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Attachment 1

CALIFORNIA
AMERICAN WATER

Carmel River Reroute and San Clemente Dam Removal Project A.10-09-018

June 5, 2012

CALIFORNIA AMERICAN WATER

Alternate Decision Project Recognition

- **Alternate Decision properly recognizes that the San Clemente Dam is a used and useful asset that benefited customers over its useful life (1921- present).**
- **Alternate Decision values the benefits of the project – including unique and innovative partnership ($34 million in public funding), resolution of seismic safety issues and significant environmental benefits.**

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Urgency for Seismic Safety & Project Construction

- Delaying Decision beyond current schedule could extend the project schedule by one year, extending the risk of seismic failure.
- Further delays in Final Decision could impact public agencies ability to secure funding from private donors resulting in increased costs to customers.
- Further delays could jeopardize state funding that has been earmarked for the project

DRA Claims & CAW Responses

- **Cost Recovery: DRA believes that a 5.27% debt only return is appropriate since the Dam is no longer "used and useful"**
  - *CAW has no other option but to fund the project with long-term debt and equity. CAW's current authorized weighed average cost of debt is 6.48%.*
  - *A lower return could have severe consequences for Monterey ratepayers and all CAW customers.*
  - *The removal of the dam and reroute of the Carmel River is a capital project, and consistent with CPUC precedent, the utility should earn its authorized rate of return on such costs.*
  - *Denying a full rate of return to cover actual costs would deprive CAW of its constitutional right to an opportunity to earn a fair rate of return.*
  - *Unlike decommissioning, the project was not pre-funded by customers. DRA took actions to ensure CAW had no ability to collect costs in advance (See D.89-06-011, denying ability for ratepayers to pay in advance).*

DRA Claims & CAW Responses

- **Cost Recovery (cont'd): DRA believes that a 5.27% debt only return is appropriate since the Dam is no longer "used and useful"**
  - *On a stand-alone basis, CAW has several credit metrics that are below the level Moody's considers appropriate for an investment grade water utility*
  - *CAW's ability to earn its authorized equity return is already impaired (7.56% at best) due to low returns authorized for regulatory assets, WRAM balances and other CPUC authorized deferrals*
  - *Authorizing a 5.27% debt return on SCD Project would result in another 80 basis point impairment*

DRA Claims & CAW Response (cont.)

- **<u>Cost Allocation</u>: DRA claims that average customer bills will see a 30% increase.**
  - *Cost allocation methodology for the same revenue requirement can result in significant variation in the average bill*
  - *We agree with DRA. CAW supports its original variable quantity charge methodology, which results in a 6.7% increase to the average residential bill. This recognizes the value of conservation*

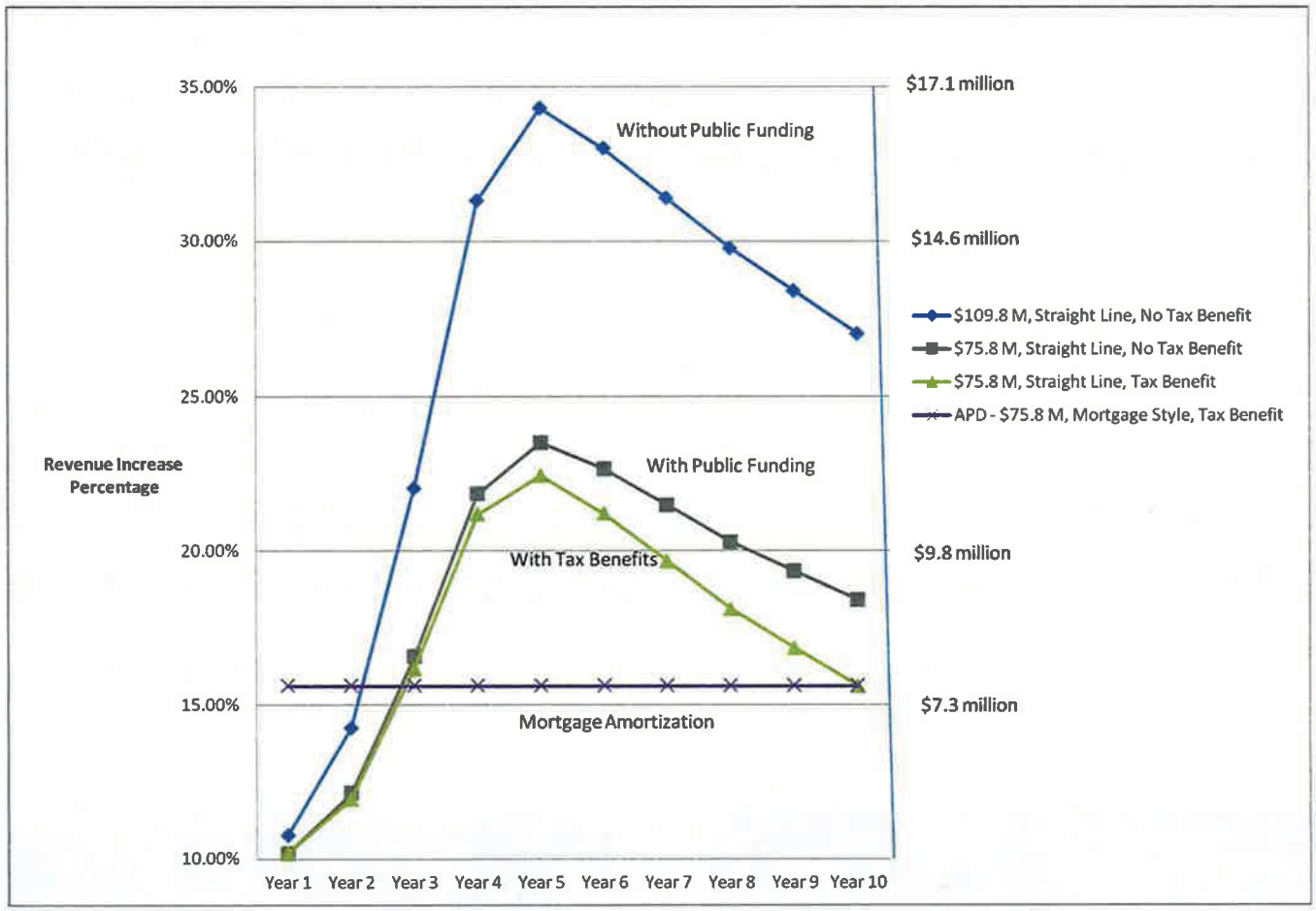
	Monthly Usage (ccf)	*Method 1* **Fixed Quantity** Mo. $ Increase	% Increase	*Method 2* **Fixed Percentage** Mo. $ Increase	% Increase	*Method 3* **Variable Quantity** Mo. $ Increase	% Increase
Avg. Residential Customer	7	$11.33	29.8%	$5.99	15.8%	$2.55	6.7%
Avg. Commercial Customer	62	$100.39	28.8%	$55.07	15.8%	$63.24	18.1%

AD Methodology **CAW Methodology**

DRA Claims & CAW Response (cont.)

- **Cost Cap: DRA believes CAW should be required to file a new application for recovery of any cost over the cost cap.**
  - *The Alternate Decision already includes an appropriate mechanism to employ should CAW exceed the costs cap.*
  - *The Alternate Decision's mechanism requires CAW to seek approval of any cost over the cost cap via Commission Resolution.*

- **Land Sale: DRA supports the arbitrary land credit required in the original Proposed Decision.**
  - *The DRA position violates gain on sale rules, assigns arbitrary dollar amount to land, contemplates highly questionable sale of CW's facilities, and is inappropriate since CAW is already transferring tax benefits to customers.*

Revenue Requirement Benefits Provided by AD

- *The Alternate Decision reflects significant savings to customers resulting from $35 million of public funding, flow through tax benefits and benefits of mortgage style amortization.*