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.

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

REBUTTAL TESTIMONY OF JEFFREY T. LINAM

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Dated: October 13, 2017
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I. INTRODUCTION

Q1. Please provide your name and business address.
A1. My name is Jeffrey T. Linam. My business address is 655 W. Broadway, Suite 1410, San Diego, California 92101.

Q2. Have you previously supplied your qualifications in this proceeding?
A2. Yes, I provided my qualifications in my Direct Testimony in this proceeding, which was served on April 23, 2012 and on September 15, 2017.

Q3. Are there any changes to your qualifications?

II. PURPOSE OF TESTIMONY

Q4. What is the purpose of your testimony?
A4. The purpose of my testimony is to provide rebuttal to the positions espoused by the Office of Ratepayer Advocates ("ORA"), the Monterey Peninsula Water Management District ("MPWMD"), the Monterey Regional Water Pollution Control Agency ("MRWPCA", now known as Monterey One Water), Water Plus and the Planning and
Conservation League (“PCL”). My rebuttal testimony focuses on: 1) project financing and modeling, 2) customer impacts, 3) regulatory risk, and 4) provisions of the July 31, 2013 Comprehensive Settlement.

III. ORA’S TESTIMONY RAISES CONCERNS THAT ARE ALREADY ADDRESSED BY THE COMPREHENSIVE SETTLEMENT OR ESTABLISHES A STANDARD OF RISK THAT COULD JEOPARDIZE THE PROJECT

Q5. Please discuss the issues raised in the testimony of Ms. Suzie Rose of ORA and those that you will be addressing in your rebuttal testimony.

A5. ORA addresses a number of issues in their testimony. Specifically, ORA raises concerns about capital costs and cost caps and their inability to sufficiently review those costs. They raise concerns about the return water, the plant utilization, the collection of the construction funding charge (formerly referred to as Surcharge 2), and introduce a new “ratemaking compass” that would assign 100% of the risks “at all times” to California American Water (“Cal-Am” or the “Company”). My testimony will address most of the issues raised by ORA with the exception of the return water and plant utilization, which are addressed by Ian Crooks. Additionally, Mr. Cook and I both address the capital costs and cost cap concerns raised by ORA.

Q6. Do you have some general comments to make regarding ORA’s testimony?

A6. Yes. First, Cal-Am appreciates ORA’s continuing support for the Phase 1 project, including construction of the desalination plant, which will permit Cal-Am to resolve the Peninsula’s water supply issues. Second, Cal-Am believes that ORA’s concerns are largely addressed by the provisions of the Comprehensive Settlement and hopes that the testimony presented herein answers its concerns. Third, Cal-Am supports ORA’s request to open settlement discussions with the parties to address revisions needed to the Comprehensive Settlement and other agreements. Cal-Am has reached out to ORA recently and welcomes the opportunity to review and discuss the MPWSP model, O&M
and capital costs and any other assumptions. However, Cal-Am disagrees with ORA’s testimony that appears to establish a new standard of risk applied to Cal-Am that could jeopardize the project.

Q7. ORA devotes almost half of its testimony to concerns about the Comprehensive Settlement and that the MPWSP risks are not improperly borne by ratepayers. Do you agree with ORA’s position?

A7. No. ORA raises a number of concerns, which I will address in detail below. However, it is confusing that ORA would raise these concerns as deficiencies of the Comprehensive Settlement. The Comprehensive Settlement, which was negotiated over a year and ORA was a signatory, anticipated all of the concerns that ORA raised, building in necessary protections. In detail below, I will tie ORA’s concerns back to provisions of the Settlement, which is a good test of the quality of the agreement and shows that the settling parties were thorough in building in ratepayer protections for just the type of concerns that ORA raises. However, if ORA’s intent is really to back out of the Comprehensive Settlement and create a new “ratemaking compass” as they describe it on page 12, then that should have been clearly articulated by ORA. As I address below, this new “ratemaking compass” is written more from the perspective of a project that is imminent of failure as opposed to a framework that allows Cal-Am to plan, finance, construct and operate the MPWSP with ratepayer protections and review and approvals by the Commission.

Q8. On page 9 of ORA’s testimony, Ms. Rose appears to infer that the recommendation to reduce the amount of the construction funding charge, tied in part to approval of the Phase 2 project, reduces ratepayer protection. Do you agree?

A8. No. I am not sure if this is the intent of Ms. Rose’s language. However, the same
customer protections exist. Section 12 of the Comprehensive Settlement discusses the provisions and protections\(^1\). Cal-Am recommends a reduction in the size of the construction funding charge because of the prior approval of the Phase 2 costs, the compressed construction period and the impact to customer rates. The Phase 2 decision, D.16-09-021, did a number of things. It approved costs up to $50.3 million, tracked in a memorandum account and reviewed as part of the Tier 2 advice letter process all of which address the type of concerns that ORA has expressed.

Q9. ORA argues that Cal-Am’s requested modifications to Surcharge 2 (Construction Funding Charge) provide an unacceptable risk to ratepayers. Do you agree?

A9. No. First, one of ORA’s concerns is that the construction funding charge needs to be separately tracked, independent of other surcharges or costs. However, sub-sections 12.1(d) and (e) specifically state that a memorandum account will track surcharge collections. The memorandum account would track actual surcharge collections against both the estimated target, to ensure that the charge is collecting the right amount, and the surcharge collections net of construction spending for purposes of calculating AFUDC. Although it is implied that the surcharge collections would be tracked independently, if ORA wants that made more explicit in the Settlement Agreement, Cal-Am has no objections. Second, ORA implies that there should be some sort of special reasonableness or prudency review of the costs covered by the surcharge since the “funds are collected in advance of monies spent.” It may have been the case in the original application that funds would have been collected in advance of monies spent but that is not the case now. It is clear by examining the Sources and Uses of Cash schedule, Attachment 3, cumulative construction spending always exceeds the $40 million of construction funding charges. Section 12.2(b) also provides protections to either stop

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\(^1\) Q&A 13 from my September 15, 2017 direct testimony also discuss the general provisions of the Construction Funding Charge.
collection of the construction funding charge in the case of delay or return collections to customers in the case of project termination. Cal-Am agrees that it bears the burden of proof in providing sufficient evidence of the costs, but the Settlement Agreement is based on approval of a cost cap. The cost cap acts as a protection to customers by requiring Cal-Am to carefully manage the project spending. A Tier 2 advice letter filing or Petition to Modify are required if Cal-Am exceeds certain costs (see Section 6.7). Similarly, under Section 14.6, Cal-Am is required to file a Tier 2 advice letter to place the year 1 revenue requirements into base rates. The ratemaking provisions in the Settlement are similar in most regards to the ratemaking provisions in the Phase 2 decision, D.16-09-021. In my opinion the rate recovery approach in the Comprehensive Settlement provides more than adequate ratepayer protections and ensures that Cal-Am can finance, construct and meet the requirements under the CDO.

Q10. ORA expresses concern about the construction funding charge if the MPWSP project is not completed. Do you agree with ORA’s concern?

A10. No. Section 12.2(b) is very clear about protections around the construction funding charge should the project be delayed or terminated. Specifically, Section 12.2(b) states that if the project is stalled for “an estimated 3-month period or longer, it will cease collecting Surcharge 2, and collection will not again be initiated until Cal-Am has filed a Tier 1 advice letter showing that the MPWSP can again move forward. In the event of a project termination, Section 12.2(b) states, “[i]f the MPWSP terminates, Cal-Am will file an application with the Commission within 120 days proposing a method to return to customers any Surcharge 2 collections that are over and above the prudently incurred costs.” In my opinion, this shows that the settling parties were thoughtful in considering adverse scenarios and ensuring customers are protected.

Q11. ORA argues that parties have not been given sufficient time to assess Cal-Am’s cost updates for reasonableness and the procedural schedule does not provide adequate time...
for review. Do you agree?

A11. No. First, the procedural schedule was established because the Commission wants to handle the proceeding in an efficient manner. The proceeding was initiated on April 23, 2012, well over 5 years ago. Cal-Am’s financial and engineering data has been in the public record for some time. Although the procedural schedule is tight, most of the significant capital cost changes since the Comprehensive Settlement are reflected in the testimony of Mr. Richard Svindland, submitted on December 15, 2015, almost two years ago. This was explained in detail in the direct testimony of Christopher Cook. For example, if you add the cost cap for the 6.4 MGD option (Section 6.7(a)) with the cost cap for the CAW-Only Facilities you get $296 million. The current capital cost estimate for the 6.4 MGD facilities inclusive of the Cal-Am Only Facilities per the September 15, 2017 direct testimony of Christopher Cook is $329 million or an increase over the Comprehensive Settlement of $33 million. However, $26 million of this difference or almost 80% of the difference was addressed in the December 15, 2015 Supplemental Testimony of Richard Svindland. To my knowledge, ORA did not raise issues about the capital cost revisions made at the time. The remaining difference, or $7 million, was presented in the September 15, 2017 direct testimony of Christopher Cook and mainly consists of base construction and implementation cost increase tied to the delayed project schedule, offset in part by the elimination of the Terminal Reservoir. The recent changes in capital costs are driven by the duration of the delay and an appropriate inflationary increase. There are simple ways to validate the calculations. ORA may disagree about the approach but that does not warrant a procedural delay.

Q12. ORA similarly argues that it has not been provided sufficient time to perform discovery on the new information regarding the cost caps requiring a Petition to Modify. Do you agree?

A12. No. The rationale for establish new cost caps requiring a Petition to Modify mirror the provisions in the Comprehensive Settlement, sub-sections 6.7(b) and 7.2(b). The
differentials between the Tier 2 and Petition to Modify cost caps should remain. This is explained in detail on pages 25-26 of the September 15, 2017 direct testimony of Ian Crooks. Like the response provided above, ORA may dispute the assumption but a procedural delay does not solve ORA’s concern.

Q13. ORA argues that settlement negotiations must be re-opened to address material issues and time may be necessary for changes to the settlement agreement to be negotiated. Do you agree?

A13. Generally, I agree. As I stated in my September 15, 2017 testimony, I believe that most of the provisions of the Comprehensive Settlement are valid and have stood the test of time. The fact that many of the issues that ORA raised as concerns are already addressed by provisions of the settlement is a good example. Cal-Am believes that there is a reasonable chance of getting to a Comprehensive Settlement or one with the majority of the original 16 parties. Alternatively, it may be possible to gain agreement on all of the provisions where parties agree and limit the issues to be litigated and briefed to a small handful of issues. However, Cal-Am is concerned about the need to keep on track the project and a water supply solution. Further delays in the schedule jeopardize Cal-Am’s ability to deliver the project and meet the requirements under the CDO, which ultimately harm our customers in Monterey.

Q14. On pages 12-13 of Ms. Rose’s testimony, ORA sets out to establish a whole new “ratemaking compass” or standard “which all proposals in the current proceeding are evaluated”. Please explain your concerns with ORA’s proposal.

A14. I am concerned that ORA’s proposal would jeopardize Cal-Am financially and the fate of the water supply project. Moreover, there are several flaws with ORA’s rationale for such an approach. ORA begins its testimony by harkening back to a decision from the Railroad Commission of California of 1912 that it states has guided utility regulation in California for over 100 years. ORA’s reliance on a decision from 1912 rather than recent
decisions like D.16-09-021 that approved Phase 2 of the MPWSP or the provisions of the Comprehensive Settlement to which it agreed seems odd. More importantly, the practical implications of ORA’s position would be nothing short of devastating to Cal-Am and the fate of the water supply project. ORA’s position is that “no portion of risk of Cal-Am’s proposed venture is transferred from the utility, where it rightfully belongs” because Cal-Am will be “rewarded” with a return on rate base if the Commission grants a CPCN.

First, let’s be clear, Cal-Am is not rewarded for taking on substantial risk and investment in planning, constructing, delivering and operating the MPWSP. If a CPCN is granted, Cal-Am is allowed by the Commission regulations to recover its just and reasonable costs and afforded an opportunity to earn a reasonable return on its investment. It is not a reward. In fact, the financing plan in the Comprehensive Settlement already limits Cal-Am’s equity investment to 27% with the use of securitized debt. Second, Cal-Am has taken on significant risk in its Monterey District. The Company has not earned its allowed return for over a decade. American Water, Cal-Am’s parent, has had to infuse hundreds of millions of dollars into Cal-Am to ensure it could make the necessary investments in the system. For the past several years, Cal-Am has only collected between 70-80% of its authorized revenues in rates\(^2\) due largely to the rate design, which has been necessary for it to comply with the CDO. Cal-Am faces significant asymmetric risk in that it is not afforded a reasonable opportunity to earn its authorized return in the future, primarily due to Monterey. Monterey provides a great example of this asymmetric risk. If customers conserve as they have in Monterey, then Cal-Am does not collect its authorized revenue requirement and the carrying costs on that under-collected balance, primarily funded with long-term debt and equity, serves as a multi-million dollar drag on earnings. If customers consume more between now and when a water supply solution is in place increasing revenue collections, it risks triggering mandatory rationing and fines.

\(^2\) Less than 90% if surcharge collections from prior years’ revenues are included.
and penalties from the SWRCB. Cal-Am is the water supplier, the CDO applies to us and we will continue to work tirelessly to solve the water supply issues in Monterey.

Creating a new “ratemaking compass” that would only serve to jeopardize the MPWSP, when the solution is in sight, in my opinion, is irresponsible and not recommended.

Q15. Why does Cal-Am feel that ORA’s new “ratemaking compass” would jeopardize the Company and the MPWSP?

A15. First, Cal-Am is not proposing to limit the Commission’s responsibility to review the costs or to determine if costs are reasonable. The provisions of the Settlement Agreement mirror current ratemaking in many regards or treatment the Commission has provided in prior decisions involving large capital projects.

Starting with O&M costs, Cal-Am has provided its best estimates today of what those costs will be and as presented in the testimony of Christopher Cook. Those costs include labor, chemicals, power and other costs. The estimated costs in Section 8.1(a) would need to be updated to reflect the best estimate of O&M costs. However, Cal-Am is required under Section 8.3(a) to file a Tier 2 advice letter at least 60 days prior to the time the plant becomes operational to determine the level of costs to be used in setting the initial revenue requirement. In Section 8.3(b) a memorandum account is established to track the differences between estimated and actual costs and Section 8.3(c) discusses that Cal-Am would seek in the next general rate case all reasonable and prudent differences. Finally, Section 8.3(d) would set estimates for future O&M in the rate case just like Cal-Am does for other O&M costs. This is not a radical approach and it does not usurp the Commission’s authority. In fact, words like reasonable and prudent costs are specifically used. The Tier 2 advice letter process would provide the opportunity for the Commission, ORA and other parties review. In contrast, ORA’s new “ratemaking compass” would subject Cal-Am to all risk including their call out for O&M. For example, Cal-Am does not know what PG&E’s tariff rates will be in the future. Does
ORA suggest that we establish the rate today and subject Cal-Am to all variances? This approach seems contrary to the Commission’s ratemaking process, which does not require the utility to predict future costs for future decades, but allows the utility the opportunity to seek the recovery of reasonable and prudent costs.

For capital costs, the provisions in the Settlement Agreement provides similar protections. Sections 6.7 and 7.2 establish cost caps for the desalination plant and Remaining Cal-Am Only Facilities. These cost caps enforce management of the project costs on Cal-Am. Although there are vehicles to increase costs through a Tier 2 advice letter or Petition to Modify, they are limited to reasonable and prudent costs and require approval. Section 6.8 established a memorandum account so that all construction costs are tracked. Section 7.3(c) requires a Tier 2 advice letter filing to put the balance of the memorandum account into rates. Section 14.6 discusses the process for establishing the first year revenue requirement. Section 14.7 addresses subsequent year revenue requirements being addressed in subsequent general rate cases. Again, this is not a radical approach and does not usurp the Commission’s authority. The cost cap mechanism, which ORA emphasizes the importance of, the tier 2 process and subsequent general rate case proceedings provide the opportunity for the Commission, ORA and other parties review.

Q16. What other concerns do you have with ORA’s testimony?

A16. The ORA testimony’s application of all risk, “at all times” to Cal-Am is troubling. ORA’s position is in stark contrast to the Comprehensive Settlement provisions, which were drafted to provide Cal-Am a framework to construct and finance the project, in line with expectations, with reviews and required approvals by the Commission until the project is rolled into future general rate case proceedings. ORA’s position seems to presume, in my opinion, project failure or imminent failure. One example is ORA’s insistence that Cal-Am bear all costs related to legal action regarding the groundwater
basin. The testimony of parties to this proceeding have noted that there will be litigation. Another example is ORA’s proposal to place Cal-Am at risk for the return water percentage. ORA states that Cal-Am is responsible for avoidable construction cost overruns but does not define what is avoidable. ORA also states that Cal-Am should be responsible for “high O&M costs.” Some would consider PG&E’s tariff rates to be high or costs for renewable power. The provisions of the Comprehensive Settlement are more appropriate at providing a framework that allows the project to succeed.

Q17. ORA argues that the cost caps are a “substantial and fundamental part of the agreement” and that modifying the cost caps is not a minor change to the Comprehensive Settlement. Do you agree with ORA’s position?

A17. Yes and no. I am glad to see that ORA agrees that the cost caps are a substantial and fundamental part of the agreement; Cal-Am agrees. ORA’s position supports the ratemaking concept in the Comprehensive Settlement and why it is an appropriate framework to allow Cal-Am to move forward with construction under a set of reasonable expectations. I also agree that the cost caps are not a minor change. Where I disagree is that the cost caps are not proposed to be changed in concept. They would still apply. There would still be a Tier 2 cap and a PTM cap and the dollar amount of the variance between the Tier 2 and PTM caps would be the same as what was in the Comprehensive Settlement. In those terms, it is a minor change to the Settlement. Further details on the capital costs are addressed in the testimony of Christopher Cook and the cost caps in the testimony of Ian Crooks.
IV. CAL-AM SUPPORTS MPWMD’S RECOMMENDATION FOR TIMELY FILING AND APPROVAL OF THE FINANCING ORDER ON THE SECURITIZATION BUT STILL SUPPORTS TIMING THE DEBT ISSUANCE TO COINCIDE WITH CONSTRUCTION FUNDING NEEDS WHILE MINIMIZING THE IMPACT TO CUSTOMER BILLS

Q18. MPWMD General Manager, David Stoldt, provides testimony in support of the public agency contribution or “securitization” that is one of the elements of the financing provisions of the Comprehensive Settlement. What is Cal-Am’s position with respect to the securitization?

A18. As stated in my September 15, 2017 direct testimony, Cal-Am affirms its support for the July 31, 2013 Comprehensive Settlement, including the financing provisions. Section 11 of the Comprehensive Settlement addresses securitization and Cal-Am does not believe changes are necessary to Sections 11.1 through 11.6. Mr. Stoldt’s testimony discusses the criteria from Section 11.3 that Cal-Am believes will protect both ratepayers and the Company from potential adverse impacts from the securitization.

Q19. What is Cal-Am’s position with respect to Mr. Stoldt’s suggestion that the public agency contribution be accelerated?

A19. Cal-Am supports the timely filing and approval by the Commission of the financing order for the securitized bonds, soon after CPCN approval. Having final approval of the financing order removes another requirement of the project. The MPWSP model assumed timing of the securitization in December 2020 to: 1) coincide with the cash flow needs associated with construction, 2) minimize the period between securitized bond financing and completion of the desalination plant, and 3) minimize impact on customer bills.

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3 Ibid, Q&A 14 includes some requested changes to the financing provisions of the Comprehensive Settlement mainly addressing changes to the Construction Funding Charge. All other financing provisions should still be applicable including all of the provisions related to the Securitization, Section 11 of the Comprehensive Settlement.
bills. The current modeling assumes completion of the MPWSP construction funding charge at the time the revenue requirement and securitized bond financing roll into rates with completion of the desalination plant. One benefit of accelerating the securitization would be reduction in AFUDC. However, I would still recommend securitized bond financing occur when the cash is needed for construction. It would be more consistent with traditional ratemaking where the long-term financing costs are placed into rates when the plant is used and useful. In addition, the securitized bonds would have less flexibility than short-term debt or equity that could be more easily adjusted, or in the case of the construction charge, returned to customers. These are some issues to consider. However, Cal-Am supports the timely filing and approval of the financing order and options to issue the securitized debt sooner if it is beneficial to customers.

V. WATER PLUS INCORRECTLY REFERENCES THE COST PER ACRE FOOT INFORMATION FROM ATTACHMENT 1

Q20. The testimony of Ron Weitzman, President of Water Plus, states that there are inconsistencies in the cost per acre-foot (“AF”) provided in Attachment 1 to your September 15, 2017 direct testimony and September 27, 2017 errata. Do you agree?

A20. No. Unfortunately, Mr. Weitzman has incorrectly referenced the cost per acre-foot numbers in my Attachment 1.

Q21. Please explain the incorrect referencing made by Mr. Weitzman and the actual cost comparisons between the 9.6 MGD and 6.4 MGD plant, with 3,500 AF of groundwater replenishment water.

A21. Attachment 1 to my September 15, 2017 testimony examines among other things the cost per acre foot of the 9.6 MGD and the 6.4 MGD plant with 3,500 AF of GWR water from the Pure Water Monterey project. There are two scenarios for the 9.6 and 6.4 MGD plant sizes, based on capital under the Tier 2 and the Petition to Modify caps. The cost per acre foot for the 6.4 MGD plant size excluded the costs for the GWR water for year 1 of
$6,020,000 (3,500 AF times $1,720/AF).

Q22. What are the correct cost per AF for the 6.4 MGD plant, inclusive of GWR water, under the Tier 2 and PTM caps?

A22. Based on the revisions to Attachment 1 included with my rebuttal testimony, the cost per AF of the 6.4 MGD plant under the Tier 2 and PTM caps (inclusive of the 3,500 AF of GWR water) is $4,265 per AF and $4,472 per AF, respectively.

Q23. What are the correct cost per AF for the 9.6 MGD plant, under the Tier 2 and PTM caps?

A23. The cost per AF of the 9.6 MGD plant under the Tier 2 cap and PTM cap is $4,217 per AF and $4,664 per AF, respectively.

Q24. Explain what this reveals about the different plant sizes and capital scenarios.

A24. It demonstrates that there is very little difference in cost per AF between the 6.4 MGD and 9.6 MGD plant sizes when the cost of GWR water is included for the 6.4 MGD case. As Mr. Weitzman points out, there is very little difference between the 6.4 and 9.6 MGD plants from a capital perspective. There is also very little difference in the capital cost recovery component. The main differences are that the O&M costs under the smaller plant size are equally offset by the $6 million in purchased water costs at 3,500 AF times $1,720 per AF. There are not significant differences related to the capital cost components. The difference between the 6.4 MGD and 9.6 MGD plant under the Tier 2 cap is $48 per AF. The difference between the 6.4 MGD and 9.6 MGD plant under the PTM cap is $192 per AF. This should address Mr. Weitzman’s issues.

4 These values and differences are very close to the costs per AF included in my September 15, 2017 testimony. Specifically, the cost per AF under the 6.4 MGD plant for the Tier 2 and PTM caps (inclusive of GWR water) is $4,276 and $4,645, respectively. The cost per AF under the 9.6 MGD plant for the Tier 2 and PTM caps is $4,230 and $4,553, respectively. The differential between the 6.4 and 9.6 MGD plant under the Tier 2 cap is $46 per AF and between the 6.4 and 9.6 MGD plant under the PTM cap is $92 per AF.
VI. MRWPCA’S PURE WATER MONTEREY EXPANSION SCENARIOS WILL NEGATIVELY IMPACT CUSTOMER BILLS UNDER THE ASSUMPTION THAT DESALINATION IS NEEDED

Q25. MRWPCA’s witness, Paul Sciuto provides preliminary costs for three new Pure Water Monterey (“PWM”) expansion scenarios. Do the cost impacts presented in Table 1 accurately reflect the impacts to Cal-Am’s Monterey District customers?

A25. No. First, these costs are labeled preliminary and the first time I saw these costs was on September 29, 2017. Second, if a desalination plant is needed, then the impact of Scenario A, B and C would be additive to the costs provided in my rebuttal testimony and summarized in Attachments 1 through 4. If I understand the preliminary numbers provided on Table 1, it could add between $1.2 and $10.5 million in annual costs to our customers.

Q26. Why do you believe these costs are additive?

A26. The rebuttal testimony of Richard Svindland addresses the need for desalination as part of the MPWSP. His testimony addresses the critical factor that desalination plays in guaranteeing that Cal-Am is able to limit pumping from the Carmel River. As Mr. Svindland states, there is “no other source of water as reliable as the ocean.” The testimony of MPWMD General Manager, David Stoldt also acknowledges the need for desalination. If this is the case and given future demands, it is very likely that this expanded water sources would not be needed by Cal-Am’s customers. I have not provided testimony in this case on demand expectations but the incremental additions provided in MRWPCA’s Table 1 would be significant and therefore duplicative of the water provided by the approved Phase 2 Water Purchase Agreement with PWM.

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5 MRWPCA Direct Testimony of Paul Sciuto, page 12.
Q27. Do you have other concerns about the expansion scenarios and the cost information presented?

A27. Yes. I have five concerns. First, these costs are presented so late in the proceeding that in my opinion it would only serve to delay the proceeding further and possibly significantly. While I do not believe or have evidence to suggest this is the intent of MRWPCA, there are certainly other parties in Monterey that will cease on this new information as an opportunity for further delay. Second, I have heard that MRWPCA has experienced some cost overruns on the current project and so without extensive review, it will be difficult to test the assumptions and numbers presented. Third, it is important to remember that the $1,720 per AF cost approved in D.16-09-021 is only the first year cost and the cost per AF in subsequent years will rise and it is unclear to me what that rise will be. Fourth, I do not think that it is helpful to present the costs per AF as has been provided in MRWPCA’s Table 1. If desalination is necessary, then to me the AF costs of Scenarios A through C should be additive to the current costs per AF. Fifth, the testimony does not provide any ratemaking details. There is no water purchase agreement or other details to review.

VII. PHASE 1 FINANCIAL MODEL COMPONENTS AND RESULTS

Q28. Please describe the purpose of this section of your rebuttal testimony.

A28. Attached to my rebuttal testimony are revisions to Attachments 1 through 4. These attachments, the same that were included with my September 15, 2017 direct testimony, make revisions to reflect both the September 27, 2017 Errata and some other minor edits made to reflect latest assumptions.

Q29. Please provide an explanation of both the changes in the errata and the additional changes.

A29. The September 27, 2017 Errata captured: 1) small corrections to power cost under operation and maintenance expenses, 2) correction to the Tier 2 and PTM cap, which
failed to pick up the difference between the caps in the Cal Am Only Facilities, and 3) correction to the Construction Funding Charge to align to the new formula. The additional changes after filing the Errata include updating: 1) the Revenue Requirement in the assumption tab from $55M to $65M, 2) annual revenue percentage increase was changed from 3% to 4%, 3) input to show the collection of 90% of the Construction Funding Charge, 4) correction in Attachment 2 to properly show the short term debt of $12.6M for year 2016 and $7.4M in year 2018, 5) Visual Basic code was developed to eliminate the manual adjustment for calculation of Construction Funding Charge, and 6) the number of months for collection of the Construction Funding Charge for year 2021 from 2 months to 3 months.

Q30. How would you characterize the impact of these adjustments on the year 1 revenue requirement or cost per AF?

A30. The impacts are very small and from September 27, 2017 errata. The impact to the year 1 revenue requirement is a reduction of at least $0.1 million.

Q31. Does this conclude your testimony?

A31. Yes.