



California Public Utilities Commission
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PRESS RELEASE

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A.17-04-002,
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CPUC SETS COST OF CAPITAL FOR LARGE WATER COMPANIES

SAN FRANCISCO, March 22, 2018 - The California Public Utilities Commission (CPUC) today set a fair cost of capital and associated financial costs for California Water Service Company, California-American Water Company, Golden State Water Company, and San Jose Water Company for 2018-2020.

The basic objective in a cost of capital proceeding is to set the equity return at the lowest level that meets a test of reasonableness. At the same time, the adopted equity return should be sufficient to provide a margin of safety to pay interest, pay reasonable common dividends, and allow for some money to be kept in the business as retained earnings. To accomplish this objective, the CPUC has consistently evaluated analytical financial models as a starting point to arrive at a range of fair equity returns. For this proceeding, the CPUC held Public Participation Hearings at which more than 400 consumers appeared and more than 100 provided comments.

Cost of capital is the return that can be anticipated by entities that provide capital for the water companies. The CPUC set the authorized return on equity, costs of debt, debt/equity ratio, and overall rate of return on rate base for the four water companies. Today's decision, after considering all the evidence that included the financial model results, adjustments to financial models, interest rate forecast, cost of debt forecast, and applying informed judgement, arrived at a base return on equity of 7.40 percent to 9.40 percent. From that return on equity range, the decision considered the appropriate return on equity for each of the water companies.



The proposal voted on is available at:

<http://docs.cpuc.ca.gov/PublishedDocs/Published/G000/M212/K323/212323541.PDF>.

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