

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



FILED

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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.12-04-019
(Filed April 23, 2012)

**CALIFORNIA-AMERICAN WATER COMPANY
COMPLIANCE FILING ON THE MONTEREY PENINSULA WATER SUPPLY
PROJECT FINANCIAL MODEL**

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Dated: November 15, 2012

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Pursuant to the *Administrative Law Judge's Directives to Applicant and Ruling on Motions Concerning Scope, Schedule, and Official Notice*, dated August 29, 2012, California-American Water Company ("California American Water") respectfully submits this compliance filing to provide a financial model that can be used to compute various revenue requirement scenarios for the Monterey Peninsula Water Supply Project. California American Water worked jointly with representatives from the Division of Ratepayer Advocates ("DRA") and Monterey Peninsula Water Management District ("MPWMD") to develop the financial model,¹ attached hereto as Attachment 1.

The attached financial model reflects the collaborative efforts of DRA, MPWMD, and California American Water and includes the input of these interested parties. Counsel for DRA and MPWMD have authorized the undersigned to state that they support the model, as well as the use of the model as the basis for a common methodology.²

¹ In addition to an in-person meeting that took place amongst these parties at MPWMD's offices on Tuesday, October 30, California American Water, DRA, and MPWMD also met on other occasions to develop the model.

² By telephone, on November 15, counsel for MPWMD and DRA represented that they support the model and based on the input of their clients believe that the model can be used as the basis for a common methodology to calculate

Dated: November 15, 2012

Respectfully submitted,

By: /s/ Sarah E. Leeper

Sarah E. Leeper
Attorney for Applicant
California-American Water Company

the various revenue requirement scenarios.

Attachment 1

Monterey Water Supply Project

Key Assumptions

Plant Assumptions

Plant Size (MGD)	9.0
Capital Scenario	High End
vs. Most Probable Capital Scenario	+25.0%
Include CAW-Only Facilities?	No
Mobilization/Demobilization	2.0%
Engineering/Startup	15.0%
Implementation	20.0%
Elec, Inst & Control Systems	40.0%
Contingency	25.0%
Mitigation Allowance	1.0%
Exclude Test Well?	Yes

Ground Water Recharge

Annual AF	0
Cost per AF (\$)	\$3,000

Financing Assumptions

Cost of Capital

Cost of Equity	9.99%
Cost of Debt	5.00%
Equity %	53.00%
Debt %	47.00%

Cost of Capital

7.64%

Other Debt Rates

Short Term Debt Rate	1.00%
Short Term Debt Cap (\$MM)	\$20.0
SRF Debt Rate	2.50%
SRF Term (yrs)	20
SRF Assets Exempt from Prop Tax?	Yes

CAW Financing Scenario

3 - CAW Equity & Debt / SRF

% of SRF Debt in CAW Cap Structure? (Max = 47.0%)

0.0%

SRF Borrowings (\$MM)

\$0.0

Surcharge & Contribution Assumptions

Utilize a Surcharge?

Yes

Period	% of Mont Revenue Req	Start Date	End Date
Period 1	30.0%	07/01/13	12/31/13
Period 2	45.0%	01/01/14	06/30/14
Period 3	60.0%	07/01/14	12/31/14
Period 4	60.0%	01/01/15	06/30/15
Period 5	60.0%	07/01/15	12/31/15
Period 6	60.0%	01/01/16	06/30/16
Period 7	60.0%	07/01/16	12/31/16

Non CAW Debt via Public Agencies (ie. Public Agency Contribution, SRF Funding off CAW Debt Balance Sheet)

Contribution Amount (\$MM)	\$0.0
Contribution Date	Jan-14
Financing Rate	2.5%
Financing Term	20

Project Summary (\$MM)

Capital Investment

Desal Plant	\$254.7
CAW-Only Facilities	0.0
AFUDC	12.8
Total Project Cost	\$267.5

CAW Rate Base at Year End 2017

Utility Plant *	\$260.9
SRF Funded Costs *	0.0
Surcharge Funded Costs *	(102.5)
Pub Agency Funded Costs	0.0
Deferred Taxes	(1.2)
Total CAW Rate Base	\$157.2

* Net of depreciation & amortization

Total Cost to Customer

CAW Pre-Tax Equity Cost	\$14.0
CAW Pre-Tax Debt Cost	3.7
Depreciation & Amortization	4.1
General Taxes	1.8
Fixed O&M	2.8
Variable O&M	6.9

Year 1 CAW Rev Req (\$MM)

\$33.3

Customer SRF Surcharge	0.0
Public Agency Costs	0.0
Total Yr 1 Cost to Customer	\$33.3

Fixed Cost per AF

\$2,619

Variable Cost per AF

\$689

Total Cost per AF

\$3,309

CAW Captial Structure

CAW Equity	53.0%
CAW Debt	47.0%
SRF Debt	0.0%
Total	100.0%

Monterey Water Supply Project

Inputs

Project Dates / Timing

Engineering Start Date	Jul-13
Engineering Length (months)	24

Construction Start Date	Jul-15
Construction Length (months)	18

Total Project Length (months)	42
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O&M Expenses Begin	Jan-17
PUC Order	Jul-13

Ground Water Recharge

Cost as of	Jan-17
GWR Begins	Jan-17

Depreciation/Amortization

Book Depreciation Rate	2.50%
Tax Depreciation Rate	4.00%
Reg Asset Amortization Rate	2.50%
CAW Pipeline Depr Rate	1.33%

CAW Share of O&M in Year 1

Fuel & Power	100.0%
Chemicals	100.0%
Membrane/Media Replacement	0.0%
Repairs & Maintenance	20.0%
Purchased Water	100.0%
Labor	100.0%
Avoided Costs	100.0%

O&M Items

Avoided Costs (\$MM)	\$2.0
Date of Estimate	Dec-12
Portion of R&R Capitalized	50.0%

Property Taxes

Property Tax Rate	1.05%
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Surch Exempt from Prop Tax?	Yes
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AFUDC Rates

% of Debt as ST in AFUDC Rate	
AFUDC Rate	7.64%
Grossed Up AFUDC Rate	11.29%

Taxes

Federal	35.00%
State	8.84%

Effective Tax Rate

40.75%

Yr 1 Monterey Rev Req	\$50.0
Annual Rev Req Inflation	3.0%

Uncollectible %

0.3%

Inflation Rates

Consumer Price Index	1.3%
Water & Sewer Maintenance	5.6%

PUC Labor Escalation

2011	1.60%
2012	3.10%
2013	1.50%
2014	1.70%
2015	2.10%
CAGR	2.00%

PUC Non-Labor Escalation

2011	5.50%
2012	0.10%
2013	2.00%
2014	6.60%
2015	2.10%
CAGR	3.23%

Capex

Desal	Dec-16	Dec-16
North Pipeline	Dec-16	Dec-16
Engineering	Dec-16	Dec-16

Other Ratemaking

CWIP in Rate Base	No
Reg Assets in Rate Base	No
Rev Req Inflation	2.0%

Replacement Capital

	Year	Date
Pumps	20	Dec-36
Chemical Equipment 1	15	Dec-31
Chemical Equipment 2	30	Dec-46

O&M Expenses

	Fixed %	Variable %
Fuel & Power	0.0%	100.0%
Chemicals	0.0%	100.0%
Membrane/Media Replacement	0.0%	100.0%
Repairs & Maintenance	0.0%	100.0%
Purchased Water	0.0%	100.0%
Labor	100.0%	0.0%
Avoided Costs	0.0%	100.0%

Capacity Factor	100.0%
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