determined?

A56. Yes, I along with other representatives for our Company have communicated recently directly with members of the Board staff of the State Board of Equalization. Based on the information we provided, the State Board members concluded that funding of construction through collections from others will not normally increase the value of the enterprise and therefore should be excluded from the assessed valuation for property tax purposes. This reaffirms the previous belief of California American Water, that the portion of the facilities funded by surcharge 2 should not be assessed property taxes.

Q57. What is the savings in property taxes that occurs as a result of funding a portion of the plant with contributions?

A57. Under the assumption that $99.1 million of the total cost of the plant is funded through surcharge 2 and assuming a property tax rate of 1.05%, the first year annual savings in property tax as a result of funding a portion of the plant with contributions is $1.0 million.

Q58. Does funding plant with SRF loans result in property tax savings as compared to funding with other debt instruments?

A58. Yes, California American Water believes that taxes would not be assessed on the portion of plant funded by SRF funding. This assumption was made based on the same rationale as that for property funded by others. Since the property funded by SRF loans does not increase the rate base of the utility and is to be excluded from rate base as required by the Commission, California American Water has assumed that no assessment will be made for property tax purposes.

Q59. Have you had any communications with members of the Board staff of the State Board of Equalization in regards to how the valuation of property financed by SRF loans for assessment purposes will be determined?

A59. Yes, I along with other representatives for our Company have communicated recently directly with members of the Board staff of the State Board of Equalization. Based on the information we provided, the State Board members concluded that since the Commission requires property funded by SRF loans to be separately maintained, excluded from rate base in perpetuity, fully paid for by a customer surcharge and maintained in such a manner as to ensure that the utility can't benefit from the assets paid for by the loan, that the portion of the property so funded should be excluded from the assessed value for property tax purposes.

Q60. What is the savings in property taxes that occurs as a result of funding a portion of the plant with SRF loans?

A60. Under the assumption that $93.3 million of the total cost of the 9.0 MGD plant, that $66.1 million of the total cost of the 5.4 MGD plant is funded by SRF loans and $50.2 million of the CAW Facilities is funded by SRF loans, and assuming a property tax rate of 1.05%, the first year annual savings in property tax as a result of funding a portion of the plant with SRF loans is $1.0 million and $0.7 million respectively, and $0.5 million for the CAW Facilities.

Q61. Based on the above, what is the possible total savings in property taxes that can occur by funding a large portion of the necessary construction costs with surcharge 2 and SRF loans?

A61. If you assume that we end up constructing the 9 MGD facility then the total savings that can occur would be approximately $1 million for surcharge 2 funding, $1 million for SRF loans on the desalination plant facilities and $0.5 million on the CAW Facilities, for a total possible savings of $2.5 million.

Q62. How have you treated for property tax purposes, property owned by governmental agencies that are in operation expressly to serve customers of California American Water?

A62. In the instance of the property that is the subject of the requested authorizations in this application, California American Water has not assumed that any of the facilities owned by public entities and part of the water supply solution will cause a possessory interest tax to be imposed on California American Water.

Q63. Have you had any communications with members of the Board staff of the State Board of Equalization in regards to how to determine whether there should be a possessory interest in such property for property tax purposes?

A63. Yes. According to the State Board staff members, the main focus of determining whether a possessory interest tax should be assessed hinges upon the right of occupancy. If a person or entity has the right to occupy and/or make decisions on their own as to the operation of the government owned facility, then, in the opinion of the State Board staff members, the person of entity would have control of the facility and should be assessed a possessory interest. If a person or entity does not have the right to occupy, then more than likely a possessory interest tax should not be applied. The Board staff members did state that there are a number of gray areas in regards to possessory interests, but if it can be established that the person or entity really has no control and the relationship is more in line with a simple contractual purchase of a product, whether or not the person or entity is the majority or sole contractor for the product, then a possessory interest tax should not apply. Reviewing the Property Tax Assessor's Handbook, I also found specific language on page 50 of AH542 as follows: A possessory interest is an interest in real property that exists as a result of the possession of, or a right to possess or occupy land and/or improvements unaccompanied by ownership of a fee simple or life estate in the property. A possessory interest in a water company or system exists whenever the entity has the exclusive right to possess tax-exempt, publicly-owned property. The entity benefits from the possession of this property right, and it is taxed for the value of the benefits it receives. This statement in the handbook supports the contention that a possessory interest in the property should not exist and therefore property taxes should not be assessed.

Q64. What are the savings in property taxes that occur as a result of obtaining water from the GWR instead of through a California American Water owned and operated facility?

A64. Under the assumption that a 3 MGD GWR facility supplies a portion of the water to meet the SWRCB order and that as a result there is $47.0 million reduction in the total cost of the facilities needed to be funded by California American Water and assuming a property tax rate of 1.05%, the first year annual savings in property tax as a result of the contract to purchase water from a public entity is $0.5 million

C. AFUDC

Q65. How has California American Water considered and calculated the carry cost of the construction dollars related to the water supply alternative?

A65. California American Water has assumed that the net average monthly investment carried in the memo account should be subject to a carry cost determination that is added to the overall net cost in the memo account. California American Water has assumed that carry cost will be AFUDC and that funds used to so construct the facilities will be of the lowest cost available. Please see the testimony of Mr. Linam for a discussion and determination of the instruments used to finance the facility during construction, and of the calculation of the AFUDC.

Q66. How has California American Water considered the surcharge 2 collections in the calculation of the AFUDC?

A66. California American Water has assumed that the surcharge 2 collections are used to offset the cost of facilities, as noted above. As noted above, we are requesting that AFUDC be calculated on the average balance in the memo account.

Q67. What prior Commission policies, practices or decisions support the request that California American Water has made in regards to AFUDC in this application?

A67. The Commission has many times recognized that it is appropriate for AFUDC to be charged to projects. In D.08-05-036 the Commission stated the following Conclusions of Law:

Q1. Where possible, we want to match the regulatory carrying costs with the actual costs incurred, and Setting the AFUDC rate below the actual current cost is harmful.9

Q2. California American Water's requested AFUDC rate is consistent with precedent in which the Commission has authorized energy utilities to accrue AFUDC for major long-term capital projects at rates that reflect the overall cost of capital.10 In D.84-08-125, the Commission explained that the "basic concept underlying the

[9] D.08-05-036, page 16, Conclusions of Law 2 and 3

[10] D.84-08-125, *In the Matter of the Application of SAN DIEGO GAS & ELECTRIC COMPANY for authority to include the Southwest Powerlink as a specified major addition under its Major Additions Adjustment Clause (MAAC) and to increase its Major Additions Adjustment Billing Factor (MAABF) and decrease its Annual Major Additions Rate (AMAR) upon operation of the Southwest Powerlink*, 1984 Cal. PUC LEXIS 1309, **12-13.

AFUDC rate formulae [is to] provid[e] a return on investment based on the utility's capital structure similar to the overall rate of return derivation."11 Simply put, the Commission has calculated the AFUDC rate to reflect the expected source of funds used to finance the Project. Finally, in D.10-12-016, the Commission stated "It is reasonable to adopt an initial AFUDC rate of 4.00% to compensate Cal-Am for its carrying costs and allow for a true-up to reflect actual carrying costs."12 Based on the above precedent it is appropriate to charge interest to the project at an AFUDC rate that equals the cost of the funds used to support the financing of the project during construction.

Q68. What is the impact on the overall determination of the first year revenue requirement of the proposed treatment of AFUDC?

A68. The calculation of AFUDC is made in the model supporting the development of the revenue requirement. Attachment 5 provides a quarterly calculation of the AFUDC under the assumptions of the revenue requirement model as described in the testimony of Mr. Linam.

D. State Revolving Fund Financing

Q69. Has California American Water considered State Revolving Fund ("SRF") financing as part of the overall financing portfolio for the proposed water supply project?

A69. Yes, please see the testimony of Mr. Linam for details on how SRF financing was determined to be applicable to the proposed water supply project and how it was considered in the overall financing portfolio in the modeling.

Q70. How did California American Water determine the appropriate treatment of SRF financing for ratemaking?

[11] *Id.* at 15.
[12] D.10-12-016, page 202, Conclusion of Law 57

A70. I reviewed thoroughly Application 04-10-033 and Decision 05-01-048 of San Jose Water Company (SJWC) to "enter into a loan contract with the Department of Water Resources (DWR) for (1) the purpose of borrowing $1,660,250 from the Safe Drinking Water State Revolving Fund (SDWSRF) to be used to finance the design and construction of additional washwater handling facilities in the Montevina water treatment plant as required under the United States Environmental Protection Agency's (EPA's) Filter Backwash Recycling Rule (FBRR) and the California Cryptosporidium Action Plan, (2) to provide a stand-by letter of credit, as collateral for the loan, and (3) to impose a surcharge1 to repay the loan, pursuant to Pub. Util. Code § 454, §§ 816 – 830, and 8512." In this decision the Commission provided a significant level of detail on the exact treatment of the loan proceeds and plant constructed through those proceeds for me to make a determination of how our proposed SFR loan should be treated for ratemaking purposes. I have also reviewed Standard Practice SP U-13 W, which provides further support for the treatment proposed herein by California American Water.

Q71. Please describe how the Commission treats the proceeds of an SRF loan for ratemaking purposes.

A71. The Commission, in keeping with other prior authorizations, required that a customer surcharge be established and that the customers would be responsible to fully fund the principal and interest related to the loan, that the surcharge rates to be established to repay the loan should last as long as necessary to repay the loan, that surcharge revenues would not be commingled with other utility charges, that the utility plant financed by the loan should be permanently excluded from rate base for ratemaking purposes, and that special accounting requirements are necessary to ensure that there are no unintended windfalls to the utility shareholders. In essence, the Commission has established rules, practices and procedures to ensure that property financed through government loans should, in most cases, not result never result in increased profits or income to the borrowing utility and that the responsibility for the entire loan should be borne by the customers receiving the benefit from the property. California American Water has assumed that the SRF loan proceeds in this application will be repaid to the State over a twenty-year amortization period. Please see the testimony of Mr. Linam for further details on the cost assumptions in regards to the SRF Loans.

VI. REVENUE REQUIREMENT FROM THE PROJECT

Q72. Have you determined the revenue requirement increase from the project proposed in this application?

A72. Yes, in fact, California American Water has calculated a number of first year revenue requirements for the proposed project, as well as calculating the interim revenue requirement impacts as a result of various requests as made through this application. All of the revenue requirements are as shown in the testimony of Mr. Linam and the attachments to his testimony. Included in those revenue requirements are the anticipated revenue needs for each year during the construction period (7/1/12 – 12/31/16) as well as the overall first year revenue requirement for 2017. Mr. Linam, as noted above, also provides testimony on the impacts on the revenue requirement related to the impacts of currently pending decisions before the Commission that will affect the cost of capital as well as the uncollectible rate.

Q73. Have you calculated a showing of the overall revenue requirement for the Monterey district both with and without the impact of the proposed project herein? If so, what is the annual percentage impact of the proposed project on the anticipated revenue requirement without the proposed project?

A73. Yes, I have included with this testimony Attachment 6 which provides the expected revenue requirement for the Monterey district both with and without the proposed project and I have also provided the overall percentage impact of the project on the anticipated revenue requirement without the proposed project. I have made this calculation for all four scenarios that were provided in Mr. Linam's testimony. Since the below are comparative numbers, I have calculated these comparisons using the current authorized debt/equity structure and uncollectible rate. Those four scenarios are:

(i) 9.0 MGD plant with no GRW and no SRF

(ii) 9.0 MGD plant with no GRW and using SRF

(iii) 5.4 MGD plant with GRW and no SRF

(iv) 5.4 MGD plant with GRW and using SRF

As shown on Attachment 6, the overall annual first year revenue requirement related to the entire project, include the CAW Facilities, ranges from $40.4 million to $47.1 million, and increases the anticipated revenue requirement in 2017 without the project by a range of 89% to 104%. It should be noted that all of the revenue requirement scenarios in Attachment 6 use present rate revenues from 2012, assumes a capital structure of 58% debt and 42% equity and assumes that the Commission approves surcharge 2 as requested. Without the ability to fund a portion of the project through surcharge 2, the overall revenue requirement increases by $7.3 million per $50 million less in surcharge 2 collections.[13]

Q74. Is California American Water proposing a <u>revenue requirement increase</u> cap for this project, including the original CAW Facilities?

A74. No, as with the RDP, it is impossible at this point to determine with any accuracy the exact overall revenue requirement impact considering all the variables inherent in this project as well as the multiple pending Commission proceedings. We believe that the best that can be done is setting limitations on capital spend as was already done for the RDP, as to the CAW only facilities and as is the normal practice for construction projects.

[13] A reduction of $50 million in surcharge 2 results in $50 million greater rate base requiring additional pre-tax operating income of $5.4 million and an additional $1.9 million in depreciation and property taxes.

Q75. Have you calculated a comparison revenue requirement of the project under standard project construction assumptions?

A75. Yes, I have produced a calculation that assumes that entire project is funded with 58% debt at a weighted average cost of debt of 5% and 42% equity at a cost of 10.2% and that surcharge 2 is not authorized. In this calculation I also have to assume that all project costs receive AFUDC at the weighted average cost of capital and that property taxes are assumed on the entire cost of the project. I also have assumed increases in the Monterey revenue requirements other than for the project based on our position of revenue increases in ongoing proceedings. Under these assumptions, the annual revenue requirements from 2013 – 2017 are as follows:

(i) 2013 $50.0 (for Monterey)

(ii) 2014 $51.5

(iii) 2015 $53.0

(iv) 2016 $54.6

(v) 2017 $56.3 for Monterey, $60.7 for project, total $117.0

The impacts of this removal of SRF funding, surcharge 2 collections and increased property taxes has a severe impact on the 2017 revenue requirement and does not meet the intent of prior Commission authorizations. In my opinion, it would be very harmful to customers to fund the project under these assumptions when the authorizations herein requested produce such a significant overall savings in the 2017 revenue requirement.

VII. CUSTOMER BILL IMPACTS

Q76. Have you calculated the bill impact of the proposed project to a typical residential customer?

A76. Yes, I have attempted to do so, but based on the rate structure in Monterey per the settlement in A.08-01-027, it is difficult to accurately portray a typical residential customer. This is due to the individualized per capita conservation rate design for each residential customer. I had to assume many factors to create the rate impact comparison.

Q77. How did you calculate the net monthly rate impact to an individual residential customer from today until the year the plant goes into operation?

A77. I calculated the net monthly impact to a residential customer based on many assumptions. The assumptions are as follows: 1) I have assumed that the conservation rate structure will still be in place, 2) I have made the comparison to rates that are in effect as of today, 3) I have assumed a family size of three living on a ¼ acre lot using 7 Ccf per month, 4) I have assumed that all of the rates without the proposed project will increase at the same rate as the overall rate expected increase, except for the low block residential rate which I have assumed is limited to 50% of the tier 2 rate, 5) I have assumed that there is no change in total water sales from that agreed to in the settlement in A.10-07-007, 6) I have assumed the present rates to be those that would occur under the present rate structure and the partial Settlement in A.10-07-007 regarding total system usage, and 7) I have presented the increase effects from the four below scenarios in Attachment 7. In this model – I did not assume any increases from today's revenue requirement for rate cases or any other proceeding before the Commission. The intent of this showing is to provide a comparison of the increase against today's rates.

Q78. Why are you assuming the usage forecast as settled in A.10-07-007?

A78. To be able to make a true comparison of the actual effects of the project, we need to make sure to remove rate impact causations that have nothing to do with the overall revenue requirement. While usage has a dramatic impact on revenues collected, it has little impact on revenue requirement. It would be improper to compare today's present rates that are determined based on consumption estimates far greater than actually occur to rates that include the revenue requirement of the project and more realistic estimates of consumption. To make a valid comparison, the consumption estimates used to develop today's rates and the rates that will be in place after the project is in service need to be the same.

Q79. What are the estimated impacts to a typical residential customer based on each of the above scenarios?

A79. Please see Attachment 8 for the schedules containing the bill impacts. First, all the percentage increases in Attachment 8 are from today's authorized Monterey revenue requirement of approximately $45.1 million for the systems that will be assessed the revenue impact of the proposed project. In each of the scenarios, I have assumed the Commission grants Surcharge 2. The assumptions for these bill impacts are noted in the answer to question 77 above.

5.4MGD Plant, GRW, SRF					
			Monthly Bill		
	Revenue	Percent	Proposed	Proposed	Percent
Year	Increase	Increase	w/o CWP	w/ CWP	Increase
			Except	with	
			Surch #1	Surch #1 & 2	
2013	$15,294,585	33.89%	$44.54	$57.90	30.00%
2014	$34,987,977	77.52%	$44.54	$71.26	60.00%
2015	$40,095,496	88.84%	$44.54	$71.26	60.00%
2016	$41,090,058	91.04%	$44.54	$71.26	60.00%
2017	$44,300,000	98.15%	$44.54	$76.51	71.77%

Q80. Are there presently proposals to make changes in the Monterey rate design that will have an impact on the present bill impact analysis?

A80. Yes, and concurrently in progress with this application and noted above, California American Water has a request before the Commission to make changes to the current Monterey rate design. Those changes are proposed in Phase 2 of A.10-07-007 which is scheduled to result in a final decision on the rate design request by December 31, 2012. Additionally, scoped as Phase 3 in A.04-09-019 was another process in place to review and propose changes to the Monterey rate design. In Phase 3 of A.04-09-019, the Commission intended to consider changes as a result the implementation of a water supply solution in Monterey and how the significant increase in the revenue requirement was to be allocated in the fairest manner considering that some decline in consumption will occur due to price elasticity.

Q81. Have you presented any information in this application as to the bill impact of the proposals herein as they relate to the rate design proposals in A.10-07-007?

A81. No, I have not. The reason that I have not presented any analysis on the bill impacts related to the proposed revenue requirement increases herein under the proposed design in A.10-07-007 is that it might lead to confusion as to the proposal and because we simply do not know whether the Commission will approve our request, modify the request or simply reject the request in its entirety. In this application we are trying to provide the most relevant information, and in my view that is information and analysis based on currently known facts, not speculation as to what may occur in a different proceeding.

Q82. Could you make an analysis of the revenue requirement impact on customer bills if the Commission approved the requests in A.10-07-007?

A82. Yes, that could be done, but again my opinion is that it should be done once there is more certainty about the requests in A.10-07-007. There should be time in the second phase of this proceeding to make those comparisons.

Q83. Do you believe that the Commission should consider a second phase of this proceeding in which to address a going forward rate design after the revenue requirement for the proposed project herein is determined and ready to be implemented?

A83. Yes, the same rationale as existed in A.04-09-019 for a Phase 3 to analyze rate design exists in this current proceeding. That rationale is that: 1) the revenue requirement will increase significantly, 2) rates need to be set in a manner that does not place low income customers at a significant disadvantage as compared to their standing today, 3) the revenue requirement has to be spread appropriately to customers who receive the benefit and 4) consideration has to be given to overall consumption impacts through price elasticity that we suspect may exist to some extent.

Q84. When would you propose a Phase 2 of this proceeding take place?

A84. I believe that a Phase 2 to this proceeding should take place in a manner that results in a timely resolution setting the new rate design in place simultaneously with the implementation of the revenue requirement recovery of the facilities. Currently, I would suggest that a Phase 2 begin in mid 2015 and come to a final resolution in mid 2016. Through this timing a more accurate total revenue requirement for the entire project will be known as will many uncertainties surrounding total project cost, timing, financing, applicability of property taxes and other important considerations. We will also know a great deal more about the impacts of price elasticity since rates will have already been increased in accordance with the implementation of surcharge 2. All these factors provide appropriate direction that we need to wait to address the rate design until just before the revenue requirement of the project in finally implemented.

Q85. Is California American Water proposing any type of adjustment to its low income program for customers that are to receive the benefits and costs related to the new water supply project?

A85. Yes, it is apparent to California American Water that even before rate design is changed, there has to be changed and/or additional considerations for low income customers in Monterey.

Q86. What is California American Water proposing in regards to low income customers?

A86. California American Water proposes to change the low income discount wherein we will propose reductions to the service charge, tier 1 and tier 2 rates.

Q87. Please describe the changes you propose to the low income discount program.

A87. Currently the low income discount program in Monterey allows for an increasing discount based on the number of occupants. In a household with 4 or less occupants the discount is $8. In a household of between 5 and 8 residents the discount is $12 and in a household of more than 8 the discount is $16. The current discount is a flat amount that reduces the monthly bill. While this a significant allowance based on an average current bill of approximately $40, the current credit would be less significant once the proposals in this application are approved and in place. To remedy this situation and still allow conservation pricing to send the proper signal, I propose that the current flat rate discount be eliminated and replaced with a combined flat rate and percentage discount program.

Q88. Please further describe the proposed discount program.

A88. What I propose is that the low income customers receive a flat rate discount equal to 50% of the 5/8" by ¾" monthly service charge, regardless of meter size, and that the customers also receive a 25% discount on all quantity charges billed at the first and second tier rates. The rationale for continuing part of the discount through a flat rate reduction is that some customers use very little water and to remove the flat rate discount altogether would cause an increase to many customer bills. This would not be an appropriate message to be sending as rates escalate as projected. The rationale for a 25% discount on all quantity charges related to tier 1 and 2 usage is that these two tiers are considered the basic use tiers and most customer usage is in these tiers. We would not want to propose a discount for usage in any other tiers as usage therein is considered more discretionary and no customers should be allowed reduced rates for discretionary use. This reduction would apply to any surcharges that are designed based on a tier usage structure.

Q89. Have you produced a comparison of your proposed discount versus that which is in place today?

A89. Yes, appended hereto as Attachment 9 is a table that provides a comparison of the present discount to what I propose in this application. I have shown in this attachment a comparison of the discount for 4 person, 8 person and 12 person households at usage levels that allow for bills to be at the top end of a tier 1 usage bill, a tier 2 usage bill and a tier 3 usage bill (without any outside allowance). As shown, the proposal herein provides almost an equivalent reduction in the total bill if all usage stays in tier 1 and about twice the discount for all bills that have usage at the top end of tier 2 and in all tiers above tier 2. I also have made a comparison of the exact same conditions except with a 100% increase in all rates, including the discount. This comparison shows almost exactly the same results as compared to the result of this proposed program if it were to be in place under current authorized rates. The higher percentage discount when at the top of the tier two usage, an amount quite a bit higher than average, is necessary, in my opinion to ensure that low income customers are not severely impacted as a result of increases necessary to ensure an adequate, reliable, safe, continuous and legal right to water produced to serve customers.

Q90. What is the reason that you would propose the change in program since it appears that both the current program and your proposed program produce the same level of result?

A90. The reason for the proposed change is that I am attempting to ensure that on a going forward basis, the discount program will not need to be constantly changed as rate and surcharges are changed, and that a proper discount is provided on all rate charges, not just the base rates. When you have a flat rate discount program, you constantly have to change the discount amount to keep up with changes in rates. That is both time consuming and confusing to customers. Additionally, the proposed program herein integrates to a much greater degree with rate designs wherein a number of charges are billed through other than base rates. The proposed discount program herein will allow for discounts on any tier 1 or tier 2 rate applied through a tier rate structure and it will allow surcharges that are a percentage of the total bill to be accommodated. The proposal herein will ensure that low income customers receive an appropriate discount on all rates, not just on base rates.

VIII. SUMMARY

Q91. Please summarize your recommendations in this application?

A91. The recommendations of California American Water in my testimony relating to the proposed water supply project in Monterey are as follows:

(i) Surcharge 1 be continued as previously authorized but with three sub-categories; one for continuation for final costs related to development of the RDP, the second related to the unwinding of the RDP and the third sub-category related to the proposed project herein,

(ii) Surcharge 1 sub-category 1 will remain open with annual filings through the existing process for recovery in the Surcharge 1 balancing account until all final costs related to the development of the RDP are incurred,

(iii) Surcharge 1 sub-category 2 will remain open to address unwinding costs through the existing annual application process for recovery in the Surcharge 1 balancing account. The unwinding sub-category will remain open until all costs are incurred and no further costs are anticipated.

(iv) Surcharge 1sub-category 3 will remain open so that all the costs incurred prior to approval of the project herein requested can be considered pre-construction costs and that we are able to file for recovery of all such incurred costs through a separate application to be filed 90-days after a decision in this application grants such approvals,

(v) Issue an interim order allowing the development and construction of a test well and all necessary facilities to be able to properly test slant well technology and brine concentration, and allow the costs to be charged to the Surcharge 1 sub-category 3 memo account until and if the test facilities become operating facilities for an approved project,

(vi) Surcharge 2 be approved as requested herein and applied to customers bills from the time of a decision in this case until the revenue requirement for the proposed project herein is reflected in customers' bills,

(vii) A cost cap for the 9 MGD facility be established at $268.2 million, subject to necessary changes as a result of changes to the proposals herein,

(viii) A cost cap for the 5.4 MGD facility be established at $218.1 million, subject to necessary changes as a result of changes to the proposals herein,

(ix) The accounting treatment for the CAW Facilities be authorized as requested in this application,

(x) Property taxes should be included in the revenue requirement of the project in compliance with the findings of the tax assessor,

(xi) AFUDC should be allowed on all construction work in progress at the effective rate of the instruments used to finance the construction,

(xii) SRF loans be treated for ratemaking purposes just as the Commission has previously determined in D.05-01-048,

(xiii) A second phase of this proceeding will address further changes in rate design, and

(xiv) The low income proposal herein is adopted,

Q92. Does this conclude your direct testimony?

A92. Yes it does.

ATTACHMENT 1

ERRATA VERSION
ATTACHMENT 1
DELETED

ATTACHMENT 2

Testimony of David P Stephenson
Monterey Peninsula Water Supply Solution
Application 12-04-xxx
Testimony Attachment 2

($ Millions)

Scenario		2013 Jul - Dec	2014 Jan - Jun	2014 Jul - Dec	2015 Jan - Jun	2015 Jul - Dec	2016 Jan - Jun	2016 Jul - Dec	Total
	Revenue	**$ 25.0**	**$ 25.8**	**$ 25.8**	**$ 26.5**	**$ 26.5**	**$ 27.3**	**$ 27.3**	
i	**Surcharge**	$7.5	$11.6	$15.5	$15.9	$15.9	$16.4	$16.4	**$99.1**
	Surcharge %	30.00%	45.00%	60.00%	60.00%	60.00%	60.00%	60.00%	
	Capital	$13.1	$17.3	$15.6	$8.0	$53.5	$104.5	$59.3	**$271.3**
	Revenue	**$ 20.0**	**$ 20.6**	**$ 20.6**	**$ 20.6**	**$ 20.6**	**$ 20.6**	**$ 20.6**	
ii	**Surcharge**	$6.0	$9.3	$14.8	$14.8	$18.0	$18.0	$18.0	**$99.1**
	Surcharge %	30.00%	45.00%	72.00%	72.00%	87.60%	87.60%	87.60%	
	Capital	$13.1	$17.3	$15.6	$8.0	$53.5	$104.5	$59.3	**$271.3**
	Revenue	**$ 25.0**	**$ 25.8**	**$ 25.8**	**$ 26.5**	**$ 26.5**	**$ 27.3**	**$ 27.3**	
iii	**Surcharge**	$7.5	$11.6	$15.5	$15.9	$15.9	$16.4	$16.4	**$99.1**
	Surcharge %	30.00%	45.00%	60.00%	60.00%	60.00%	60.00%	60.00%	
	Capital	$11.9	$14.4	$13.0	$6.6	$43.4	$84.1	$47.5	**$221.0**
	Revenue	**$ 20.0**	**$ 20.6**	**$ 20.6**	**$ 20.6**	**$ 20.6**	**$ 20.6**	**$ 20.6**	
iv	**Surcharge**	$6.0	$9.3	$14.8	$14.8	$18.0	$18.0	$18.0	**$99.1**
	Surcharge %	30.00%	45.00%	72.00%	72.00%	87.60%	87.60%	87.60%	
	Capital	$11.9	$14.4	$13.0	$6.6	$43.4	$84.1	$47.5	**$221.0**

Note: Capital does not include AFUDC

ATTACHMENT 3

8. <u>CAW Facilities</u>. The Parties agree to the following terms relating to the cost of the CAW Facilities.

8.1 A description of the CAW Facilities, the construction schedule for those facilities, and the costs of those facilities are as follows:

8.1.1 The CAW Facilities that are the subject of this Settlement Agreement consist of three large diameter conveyance pipelines (total of 57,000 lineal feet), two distribution storage reservoirs (three million gallons each) and aquifer storage and recovery (ASR) facilities. These facilities include: 1) the Transfer Pipeline; 2) the Seaside Pipeline; 3) the Monterey Pipeline (including Valley Greens Pump Station); 4) the Terminal Reservoirs; and 5) the ASR facilities. The cost estimate for these facilities is addressed in Section 8.1.3 and <u>Attachment 3</u> and <u>Attachment 4</u> to this Settlement Agreement.

8.1.2 A detailed description and construction schedule for the CAW Facilities is provided in <u>Attachment 3</u> to this Settlement Agreement. The schedule is an estimate and is contingent upon the timely issuance of a CPCN. The general schedule has land/right-of-way acquisition, permitting, preliminary design and detailed design for the facilities commencing as early as the fourth quarter of2010, and being completed by the middle of2012. The general schedule has construction for the facilities commencing as early as the fourth quarter of 2011, and being completed by the summer of2014.

8.1.3 <u>Cost Estimate</u>. The Parties agree to a range of target cost estimates for the CAW Facilities. These target cost estimates are identified as the Low Scenario; the Median Scenario; and the High Scenario. The Low Scenario is estimated at $82,610,000; the Median Scenario is estimated at $95,000,000; and the High Scenario is estimated at $118,750,000. For ease of reference, the Low Scenario represents a target cost estimate that is approximately 15 percent below the Median Scenario target cost estimate. Similarly, the High Scenario represents a target cost estimate that is 25 percent above the Median Scenario target cost estimate. The low, medium and high scenarios for the CAW Facilities can be found in <u>Attachment 4</u> to this Settlement Agreement. The Parties agree that for purposes of setting an estimated cost cap for the facilities the mid-point of the medium and high scenarios, or $106,875,000, should be used ("the Cap").

8.1.4 <u>Used and Useful Determination of Facilities</u>. Certain of the CAW Facilities were designed to resolve two critical operational limitations of CAW's existing distribution system: 1) the inability to maintain adequate water levels in the Forest Lake Tanks during maximum day demand conditions (usually several hot summer days in sequence); and 2) the inability to move water from the Seaside area to the rest of the Monterey Peninsula. The Parties agree that, except for the Transfer Pipeline, the CAW Facilities, should be treated for ratemaking purposes as used and useful even if the Regional Desalination Project is delayed for some reason, including but not limited to delays caused by construction or permitting.

8.1.5 Cost Containment. The Parties agree to the following cost containment and project management measures:

8.1.5.1 establishing clear and measurable goals and objectives;

8.1.5.2 setting design criteria that meet these goals and objectives;

8.1.5.3 freezing the project size and configuration as early as possible in order to avoid the possibility of scope creep;

8.1.5.4 employ a transparent and systematic program ofreview to ensure that the design conforms to established and accepted design criteria and design configuration; and

8.1.5.5 using Value Engineering in order to reduce costs, as set forth in Section 4.3(c) of the WPA. The Parties agree that all costs related to Value Engineering on the CAW Facilities will be charged to these facilities and allowed for ratemaking purposes as a part of the cost thereof.

9. Ratemaking Treatment for CAW Facilities.

9.1 Revenue Requirement Components. CAW shall use the following components in its calculation of the projected and actual revenue requirement associated with this project, until such time that all approved costs of the CAW Facilities are in rate base in utility plant in service and made part of base rates in the next scheduled general rate case:

9.1.1 Utility Plant in Service (UPIS). The total cost of the projects outlined above subject to the Cap and Allowance for Funds Used During Construction (AFUDC), including, but not limited to, all applicable pre-construction costs and accumulated AFUDC, that are completed and used to provide service to customers, regardless of the source of funds. The Transfer Pipeline will not be considered UPIS before the Regional Desalination Project is completed.

9.1.2 Construction Work in Progress (CWIP). The total cost of the projects outlined above subject to the Cap and AFUDC, including, but not limited to all applicable pre-construction costs and accumulated AFUDC, that are not currently providing service to customers, regardless of the source of funds.

9.1.3 Rate Base. The sum of UPIS and CWIP less any grant funds received specific to the projects outlined above and less any accumulated depreciation.

9.1.4 Non Rate Base Investment. The difference between i) the total cost of the projects outlined above including, but not limited to, all pre-construction costs and AFUDC, and ii) the combination of a) the amounts that are deemed to be included in Rate Base and b) any grant funds received.

9.1.5 Costs for Debt and Other Non-Equity Sources. The weighted average embedded interest rate of CAW's actual debt issuances which were issued to fund the

projects outlined in the Settlement Agreement, including financing costs. The debt used to finance these facilities should not be included in weighted average cost of capital for other facilities of CAW. The interest rate for State Revolving Funds will be based on the embedded cost of the issuance.

9.1.6 Authorized Return on Equity Rate. CAW will use its authorized return on equity rate, as may be adjusted from time to time by decision from this Commission. The authorized ROE for 2010 is 10.20%.

9.1.7 Equity Used. The difference between i) the sum of a) rate base, b) non rate base investment, and c) accumulated depreciation and ii) the total debt and other non- equity sources of funds raised specifically to fund the projects listed above.

9.1.8 Federal Income Tax Rate. CAW will use its authorized federal income tax rate, as may be adjusted from time to time by decision from this Commission. CAW's current authorized federal income tax rate is 35%.

9.1.9 State Income Tax Rate. CAW will use its authorized state income tax rates, as may be adjusted from time to time by decision from this Commission. CAW's current authorized state income tax rate is 7.69%. Depreciation, ad valorem taxes and uncollectibles will be considered a part of determining the state income tax rate.

9.1.10 Combined Effective Income Tax Rate. The combined effective income tax rate will be calculated using the following formula:

1 – [(1-state income tax rate) X (1 – federal income tax rate)]

9.1.11 Pre-Tax Cost of Capital. The ~~pre-~~ post tax weighted average cost of capital used to fund the projects listed above. This will be calculated by the following formula:
{[(Equity Used X Authorized Return on Equity Rate) ~~/ (1 - Combined Effective Income Tax Rate)]~~ + [(Rate Base+ Non Rate Base Investment+ Accumulated Depreciation)- Equity Used] X Costs for Debt and Other Non-Equity Sources}

divided by {Rate Base+ Non Rate Base Investment + Accumulated Depreciation}

9.1.12 AFUDC Amount. The product of the higher of either 4% or the actual rate used to finance the project (limited on the high end by the ~~Pre~~post-Tax Cost of Capital) and the Non Rate Base Investment. Such amount will be calculated monthly and will become an additional amount to be added to the Non Rate Base Investment.

9.1.13 Depreciation Rates. CAW will use its authorized depreciation rates by asset type, as may be adjusted from time to time by decision from this Commission. For purposes of this mechanism, CAW's current applicable annual rates for the expected categories of UPIS are:

Wells	3.14%
Supply Mains	1.80%
Pump Stations	4.27%
Reservoirs	1.83%
Distribution Mains	1.63%

9.1.14 Ad Valorem Tax Rate. CAW will use the ad valorem tax rate from its most recent general rate case in which the Commission has issued its final decision. CAW's current applicable rate for 2010 and 2011 based on the previous Commission decision is 1.355%.

9.1.15 Uncollectible Revenues Percent. CAW will use the uncollectible revenue percent from its most recent general rate case in which the Commission has issued its final decision. CAW's current applicable rate is 0.2643%.

9.2 Revenue Requirement Calculation. CAW's revenue requirement associated with this project shall be the sum of:

9.2.1 Rate Base multiplied by Pre-Tax Cost of Capital

9.2.2 UPIS by asset class multiplied by the appropriate Depreciation Rate by asset class

9.2.3 Rate Base, net of accumulated depreciation for ratemaking purposes, multiplied by the Ad Valorem Tax Rate

9.2.4 The difference between a) the sum of9.2.1, 9.2.2, and 9.2.3 above, divided by the difference between 1 and the Uncollectible Revenues Percent and b) the sum of
9.2.1, 9.2.2, and 9.2.3 above

9.3 Revenue Requirement Calculation and Reporting Process. The Commission should authorize CAW on a semi-annual basis to include all prudently expended costs related to the construction of the CAW Facilities into rate base as either CWIP or UPIS, and therewith earn a return on and recovery of these costs in base rates.

9.3.1 CAW· will file advice letters on a semi-annual basis on May 15 and November 15 to allow all project expenditures through April30 and October 31 (respectively) into rate base and base rates as of July 1 (May 15 filing) and January 1 (November 15 filing) (following year).

9.3.2 The semi-annual revenue calculation shall be cumulative for this project and continue to adjust base rates until such time as the entire project is closed to UPIS and all project costs are in base rate calculations. The CWIP balance for any semi-annual advice letter filing will be the difference between total accumulated project spend, including AFUDC, and the total project spend, including AFUDC, that is proposed to be included in UPIS in the subject advice letter filing. Rate base for the purposes of the semi-annual filing will be the prior authorized rate base in the previous advice letter filing, plus the additional proposed UPIS and CWIP, less accumulated authorized depreciation for the UPIS.

9.3.3 All project costs will continue to earn AFUDC until such time as allowed in rate base. Proposed incremental CWIP and UPIS in each advice letter will include estimated AFUDC for the period between the expenditure cut-off date (April 30 and October 31) and the effective date of the advice letter (July 1 or January 1).

9.4 Annual Revenue Requirement Determination in the Advice Letter. CAW may file advice letters to incorporate the annual project spend into rate base on May 15 and November 15 of each year. Base rates shall be adjusted proportionately through the current rate design model. The advice letters will support all spend with invoices, journal entries or other support.

9.4.1 Such advice letters shall be processed by the Commission within 30 days to ensure that the rate increase resulting from the advice letter is effective as of July 1 (May 15 filing), or January 1 of the following year (November 15 filing).

9.4.2 If the advice letter is not processed and cannot be made effective on July 1 or January 1 of the following year, the revenue requirement as filed by CAW shall be implemented subject to true-up.

9.4.3 In the year all projects are completed, CAW may file the advice letter as soon as possible and it will be processed with 60 days. This final advice letter will place the full return on and the recovery of all plant investment, including prudently incurred costs over the Cap, into rate base and base revenue requirement and rates. This advice letter filing procedure will terminate when all plant additions have been completed and after all such additions have been authorized as part of base rates.

9.5 Determination of Asset Retirements. For ratemaking purposes, assets that will no longer be deemed used and useful for the provision of service to customers will be retired in the ordinary course of business. The retirements will be forecast along with the general rate case to be filed in May 2013, and will be anticipated to be made in 2015. Since retirements made in the ordinary course of business do not impact rate base, there will be no impact on the revenue requirement except for reductions in depreciation and ad valorem taxes. Depreciation accrual rates will also be adjusted in the next general rate case to reflect these retirements.

9.6 Rate Design Determination. CAW shall utilize its current rate model to determine the rate design.

9.6.1 Under the current rate design model, the block one residential rate does not change, and therefore the entire revenue requirement for this project will be placed on only residential customers who exceed the water use allowed in Block 1 and placed on all usage ofnon-residential customers.

9.6.2 This advice letter determined revenue requirement will not be applied to customers in Toro, Ambler Park, Chualar or Ralph Lane, unless and until such time as water from the Regional Desalination Project is able to be delivered to them.

ATTACHMENT 4

INCOME STATEMENT	2017 All Models									
MODEL Equity Ratio	53%	53%	53%	53%	42%	42%	42%	42%	42%	42%
SRF	Yes	Yes	No	No	Yes	Yes	No	No	Yes	No
Pipeline	Yes	no	Yes	No	Yes	no	Yes	No	Yes	Yes
Desal MGD	9	9	9	9	9	9	9	9	5.4	5.4
Regulated Operations Revenue	36.0	26.2	49.3	34.2	29.9	22.6	46.0	32.2	32.2	47.1
Customer Surcharge for SRF Debt Payments	8.6	5.1	0.0	0.0	10.5	6.3	0.0	0.0	8.6	0.0
Revenues	44.6	31.4	49.3	34.2	40.4	28.9	46.0	32.2	40.8	47.1
Pipeline Revenue Requirement		13.2		15.2		11.5		13.8		
Expenses										
Labor	3.3	3.3	3.3	3.3	3.3	3.3	3.3	3.3	2.9	2.9
Purchase Water	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	8.8	10.5
Fuel & Power	7.4	7.4	7.4	7.4	7.4	7.4	7.4	7.4	5.3	5.3
Chemicals	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.8	0.6	0.6
Membrane/Media Replacement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Repairs & Maintenance	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4	0.4
Avoided Costs	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)	(2.3)
Total O&M Expenses	9.7	9.7	9.7	9.7	9.7	9.7	9.7	9.7	15.7	17.5
Property Tax (% of NBV net of Contributions)	1.4	0.8	2.9	1.7	1.1	0.7	2.9	1.7	0.9	2.4
Uncollectibles	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Total General Taxes & Uncollectibes	1.5	0.9	3.0	1.8	1.2	0.7	3.0	1.8	1.0	2.5
Net Operating Expenses	11.3	10.6	12.7	11.5	10.9	10.4	12.7	11.5	16.7	19.9
AFUDC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Post-In Service AFUDC	0.0									
EBITDA	33.3	20.7	36.6	22.6	29.4	18.4	33.3	20.7	24.1	27.2
Depreciation	8.3	6.8	8.4	6.8	8.3	6.8	8.3	6.8	7.0	7.1
Amortization on Contributions	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)	(2.6)
Amortization on AFUDC Regulatory Asset	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1	0.1
Amortization on Regulatory Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
EBIT	27.5	16.5	30.7	18.4	23.7	14.2	27.5	16.4	19.6	22.6
Interest Expense	3.3	2.0	6.5	3.9	4.0	2.4	8.0	4.8	3.3	6.6
PBT	24.2	14.5	24.2	14.5	19.7	11.8	19.5	11.7	16.3	16.1
Income Taxes	9.9	5.9	9.9	5.9	8.0	4.8	7.9	4.8	6.6	6.5
Net Income	14.3	8.6	14.3	8.6	11.6	7.0	11.6	6.9	9.6	9.5

ATTACHMENT 5

Testimony of David P Stephenson
Monterey Peninsula Water Supply Solution
Application 12-04-xxx
Testimony Attachment 5

	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016	Total
5.4 MGD Desal Plant															
Capital Additions	$7.2	$4.7	$6.9	$7.5	$7.1	$5.9	$4.3	$2.4	$9.6	$33.8	$41.5	$38.6	$28.6	$14.9	$213.0
Surcharge Collections	3.8	3.8	5.8	5.8	7.7	7.7	8.0	8.0	8.0	8.0	8.2	8.2	8.2	8.2	99.1
Annualized AFUDC Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.2%	3.7%	4.6%	4.9%	5.2%	
Annualized Grossed Up AFUDC Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.3%	5.3%	6.8%	7.3%	7.9%	
Net CWIP															
Beginning Balance	0.0	3.5	4.4	5.6	7.3	6.7	4.9	1.2	(4.4)	(2.7)	23.1	56.8	88.1	109.7	
Net Additions	3.5	1.0	1.1	1.7	(0.6)	(1.8)	(3.7)	(5.6)	1.7	25.8	33.3	30.4	20.4	6.7	
AFUDC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	0.0	0.4	0.8	1.2	0.9	3.5
Ending Balance	3.5	4.4	5.6	7.3	6.7	4.9	1.2	(4.4)	(2.7)	23.1	56.8	88.1	109.7	117.3	
AFUDC to Income Statement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	(0.0)	(0.0)	0.0	0.6	1.3	1.8	1.4	5.1
AFUDC Reg Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.4	0.6	0.5	1.7
9.0 MGD Desal Plant															
Capital Additions	$7.4	$5.7	$8.3	$9.0	$8.5	$7.1	$5.1	$2.8	$11.9	$41.6	$51.2	$47.6	$35.2	$18.4	$260.0
Surcharge Collections	3.8	3.8	5.8	5.8	7.7	7.7	8.0	8.0	8.0	8.0	8.2	8.2	8.2	8.2	99.1
Annualized AFUDC Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	2.3%	4.4%	4.9%	5.1%	5.4%	
Annualized Grossed Up AFUDC Rate	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	1.0%	3.2%	6.5%	7.4%	7.7%	8.1%	
Net CWIP															
Beginning Balance	0.0	3.7	5.6	8.1	11.4	12.2	11.6	8.8	3.7	7.6	41.5	85.2	125.9	154.8	
Net Additions	3.7	1.9	2.5	3.2	0.8	(0.6)	(2.8)	(5.1)	3.9	33.7	43.0	39.4	27.0	10.2	
AFUDC	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	0.7	1.3	1.8	1.4	5.6
Ending Balance	3.7	5.6	8.1	11.4	12.2	11.6	8.8	3.7	7.6	41.5	85.2	125.9	154.8	166.4	
AFUDC to Income Statement	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.2	1.1	2.0	2.7	2.1	8.2
AFUDC Reg Asset	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.1	0.3	0.7	0.9	0.7	2.7

ATTACHMENT 6

Testimony of David P Stephenson
Monterey Peninsula Water Supply Solution
Application 12-04-xxx
Testimony Attachment 6

Plant Size	Financing	1st Year Rev Req of Desal Facilities ($ millions)	CAW Only Facilities	Total Facilities	Current Monterey 2011 Rev Req	Total Revenue Requirement Desal Project	Estimated Rev Req Increase
9.0 MGD	No SRF	**$32.2**	**$13.8**	**$46.0**	**$45.4**	**$91.4**	**101.4%**
9.0 MGD	SRF	**$28.9**	**$11.5**	**$40.4**	**$45.4**	**$85.8**	**88.9%**
5.4 MGD w/ GWR	No SRF	**$33.3**	**$13.8**	**$47.1**	**$45.4**	**$92.5**	**103.8%**
5.4 MGD w/ GWR	SRF	**$29.3**	**$11.5**	**$40.8**	**$45.4**	**$86.2**	**89.9%**

Note: Assumes 42% Equity / 58% Debt

ATTACHMENT 7

10cfs **Attachment 7** **9.0 MGD Facility - with SRF Financing**

	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5	Total Volume	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5
SF	12,923,963.2	5,428,401.2	2,383,646.3	908,425.0	1,444,564.4	23,089,000.0	55.97%	23.51%	10.32%	3.93%	6.26%
PAR	535,652.9	197,277.8	61,583.7	16,452.3	17,033.5	828,000.2	64.69%	23.83%	7.44%	1.99%	2.06%
MF	4,796,646.8	1,351,091.8	228,306.0	50,941.1	26,014.4	6,453,000.0	74.33%	20.94%	3.54%	0.79%	0.40%
Commercial											
Commercial Not Irrigati	9,812,606.2	286,148.3	600,000.5			10,698,755.0	91.72%	2.67%	5.61%		
Dedicated Irrigation	826,928.4	102,314.7	-			929,243.1	88.99%	11.01%	0.00%	0.00%	0.00%
Industrial	257,217.0	4,666.0	15,117.0			277,000.0	92.86%	1.68%	5.46%		
OPA	1,984,590.4	115,967.0	122,990.5	-	-	2,223,548.0	89.25%	5.22%	5.53%		
Golf (Incl OPA Golf)	475,999.0	1.0	-			476,000.0	100.00%	0.00%	0.00%		
Viscaino Reclaimation Ta	-	-					0.00%	0.00%	0.00%		
Construction	-	-					0.00%	0.00%	0.00%		
OWU	126,000.0	-	-	-	-	126,000.0	100.00%	0.00%	0.00%		
Misc.	49,173.0	-	-	-	-	49,173.0	100.00%	0.00%	0.00%		
Ambler	294,908.04	358,036.99	90,335.97	-	-	743,281.0	40%	48%	12%	0%	0%
Bishop	268,969.77	147,519.64	93,755.08	86,160.85	139,594.66	736,000.0	37%	20%	13%	12%	19%
Hidden Hills	217,362.01	141,508.34	102,188.20	55,912.45	118,176.00	635,147.0	34%	22%	16%	9%	19%
Ryan Ranch	144,023.00	70,947.50	32,882.50	-	-	247,853.0	58%	29%	13%	0%	0%

Attachment 7 **9.0 MGD Facility - with SRF Financing**

Page 2

$ (1,180)

Base Rate $ 1.2699

RR Target 75,639,867

Volumetric only

ss Ralph

this Attach 7 tab from phase 2 rate design testimony
adjusted to reflect what today's rates would be under
current rate design adjusted for consumption
in A.10-07-007 plus RDP

	Block 1 Rate Multiplier	Block 2 Rate Multiplier	Block 3 Rate Multiplier	Block 4 Rate Multiplier	Block 5 Rate Multiplier
Monterey					
Residential	50%	100%	200%	400%	700%
Non-Residential	100%	300%	maxRes		
Dedicated Irrigation	300%				
Ambler	75%	100%	400%		
Bishop	50%	100%	200%	400%	700%
Hidden Hills				400%	700%

4.5 2.5

$ 28.58 $ 31.7475 9.8862033 $ 70.2087

3.27 Ambler Base Rate

$ 0.5020

4.66%

Monterey	Block 1 Rate	Block 2 Rate	Block 3 Rate	Block 4 Rate	Block 5 Rate
Residential	$ 0.6350	$ 1.2699	$ 2.5398	$ 5.0796	$ 8.8893
Non-Residential	$ 1.2699	$ 3.8097	$ 8.8893		
Dedicated Irrigation	$ 2.5398	$ 8.8893			
Ambler	$ 0.3765	$ 0.5020	$ 2.0079		
Bishop	$ 0.6350	$ 1.2699	$ 2.5398	$ 5.0796	$ 8.8893
Hidden Hills	$ 0.6350	$ 1.2699	$ 2.5398	$ 5.0796	$ 8.8893

No Ambler link to Monterey System Base Rate.

						Total Discount	Total Revenue	
SF	$ 8,206,717	$ 6,893,527	$ 6,053,985	$ 4,614,436	$ 12,841,166		$ 38,609,830	
PAR	$ 340,140	$ 250,523	$ 156,410	$ 83,571	$ 151,416	$ (60,528)	$ 921,532	
MF	$ 3,045,871	$ 1,715,751	$ 579,852	$ 258,760	$ 231,250		$ 5,831,484	
Commercial								
Commercial Not Irrigati	$ 12,461,029	$ 1,090,139	$ 5,333,584				$ 18,884,752	
Dedicated Irrigation	$ 2,100,233	$ 909,506					$ 3,009,739	
Industry	$ 326,640	$ 17,776	$ 134,380				$ 478,795	
OPA	$ 2,520,231	$ 441,800	$ 1,093,300				$ 4,055,331	
Golf	$ 604,471	$ 4	$ -				$ 604,475	
Viscaino Reclaimation Ta	$ -	$ -	$ -				$ -	
Construction	$ -	$ -	$ -				$ -	
OWU	$ 160,007	$ -	$ -				$ 160,007	
Misc.	$ 62,445	$ -	$ -				$ 62,445	
Monterey Total							$ 72,618,389	
Subsystems								
already excluded from revenue target--> Ambler	$ -	$ -	$ -	$ -	$ -		$ -	$ (472,128) Diff from RR (Ambler)
Bishop	$ 170,796	$ 187,335	$ 238,119	$ 437,663	$ 1,240,899		$ 2,274,812	
already excluded from revenue target--> Hidden Hills	$ -	$ -	$ -	$ -	$ -		$ -	
Ryan Ranch	$ 182,895	$ 270,289	$ 292,302	$ -	$ -		$ 745,486	
							$ 3,020,298	

$ 75,638,687 RR=f(BaseRate)

75,639,867
(1,180)

10cfs **Attachment 7** **9.0 MGD Facility - without SRF Financing**

	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5	Total Volume	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5
SF	12,923,963.2	5,428,401.2	2,383,646.3	908,425.0	1,444,564.4	23,089,000.0	55.97%	23.51%	10.32%	3.93%	6.26%
PAR	535,652.9	197,277.8	61,583.7	16,452.3	17,033.5	828,000.2	64.69%	23.83%	7.44%	1.99%	2.06%
MF	4,796,646.8	1,351,091.8	228,306.0	50,941.1	26,014.4	6,453,000.0	74.33%	20.94%	3.54%	0.79%	0.40%
Commercial											
Commercial Not Irrigati	9,812,606.2	286,148.3	600,000.5			10,698,755.0	91.72%	2.67%	5.61%		
Dedicated Irrigation	826,928.4	102,314.7	-			929,243.1	88.99%	11.01%	0.00%	0.00%	0.00%
Industrial	257,217.0	4,666.0	15,117.0			277,000.0	92.86%	1.68%	5.46%		
OPA	1,984,590.4	115,967.0	122,990.5	-	-	2,223,548.0	89.25%	5.22%	5.53%		
Golf (Incl OPA Golf)	475,999.0	1.0	-			476,000.0	100.00%	0.00%	0.00%		
Viscaino Reclaimation Ta	-	-					0.00%	0.00%	0.00%		
Construction	-	-					0.00%	0.00%	0.00%		
OWU	126,000.0	-	-	-	-	126,000.0	100.00%	0.00%	0.00%		
Misc.	49,173.0	-	-	-	-	49,173.0	100.00%	0.00%	0.00%		
Ambler	294,908.04	358,036.99	90,335.97	-	-	743,281.0	40%	48%	12%	0%	0%
Bishop	268,969.77	147,519.64	93,755.08	86,160.85	139,594.66	736,000.0	37%	20%	13%	12%	19%
Hidden Hills	217,362.01	141,508.34	102,188.20	55,912.45	118,176.00	635,147.0	34%	22%	16%	9%	19%
Ryan Ranch	144,023.00	70,947.50	32,882.50	-	-	247,853.0	58%	29%	13%	0%	0%

Attachment 7 **9.0 MGD Facility - without SRF Financing**

Page 2

$ (2,265)

Base Rate: $ 1.3369

RR Target	79,634,867
Volumetric only	

ss Ralph

this Attach 7 tab from phase 2 rate design testimony
adjusted to reflect what today's rates would be under
current rate design adjusted for consumption
in A.10-07-007 plus RDP

Monterey	Block 1 Rate Multiplier	Block 2 Rate Multiplier	Block 3 Rate Multiplier	Block 4 Rate Multiplier	Block 5 Rate Multiplier
Residential	50%	100%	200%	400%	700%
Non-Residential	100%	300%	maxRes		
Dedicated Irrigation	300%				
Ambler	75%	100%	400%		
Bishop	50%	100%	200%	400%	700%
Hidden Hills				400%	700%

4.5		2.5		
$ 30.08	$ 33.4225	9.8862033	$ 73.3912	

3.27 Ambler Base Rate: $ 0.5020

4.46%

Monterey	Block 1 Rate	Block 2 Rate	Block 3 Rate	Block 4 Rate	Block 5 Rate
Residential	$ 0.6685	$ 1.3369	$ 2.6738	$ 5.3476	$ 9.3583
Non-Residential	$ 1.3369	$ 4.0107	$ 9.3583		
Dedicated Irrigation	$ 2.6738	$ 9.3583			
Ambler	$ 0.3765	$ 0.5020	$ 2.0079		
Bishop	$ 0.6685	$ 1.3369	$ 2.6739	$ 5.3478	$ 9.3586
Hidden Hills	$ 0.6685	$ 1.3369	$ 2.6738	$ 5.3478	$ 9.3586

No Ambler link to Monterey System Base Rate.

		Block 1	Block 2	Block 3	Block 4	Block 5	Total Discount	Total Revenue	
	SF	$ 8,639,669	$ 7,257,230	$ 6,373,393	$ 4,857,893	$ 13,518,667		$ 40,646,853	
	PAR	$ 358,084	$ 263,741	$ 164,662	$ 87,980	$ 159,405	$ (60,528)	$ 973,344	
	MF	$ 3,206,558	$ 1,806,275	$ 610,445	$ 272,413	$ 243,450		$ 6,139,141	
	Commercial								
	Commercial Not Irrigati	$ 13,118,473	$ 1,147,655	$ 5,614,985				$ 19,881,113	
	Dedicated Irrigation	$ 2,211,041	$ 957,492					$ 3,168,533	
	Industry	$ 343,873	$ 18,714	$ 141,469				$ 504,057	
	OPA	$ 2,653,199	$ 465,109	$ 1,150,982				$ 4,269,290	
	Golf	$ 636,363	$ 4	$ -				$ 636,367	
	Viscaino Reclaimation Ta	$ -	$ -	$ -				$ -	
	Construction	$ -	$ -	$ -				$ -	
	OWU	$ 168,449	$ -	$ -				$ 168,449	
	Misc.	$ 65,739	$ -	$ -				$ 65,739	
	Monterey Total							$ 76,452,885	
	Subsystems								
already excluded from revenue target-->	Ambler	$ -	$ -	$ -	$ -	$ -		$ -	$ (472,128) Diff from RR (Ambler)
	Bishop	$ 179,806	$ 197,219	$ 250,692	$ 460,771	$ 1,306,411		$ 2,394,899	
already excluded from revenue target-->	Hidden Hills	$ -	$ -	$ -	$ -	$ -		$ -	
	Ryan Ranch	$ 192,544	$ 284,549	$ 307,724	$ -	$ -		$ 784,818	
								$ 3,179,716	

$ 79,632,602 RR=f(BaseRate)

79,634,867
(2,265)

Ambler Present Rate Re	$	549,761
Overall Percentage Increase		
Ambler total Revenues	$	549,761
Ambler Service Charge	$	77,633
Ambler Quantity Revenu	$	472,128

		# Meters	Proposed Rate	
Ambler Meters	5/8	225	$8.91	$24,057
	3/4	67	$13.37	$10,749
	1	85	$22.28	$22,726
	2	11	$71.28	$9,409
	4	4	$222.75	$10,692
				$77,633

204.12	835.77
485.77	689.89
0.42019886	145.88
	0.211454

10cfs **Attachment 7** **5.4 MGD Facility - with SRF Financing**

	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5	Total Volume	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5
SF	12,923,963.2	5,428,401.2	2,383,646.3	908,425.0	1,444,564.4	23,089,000.0	55.97%	23.51%	10.32%	3.93%	6.26%
PAR	535,652.9	197,277.8	61,583.7	16,452.3	17,033.5	828,000.2	64.69%	23.83%	7.44%	1.99%	2.06%
MF	4,796,646.8	1,351,091.8	228,306.0	50,941.1	26,014.4	6,453,000.0	74.33%	20.94%	3.54%	0.79%	0.40%
Commercial											
Commercial Not Irrigatio	9,812,606.2	286,148.3	600,000.5			10,698,755.0	91.72%	2.67%	5.61%		
Dedicated Irrigation	826,928.4	102,314.7	-			929,243.1	88.99%	11.01%	0.00%	0.00%	0.00%
Industrial	257,217.0	4,666.0	15,117.0			277,000.0	92.86%	1.68%	5.46%		
OPA	1,984,590.4	115,967.0	122,990.5	-	-	2,223,548.0	89.25%	5.22%	5.53%		
Golf (Incl OPA Golf)	475,999.0	1.0	-			476,000.0	100.00%	0.00%	0.00%		
Viscaino Reclaimation Ta	-	-					0.00%	0.00%	0.00%		
Construction	-	-					0.00%	0.00%	0.00%		
OWU	126,000.0	-	-	-	-	126,000.0	100.00%	0.00%	0.00%		
Misc.	49,173.0	-	-	-	-	49,173.0	100.00%	0.00%	0.00%		
Ambler	294,908.04	358,036.99	90,335.97	-	-	743,281.0	40%	48%	12%	0%	0%
Bishop	268,969.77	147,519.64	93,755.08	86,160.85	139,594.66	736,000.0	37%	20%	13%	12%	19%
Hidden Hills	217,362.01	141,508.34	102,188.20	55,912.45	118,176.00	635,147.0	34%	22%	16%	9%	19%
Ryan Ranch	144,023.00	70,947.50	32,882.50	-	-	247,853.0	58%	29%	13%	0%	0%

Attachment 7 **5.4 MGD Facility - with SRF Financing**

Page 2

$ (1,723)

Base Rate: $ 1.2175

RR Target 72,516,933

Volumetric only

s Ralph

Monterey	Block 1 Rate Multiplier	Block 2 Rate Multiplier	Block 3 Rate Multiplier	Block 4 Rate Multiplier	Block 5 Rate Multiplier
Residential	50%	100%	200%	400%	700%
Non-Residential	100%	300%	maxRes		
Dedicated Irrigation	300%				
Ambler	75%	100%	400%		
Bishop	50%	100%	200%	400%	700%
Hidden Hills				400%	700%

4.5 2.5

$ 27.40 $ 30.4375 9.8862033 $ 67.7197

3.27 Ambler Base Rate $ 0.5020

4.83%

Monterey	Block 1 Rate	Block 2 Rate	Block 3 Rate	Block 4 Rate	Block 5 Rate
Residential	$ 0.6088	$ 1.2175	$ 2.4350	$ 4.8700	$ 8.5225
Non-Residential	$ 1.2175	$ 3.6525	$ 8.5225		
Dedicated Irrigation	$ 2.4350	$ 8.5225			
Ambler	$ 0.3765	$ 0.5020	$ 2.0079		
Bishop	$ 0.6088	$ 1.2175	$ 2.4351	$ 4.8702	$ 8.5228
Hidden Hills	$ 0.6088	$ 1.2175	$ 2.4350	$ 4.8702	$ 8.5228

No Ambler link to Monterey System Base Rate.

							Total Discount	Total Revenue	
	SF	$ 7,868,109	$ 6,609,078	$ 5,804,179	$ 4,424,030	$ 12,311,300		$ 37,016,695	
	PAR	$ 326,105	$ 240,186	$ 149,956	$ 80,123	$ 145,168	$ (60,528)	$ 881,010	
	MF	$ 2,920,199	$ 1,644,954	$ 555,925	$ 248,083	$ 221,708		$ 5,590,869	
	Commercial								
	Commercial Not Irrigatio	$ 11,946,848	$ 1,045,157	$ 5,113,504				$ 18,105,509	
	Dedicated Irrigation	$ 2,013,571	$ 871,977					$ 2,885,548	
	Industry	$ 313,162	$ 17,043	$ 128,835				$ 459,039	
	OPA	$ 2,416,239	$ 423,570	$ 1,048,187				$ 3,887,995	
	Golf	$ 579,529	$ 4	$ -				$ 579,532	
	Viscaino Reclaimation Ta	$ -	$ -	$ -				$ -	
	Construction	$ -	$ -	$ -				$ -	
	OWU	$ 153,405	$ -	$ -				$ 153,405	
	Misc.	$ 59,868	$ -	$ -				$ 59,868	
	Monterey Total							$ 69,619,470	
	Subsystems								
already excluded from revenue target-->	Ambler	$ -	$ -	$ -	$ -	$ -		$ -	$ (472,128) Diff from RR (Ambler)
	Bishop	$ 163,749	$ 179,605	$ 228,303	$ 419,621	$ 1,189,737		$ 2,181,015	
already excluded from revenue target-->	Hidden Hills	$ -	$ -	$ -	$ -	$ -		$ -	
	Ryan Ranch	$ 175,348	$ 259,136	$ 280,241	$ -	$ -		$ 714,725	
								$ 2,895,740	

$ 72,515,210 RR=f(BaseRate)

72,516,933
(1,723)

Ambler Present Rate Rev $ 549,761
Overall Percentage Increase
Ambler total Revenues $ 549,761

Ambler Service Charge $ 77,633

Ambler Quantity Revenue $ 472,128

		# Meters	Proposed Rate	
Ambler Meters	5/8	225	$8.91	$24,057
	3/4	67	$13.37	$10,749
	1	85	$22.28	$22,726
	2	11	$71.28	$9,409
	4	4	$222.75	$10,692
				$77,633

204.12	835.77
485.77	689.89
0.42019886	145.88
	0.211454

10cfs **Attachment 7** **5.4 MGD Facility - without SRF Financing**

	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5	Total Volume	Volume in block 1	Volume in block 2	Volume in block 3	Volume in block 4	Volume in block 5
SF	12,923,963.2	5,428,401.2	2,383,646.3	908,425.0	1,444,564.4	23,089,000.0	55.97%	23.51%	10.32%	3.93%	6.26%
PAR	535,652.9	197,277.8	61,583.7	16,452.3	17,033.5	828,000.2	64.69%	23.83%	7.44%	1.99%	2.06%
MF	4,796,646.8	1,351,091.8	228,306.0	50,941.1	26,014.4	6,453,000.0	74.33%	20.94%	3.54%	0.79%	0.40%
Commercial											
Commercial Not Irrigati	9,812,606.2	286,148.3	600,000.5			10,698,755.0	91.72%	2.67%	5.61%		
Dedicated Irrigation	826,928.4	102,314.7	-			929,243.1	88.99%	11.01%	0.00%	0.00%	0.00%
Industrial	257,217.0	4,666.0	15,117.0			277,000.0	92.86%	1.68%	5.46%		
OPA	1,984,590.4	115,967.0	122,990.5	-	-	2,223,548.0	89.25%	5.22%	5.53%		
Golf (Incl OPA Golf)	475,999.0	1.0	-			476,000.0	100.00%	0.00%	0.00%		
Viscaino Reclaimation Ta	-	-					0.00%	0.00%	0.00%		
Construction	-	-					0.00%	0.00%	0.00%		
OWU	126,000.0	-	-	-	-	126,000.0	100.00%	0.00%	0.00%		
Misc.	49,173.0	-	-	-	-	49,173.0	100.00%	0.00%	0.00%		
Ambler	294,908.04	358,036.99	90,335.97	-	-	743,281.0	40%	48%	12%	0%	0%
Bishop	268,969.77	147,519.64	93,755.08	86,160.85	139,594.66	736,000.0	37%	20%	13%	12%	19%
Hidden Hills	217,362.01	141,508.34	102,188.20	55,912.45	118,176.00	635,147.0	34%	22%	16%	9%	19%
Ryan Ranch	144,023.00	70,947.50	32,882.50	-	-	247,853.0	58%	29%	13%	0%	0%

Attachment 7 **5.4 MGD Facility - without SRF Financing**

Page 2

$ 1,856

Base Rate $ 1.3441

RR Target 80,059,867

Volumetric only

ss Ralph

Monterey	Block 1 Rate Multiplier	Block 2 Rate Multiplier	Block 3 Rate Multiplier	Block 4 Rate Multiplier	Block 5 Rate Multiplier
Residential	50%	100%	200%	400%	700%
Non-Residential	100%	300%	maxRes		
Dedicated Irrigation	300%				
Ambler	75%	100%	400%		
Bishop	50%	100%	200%	400%	700%
Hidden Hills				400%	700%

4.5 2.5

$ 30.24 $ 33.6025 9.8862033 $ 73.7332

3.27 Ambler Base Rate $ 0.5020

4.43%

Monterey	Block 1 Rate	Block 2 Rate	Block 3 Rate	Block 4 Rate	Block 5 Rate
Residential	$ 0.6721	$ 1.3441	$ 2.6882	$ 5.3764	$ 9.4087
Non-Residential	$ 1.3441	$ 4.0323	$ 9.4087		
Dedicated Irrigation	$ 2.6882	$ 9.4087			
Ambler	$ 0.3765	$ 0.5020	$ 2.0079		
Bishop	$ 0.6721	$ 1.3441	$ 2.6882	$ 5.3764	$ 9.4087
Hidden Hills	$ 0.6721	$ 1.3441	$ 2.6882	$ 5.3764	$ 9.4087

No Ambler link to Monterey System Base Rate.

							Total Discount	Total Revenue
	SF	$ 8,686,196	$ 7,296,314	$ 6,407,718	$ 4,884,056	$ 13,591,473		$ 40,865,756
	PAR	$ 360,012	$ 265,161	$ 165,549	$ 88,454	$ 160,263	$ (60,528)	$ 978,912
	MF	$ 3,223,826	$ 1,816,003	$ 613,732	$ 273,880	$ 244,762		$ 6,172,202
	Commercial							
	Commercial Not Irrigati	$ 13,189,124	$ 1,153,836	$ 5,645,225				$ 19,988,184
	Dedicated Irrigation	$ 2,222,949	$ 962,648					$ 3,185,597
	Industry	$ 345,725	$ 18,815	$ 142,231				$ 506,771
	OPA	$ 2,667,488	$ 467,614	$ 1,157,181				$ 4,292,283
	Golf	$ 639,790	$ 4	$ -				$ 639,794
	Viscaino Reclaimation Ta	$ -	$ -	$ -				$ -
	Construction	$ -	$ -	$ -				$ -
	OWU	$ 169,357	$ -	$ -				$ 169,357
	Misc.	$ 66,093	$ -	$ -				$ 66,093
	Monterey Total							$ 76,864,951
	Subsystems							
already excluded from revenue target-->	Ambler	$ -	$ -	$ -	$ -	$ -		$ -
	Bishop	$ 180,775	$ 198,281	$ 252,032	$ 463,235	$ 1,313,404		$ 2,407,728
already excluded from revenue target-->	Hidden Hills	$ -	$ -	$ -	$ -	$ -		$ -
	Ryan Ranch	$ 193,581	$ 286,082	$ 309,382	$ -	$ -		$ 789,044
								$ 3,196,772

$ (472,128) Diff from RR (Ambler)

$ 80,061,723 RR=f(BaseRate)

80,059,867

1,856

Ambler Present Rate Rev $ 549,761

Overall Percentage Increase

Ambler total Revenues $ 549,761

Ambler Service Charge $ 77,633

Ambler Quantity Revenu $ 472,128

		# Meters	Proposed Rate	
Ambler Meters	5/8	225	$8.91	$24,057
	3/4	67	$13.37	$10,749
	1	85	$22.28	$22,726
	2	11	$71.28	$9,409
	4	4	$222.75	$10,692
				$77,633

204.12	835.77
485.77	689.89
0.42019886	145.88
	0.211454

ATTACHMENT 8

9MGD Plant, no GRW, no SRF

Year	Revenue Increase	Percent Increase	Monthly Bill: urrent Rates Propose w/o MPWSP Except Surch #1	Monthly Bill: Proposed w/ MPWSP with Surch #1 & 2	Monthly Bill: Percent Increase
2013	$15,294,585	33.89%	$44.54	$57.90	30.00%
2014	$34,987,977	77.52%	$44.54	$71.26	60.00%
2015	$40,095,496	88.84%	$44.54	$71.26	60.00%
2016	$41,090,058	91.04%	$44.54	$71.26	60.00%
2017	$49,300,000	109.23%	$44.54	$82.24	84.65%

9MGD Plant, no GRW, SRF

Year	Revenue Increase	Percent Increase	Monthly Bill: Proposed w/o MPWSP Except Surch #1	Monthly Bill: Proposed w/ MPWSP with Surch #1 & 2	Monthly Bill: Percent Increase
2013	$15,294,585	33.89%	$44.54	$57.90	30.00%
2014	$34,987,977	77.52%	$44.54	$71.26	60.00%
2015	$40,095,496	88.84%	$44.54	$71.26	60.00%
2016	$41,090,058	91.04%	$44.54	$71.26	60.00%
2017	$44,600,000	98.82%	$44.54	$79.06	77.50%

5.4MGD Plant, GRW, no SRF

Year	Revenue Increase	Percent Increase	Monthly Bill: Proposed w/o MPWSP Except Surch #1	Monthly Bill: Proposed w/ MPWSP with Surch #1 & 2	Monthly Bill: Percent Increase
2013	$15,294,585	33.89%	$44.54	$57.90	30.00%
2014	$34,987,977	77.52%	$44.54	$71.26	60.00%
2015	$40,095,496	88.84%	$44.54	$71.26	60.00%
2016	$41,090,058	91.04%	$44.54	$71.26	60.00%
2017	$49,800,000	110.34%	$44.54	$82.52	85.27%

5.4MGD Plant, GRW, SRF

Year	Revenue Increase	Percent Increase	Monthly Bill: Proposed w/o MPWSP Except Surch #1	Monthly Bill: Proposed w/ MPWSP with Surch #1 & 2	Monthly Bill: Percent Increase
2013	$15,294,585	33.89%	$44.54	$57.90	30.00%
2014	$34,987,977	77.52%	$44.54	$71.26	60.00%
2015	$40,095,496	88.84%	$44.54	$71.26	60.00%
2016	$41,090,058	91.04%	$44.54	$71.26	60.00%
2017	$44,300,000	98.15%	$44.54	$76.51	71.77%

ATTACHMENT 9

Testimony of David P Stephenson
Monterey Peninsula Water Supply Solution
Application No.12-04-XXX
Testimony Attachment 9

Current Low Income Program						
	Present Rates			Rates Increased by 100%		
	4 person	8 person	12 person	4 person	8 person	12 person
Units per Tier	6	12	18	6	12	18
Meter Charge	$ 8.91	$ 8.91	$ 8.91	$ 17.82	$ 17.82	$ 17.82
Tier 1 rate	$ 2.83	$ 2.83	$ 2.83	$ 5.66	$ 5.66	$ 5.66
Tier 2 rate	$ 3.92	$ 3.92	$ 3.92	$ 7.84	$ 7.84	$ 7.84
Tier 3 rate	$ 7.83	$ 7.83	$ 7.83	$ 15.66	$ 15.66	$ 15.66
Tier 1 Bill	$ 17.89	$ 30.87	$ 43.85	$ 35.78	$ 61.74	$ 87.70
Tier 2 Bill	$ 41.41	$ 77.91	$ 114.41	$ 82.82	$ 155.82	$ 228.82
Tier 3 Bill	$ 88.39	$ 171.87	$ 255.35	$ 176.78	$ 343.74	$ 510.70
Current Program Discount	$ 8.00	$ 12.00	$ 16.00	$ 16.00	$ 24.00	$ 32.00

Low Income Program Proposal							
		Present Rates			Rates Increased by 100%		
		4 person	8 person	12 person	4 person	8 person	12 person
Units per Tier		6	12	18	6	12	18
Meter Charge Rate Discounted	50%	$ 4.46	$ 4.46	$ 4.46	$ 8.91	$ 8.91	$ 8.91
Tier 1 Rate Discounted	25%	$ 2.12	$ 2.12	$ 2.12	$ 4.25	$ 4.25	$ 4.25
Tier 2 Rate Discounted	25%	$ 2.94	$ 2.94	$ 2.94	$ 5.88	$ 5.88	$ 5.88
Tier 3 Rate Discounted	0%	$ 7.83	$ 7.83	$ 7.83	$ 15.66	$ 15.66	$ 15.66
Tier 1 Bill		$ 17.19	$ 29.93	$ 42.66	$ 34.38	$ 59.85	$ 85.32
Tier 2 Bill		$ 34.83	$ 65.21	$ 95.58	$ 69.66	$ 130.41	$ 191.16
Tier 3 Bill		$ 81.81	$ 159.17	$ 236.52	$ 163.62	$ 318.33	$ 473.04
Tier 1 Bill Discount		$ 8.70	$ 12.95	$ 17.19	$ 17.40	$ 25.89	$ 34.38
Tier 2 Bill Discount		$ 14.58	$ 24.71	$ 34.83	$ 29.16	$ 49.41	$ 69.66
Tier 3 Bill Discount		$ 14.58	$ 24.71	$ 34.83	$ 29.16	$ 49.41	$ 69.66