BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) to Obtain Approval of an Updated Cost Cap for the Monterey Peninsula Water Supply Project and Updated Ratemaking Framework.	Application _____ (Filed ____, 2026)

DIRECT TESTIMONY OF TRICIA N. SINOPOLE

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TABLE OF CONTENTS

Page

I. BACKGROUND 1

II. PURPOSE AND SCOPE OF TESTIMONY 2

III. THE FINANCING PLAN AS AN INTEGRAL COMPONENT OF THE MPWSP 5

IV. HISTORY OF THE MPWSP FINANCING PLAN IN A.12-04-019 6

A. The Original Application and Direct Testimony 6

B. The Comprehensive Settlement Agreement 7

C. Commission Approval in D.18-09-017 10

D. Implementation and Resolution W-5211 12

V. THE FINANCING RELATIONSHIP BETWEEN CALIFORNIA AMERICAN WATER AND AMERICAN WATER CAPITAL CORPORATION 14

VI. EVALUATION OF LOW-COST FINANCING OPTIONS 17

VII. THE UPDATED BASE CASE FINANCING PLAN 21

VIII. WHAT IS SECURITIZATION AND WHY IS IT BENEFICIAL 27

IX. CONSISTENCY WITH D.18-09-017 AND RESOLUTION W-5211 33

X. REQUIRED APPROVALS AND CONTINGENCY PLANS 35

XI. CONCLUSION 38

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I. BACKGROUND

Q1. Please state your name and business address.

A1. My name is Tricia N. Sinopole. My business address is 1 Water Street, Camden, New Jersey.

Q2. By whom are you employed and in what capacity?

A2. I am employed by American Water as Director, Treasury.

Q3. What are your responsibilities?

A3. As Director, Treasury, I am responsible for securing low-cost infrastructure financing and overseeing the Company's financing activities, including coordinating with American Water's Treasury organization and American Water Capital Corporation ("AWCC") to fund California-American Water Company's ("California American Water") capital program.

Q4. Please describe your educational background and professional experience.

A4. I have a Bachelor of Science in Business Administration degree with an emphasis in Finance from Southeast Missouri State University. I also have a Master of Business

Administration from Southeast Missouri State University. I have also completed the NARUC Utility Rate School.

I have more than 18 years of experience in the utility industry, all in finance and accounting roles. Nearly 11 of those years have been with American Water, where I have served in several finance leadership positions, including Financial and Rates and Regulatory Analyst, Senior Manager of Finance, Director of Rates and Regulatory, and most recently, Director of Treasury. Prior to rejoining American Water, I served as Accounting and Finance Manager for a large public water utility. Through these roles, I have developed extensive experience in utility finance, financial operations, strategic planning, capital markets, and capital management.

Q5. Have you previously testified before the California Public Utilities Commission ("Commission" or "CPUC")?

A5. No, I have not.

Q6. Are you including any attachments with your testimony?

A6. Yes. Attachment 1 includes the text of SB 936, which added the Monterey Peninsula Water Supply Securitization Act, codified at Sections 849 through 849.6 of the Public Utilities Code (the "Act"). Attachment 2 includes a summary of the upfront transaction costs and ongoing financing costs for recent utility securitizations in California, and assumed costs associated with the base financing plan.

II. PURPOSE AND SCOPE OF TESTIMONY

Q7. What is the purpose of your testimony?

A7. The purpose of my testimony is to present and support the updated financing plan for the desalination components of the Monterey Peninsula Water Supply Project ("MPWSP" or the "Project"), consisting of the desalination plant, subsurface intake wells, brine

discharge and conveyance facilities, water transmission pipelines, aquifer storage and recovery system improvements, pump stations, and other infrastructure necessary to deliver desalinated water to customers within the Monterey service area. My testimony demonstrates that: (1) the financing plan has been an integral part of the MPWSP since the original application,[1] and that California American Water has consistently pursued every low-cost financing option available to investor owned utilities to mitigate customer bill impacts; (2) the updated base case financing plan is consistent with the financing and ratemaking framework adopted in Decision (D.) 18-09-017 and implemented in Resolution W-5211; (3) in preparation for this application, California American Water performed a thorough evaluation of the low-cost financing options available to the Project; (4) the base case financing plan is the lowest reasonable cost financing alternative for customers, as demonstrated by a net present value ("NPV") analysis; and (5) California American Water has actionable contingency plans if any low-cost source is not available. My testimony also describes the financing relationship between California American Water and AWCC and explains why maintaining an appropriate capital structure and rate of return is essential to preserving the benefits of that relationship for California ratepayers.

Q8. Does your testimony address the reasonableness of costs incurred to date on the Project?

A8. No. As explained in the Direct Testimony of Jonathan Morse at Section XI, the reasonableness review of costs incurred to date will take place as laid out in D.18-09-017 and Resolution W-5211. My testimony takes the updated capital and operations and maintenance ("O&M") cost estimates presented in the Direct Testimony of Lacy Carothers and the Direct Testimony of David Pezzini as inputs to the financing plan.

Q9. Please summarize the organization of your testimony.

[1] A.12-04-019 was filed on April 23, 2012.

A9. My testimony is organized as follows:

(1) Section III explains why the financing plan is an integral component of the MPWSP;

(2) Section IV provides the history of the MPWSP financing plan in Application (A.) 12-04-019, including the original 2012 testimony, the 2013 Comprehensive Settlement Agreement, the Commission's approval of the financing framework in D.18-09-017, and California American Water's implementation of that framework through Advice Letter (AL) 1220-A and Resolution W-5211;

(3) Section V describes the financing relationship between California American Water and AWCC and the importance of maintaining an appropriate capital structure and rate of return;

(4) Section VI describes California American Water's current evaluation of the low-cost financing options available to the Project;

(5) Section VII presents the updated base case financing plan, including how each of the financing options would be structured, anticipated terms, and California American Water's current and future actions to pursue each low-cost financing option;

(6) Section VIII discusses securitization and why it is beneficial;

(7) Section IX demonstrates that the base case plan is consistent with D.18-09-017 and Resolution W-5211;

(8) Section X describes the applications and approvals required to execute the plan and California American Water's contingency plans; and

(9) Section XI provides my conclusion.

III. THE FINANCING PLAN AS AN INTEGRAL COMPONENT OF THE MPWSP

Q10. Why has the financing plan always been an integral part of the MPWSP?

A10. The financing plan is an important element of the Project's overall design because California American Water is committed to mitigating the financial impact of the Project to its customers. The need for the Project itself is established: the Commission concluded in D.18-09-017 that the MPWSP is needed, and in D.25-08-006 the Commission concluded that California American Water will experience a shortfall by 2050 based on updated supply and demand estimates. With the need for the Project established, the objective of the financing plan is to deliver that solution at the lowest reasonable cost of capital. For that reason, the parties to A.12-04-019, and ultimately the Commission, built a detailed financing and ratemaking framework into the Project authorization itself, rather than deferring financing to routine ratemaking processes. Every material development in the Project's history — the original application, the Comprehensive Settlement, D.18-09-017, and Resolution W-5211 — has included a financing plan designed to obtain the lowest reasonable cost of capital for customers.

Q11. Has the Commission already addressed the financing and cost recovery of other components of the MPWSP?

A11. Yes. The Commission has distinguished between the MPWSP "Phase 1" project costs (D.18-09-017), which include the desalination plant, intake wells, conveyance and associated facilities, and the MPWSP "Phase 2" project costs (D.16-09-021), which include the Monterey Pipeline and Pump Station.[2] In the "Phase 2" decision, the Commission authorized a cost cap of $50.3 million for the Monterey Pipeline and Pump

[2] Phase 1 and Phase 2 are references used by the Commission to distinguish between various components of the MPWSP. These references are not connected to California American Water's phased construction of the MPWSP.

Station. This application concerns only project costs for the desalination plant, intake wells, conveyance and associated facilities.[3]

Q12. Why is low-cost financing particularly important for the desalination facilities?

A12. The desalination plant and related facilities represent a significant investment for the Monterey service area. Every increment of financing cost reduction translates directly into mitigation of customer bill impacts. The updated financing plan presented in this testimony reflects California American Water's continuing commitment to mitigate costs for customers through all available low-cost financing options.

IV. HISTORY OF THE MPWSP FINANCING PLAN IN A.12-04-019

A. The Original Application and Direct Testimony

Q13. When did California American Water file the application for the MPWSP, and what did it request?

A13. California American Water filed A.12-04-019 on April 23, 2012, seeking a certificate of public convenience and necessity ("CPCN") to construct and operate the MPWSP and authorization to recover its costs in rates.

Q14. Did California American Water's original April 23, 2012, direct testimony address the financing of the Project?

A14. Yes. From the outset, the financing plan contemplated the use of low-cost State Revolving Fund ("SRF") loans, to the extent available.[4] California American Water also committed to provide up to $20 million in short-term debt financing to reduce the Allowance for Funds Used During Construction ("AFUDC"). The original testimony

[3] The direct testimony of Lacy Carothers at Section III does address a portion of labor overhead costs that were initially related to the Monterey Pipeline and Pump Station project but have been included in this application based on the nature of the underlying assets and delivery of desalinated water to customers.

[4] A.12-04-019, Direct Testimony of Jeffrey T. Linam, April 23, 2012, pp. 6-7.

also contemplated implementation of a surcharge during construction to reduce AFUDC.[5] The overall financing plan was designed to employ low-cost debt financing available and use of short-term debt to help reduce AFUDC.

B. The Comprehensive Settlement Agreement

Q15. Please describe the Comprehensive Settlement Agreement and its treatment of Project financing.

A15. On July 31, 2013, sixteen parties filed a motion to approve a proposed Comprehensive Settlement Agreement (the "Comprehensive Settlement"). Sections 11 through 15 of the Comprehensive Settlement set out a complete financing and ratemaking framework for the Project: securitization (Section 11), the Construction Funding Charge (Section 12), SRF financing (Section 13), ratemaking (Section 14), and project cash flow (Section 15).[6]

Q16. What form of public agency contribution did the Comprehensive Settlement contemplate?

A16. The Comprehensive Settlement provided for a public agency contribution through a tax-exempt securitization. Under the agreed structure, a public agency would issue "Water Rate Relief Bonds" and lend the proceeds to a Special Purpose Entity ("SPE") established by California American Water. California American Water would sell to the SPE a property right consisting of the right to impose, collect, and adjust from time to time a non-bypassable charge on California American Water's customers. The sale of the property right would be a true sale for bankruptcy purposes, and the securitization would be non-recourse to California American Water. Implementation required authorizing legislation from the California Legislature and a financing order from the Commission.

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[5] Ibid., p. 7 and Direct Testimony of David Stephenson, April 23, 2012, pp. 17-21.

[6] Sections 11-15 specifically addressed project financing. However, other sections of the settlement also addressed ratemaking issues. Section 8 addressed the ratemaking treatment for O&M costs and Section 6.7-6.8 addressed specific ratemaking associated with the Phase 1 project costs. See D.18-09-017, Attachment F for the entire Settlement Agreement.

The securitization would be long-term in nature — 20 to 30 years, with a preference for 30 years.

Q17. Did the Comprehensive Settlement include safeguards allowing California American Water to invest debt and equity to maintain a balanced capital structure?

A17. Yes. The Comprehensive Settlement was structured so that the portion of Project costs not financed with securitized funds would be balanced with long-term debt and equity at California American Water's authorized capital structure. This was a critical element of the Comprehensive Settlement. Since the securitized bonds are not a direct obligation of California American Water, all other Project financing is balanced to the authorized capital structure. This arrangement was designed so that ratepayers outside of the Monterey service area are not financially impacted by the securitization and other California American Water debt is not negatively impacted. The resulting fixed equity investment at the time of the Comprehensive Settlement was equal to approximately 27 percent of the total desalination project costs, preserving California American Water's opportunity to earn its authorized rate of return on that investment. D.18-09-017 agreed with Parties to the Settlement that California American Water would be taking on significant risk with the MPWSP and that a level of equity investment served the public interest.[7]

Q18. Under what conditions did the Comprehensive Settlement permit the use of securitization?

A18. The Comprehensive Settlement permitted securitization as a component of the MPWSP financing only if seven conditions were met: (1) the securitization lowers costs to customers, with estimated annual customer benefits that at a minimum exceed 1.0% of the total annual revenue requirement for the MPWSP facilities; (2) it does not adversely affect California American Water customers outside of the Monterey service area; (3) it

[7] Resolution W-5211, Attachment A, p. 6.

does not require a separate California American Water-specific credit rating; (4) it does not change California American Water's debt-to-equity ratio for the portion of MPWSP costs not financed with securitized funds; (5) it does not change California American Water's authorized rate of return on equity; (6) it does not materially delay the MPWSP; and (7) it does not create a taxable event for California American Water or adverse tax implications for the Company or its customers.[8]

Q19. What protections applied to the credit ratings of California American Water and American Water?

A19. Securitization could be used to finance the Project only so long as it would not negatively impact the credit ratings of American Water or its financing affiliate, AWCC — or, in the event California American Water were evaluated as a stand-alone entity, the credit ratings of California American Water computed on a stand-alone basis. While having the bonds rated, the public agency would request letters from each of the rating agencies affirming that the securitization will not negatively impact the credit of California American Water as a stand-alone entity or of American Water.

Q20. What did the Comprehensive Settlement provide if securitization or SRF financing proved unavailable?

A20. The Comprehensive Settlement anticipated exactly that possibility. If the public agency were unsuccessful in obtaining a tax-exempt securitization, an alternative form of public agency contribution could be pursued. And, understanding the urgency to finance, construct, and bring the desalination project online, California American Water stood ready to provide long-term debt financing — either through AWCC or the CPCFA, whichever is lowest cost to customers — and equity financing. Similarly, if California American Water were not successful in obtaining SRF funds on its own, it agreed to work

[8] Section 11.3(a) through 11.3(f) of the Comprehensive Settlement, Resolution W-5211, Attachment A, pp. 6-7; D.18-09-017, Appendix F, pp. 19-20.

with a public agency to secure those funds. These standby commitments remain a foundation of the contingency plans described in Section X of my testimony.

C. Commission Approval in D.18-09-017

Q21. What did the Commission decide in D.18-09-017 with respect to the Comprehensive Settlement financing framework?

A21. In D.18-09-017, issued September 13, 2018, the Commission declined to grant the settlement motion as filed but adopted the framework of the Comprehensive Settlement with conditions, and granted California American Water a CPCN for the 6.4 million gallon per day ("mgd") desalination plant and related facilities. No party contested the overall financing framework. The Commission found the structure and framework of the financing provisions reasonable because the approach provides flexibility in implementation regardless of the final costs, size, grants, or other financial elements that may be utilized for completion of the MPWSP. That flexibility is directly relevant to this application: the framework was designed to accommodate updates such as those presented here.

Q22. What financing elements did D.18-09-017 specifically authorize?

A22. D.18-09-017 specifically authorized four financing elements: (1) the Construction Funding Charge (Surcharge 2), with specific requirements as to review for reasonableness and prudency; (2) SRF debt; (3) public agency contribution or securitized debt; and (4) equity. In addition, California American Water committed to providing approximately $20 million of short-term debt — not part of the permanent financing — to be used during construction as a means of reducing AFUDC.

Q23. What securitization conditions did the Commission approve in D.18-09-017?

A23. The Commission adopted the seven settlement criteria as findings, along with the implementation structure: the SPE, the Water Rate Relief Bonds, the non-bypassable

charge, the true sale for bankruptcy purposes, the non-recourse nature of the bonds, and the 20-to-30-year term. The decision confirmed that securitization requires authorizing legislation and a Commission financing order, that true-up adjustments of the securitization surcharge would be made through an advice letter process, and that the rating agencies would be asked to affirm that the securitization will not negatively impact the credit of California American Water, as a stand-alone entity, or of American Water. The Commission also found it reasonable to allow California American Water to recover securitization expenses reasonably and prudently incurred — whether or not the securitization is successful — from customers in the Monterey service area, and adopted contingency measures in the event securitization is not successful.[9]

Q24. What implementation steps did D.18-09-017 order with respect to the financing framework?

A24. Ordering Paragraph 25 directed California American Water to submit a Tier 3 advice letter, after consultation with Commission Water Division staff and parties, providing specific adjustments to the framework set out in Sections 7, 8, and 10 through 15 of the Comprehensive Settlement, no later than January 1, 2019. Ordering Paragraph 28 directed California American Water to record and track all MPWSP capital costs in a memorandum account, with quarterly reporting. Ordering Paragraph 20 provided that rate recovery of operations and maintenance expenditures would be authorized consistent with Section 8 of the settlement framework. The decision also directed California American Water to file an application with the Commission requesting issuance of a financing order to allow for the securitization financing option.

[9] Resolution W-5211, Attachment A, Section 11.5(b), approved California American Water to track its securitization costs within a new subset of the Coastal Water Project Memorandum Account.

D. Implementation and Resolution W-5211

Q25. What actions did California American Water take to implement the financing conditions of D.18-09-017?

A25. California American Water moved promptly to implement the decision. California American Water consulted with the parties on December 10, 2018, and with Water Division staff on December 18, 2018, and filed AL 1220 on December 31, 2018 — the Tier 3 compliance filing required by Ordering Paragraph 25. On June 18, 2019, the State Water Resources Control Board ("SWRCB") notified California American Water of its acceptance of the MPWSP onto the Drinking Water State Revolving Fund ("DWSRF") fundable list. Also on June 18, 2019, the Department of Water Resources ("DWR") announced the award of $10 million in grant funding to California American Water for the MPWSP. On September 10, 2019, California American Water filed supplemental AL 1220-A to reflect the DWSRF and grant funding developments.

Q26. What adjustments to the settlement framework did AL 1220, as supplemented, propose?

A26. AL 1220, as supplemented, proposed: the updated cost cap; the provision that costs exceeding the cost cap require additional Commission approval; expanded use of DWSRF loans to cover portions of construction costs previously assumed to be funded with the construction-period surcharge and with the public agency securitization; and updates to the financing and ratemaking framework to reflect the Commission's then-current cost of capital decision (D.18-03-035) and general rate case decision (D.18-12-021), including cost of capital, depreciation rates, income tax rates, and tax provisions.

Q27. What did the Commission approve in Resolution W-5211?

A27. In Resolution W-5211, adopted December 19, 2019, the Commission: (1) approved the adjusted financing and ratemaking framework, set forth as Attachment A to the Resolution, finding the adjustments just and reasonable and in compliance with D.18-09-017; (2) approved the establishment of the MPWSP Phase 1 Project Cost Memorandum

Account ("PCMA") and the MPWSP Operations and Maintenance Memorandum Account ("MOMMA"), effective December 31, 2018; (3) approved the replacement of the Construction Funding Charge with additional low-cost DWSRF loans — expected at that time to total approximately $237 million, repaid over 30 years — finding the request reasonable and beneficial to ratepayers; and (4) authorized California American Water to file a Tier 2 advice letter, upon receipt of the DWR grant proceeds, to request the establishment of a memorandum account to track the income tax expense associated with the grant, while deferring the associated ratemaking treatment to the general rate case.

Q28. Why did California American Water elect not to implement the Construction Funding Charge?

A28. In Advice Letter 1220-A, California American Water explained that expanded access to DWSRF loans could better achieve the objectives of the Construction Funding Charge and that recovery of costs associated with the Pure Water Monterey recycled water project would already smooth rate impacts.[10] D.18-09-017 directed California American Water to utilize grant funds, public bonds, and State Revolving Fund loans and to strive for the least-cost financing for the MPWSP. Replacing the surcharge with DWSRF loans is an early, concrete example of the pattern that this application continues: as circumstances evolve, California American Water substitutes the lowest-cost available source within the approved framework.

Q29. Does Resolution W-5211 remain the operative implementation of the D.18-09-017 financing and ratemaking framework?

A29. Yes. The PCMA and MOMMA remain in effect, and Attachment A to Resolution W-5211 remains the operative statement of the adjusted framework. The updates to

[10] Advice Letter 1220-A, pp. 5-6.

Attachment A proposed in this application are addressed section by section in the testimony of Jonathan Morse at Section V.

V. THE FINANCING RELATIONSHIP BETWEEN CALIFORNIA AMERICAN WATER AND AMERICAN WATER CAPITAL CORPORATION

Q30. Please describe AWCC and its financing relationship with California American Water.

A30. AWCC is the wholly owned financing subsidiary of American Water Works Company, Inc. ("American Water" or "AWK"). AWCC aggregates the borrowing requirements of American Water's regulated subsidiaries, including California American Water, and issues debt in the capital markets at a scale no individual subsidiary could achieve on its own. California American Water borrows from AWCC pursuant to a financial services agreement at AWCC's cost of funds. This structure gives California American Water access to lower-cost long-term debt, broader and more reliable market access, and lower issuance costs than California American Water could obtain as a stand-alone issuer. AWCC also maintains a commercial paper program that supports the short-term borrowing needs of the regulated subsidiaries, including the approximately $20 million short-term debt commitment for the MPWSP construction period.

Q31. Please explain AWCC's role in financing California American Water infrastructure investments.

A31. California American Water finances its long-term infrastructure investments with long-term debt and equity based on its authorized capital structure approved by the Commission. California American Water's long-term debt needs are financed through AWCC, pursuant to the financial services agreement at AWCC's cost of funds. As described in Section VII below, California American Water is proposing to utilize tax-exempt Private Activity Bonds ("PABs") through AWCC as a replacement for AWCC long-term debt to the extent the funds are available for the project. However, AWCC stands ready to fund all or any portion of long-term debt funded by PABs. Comparative

interest rates and customer benefits are addressed in Section VIII below and Attachment 2.

Q32. Why must California American Water maintain an appropriate capital structure and rate of return?

A32. Maintaining California American Water's authorized capital structure and preserving California American Water's opportunity to earn its authorized return on equity are what sustain California American Water's financial integrity and the credit quality that underpin the AWCC financing relationship. If California American Water's capital structure or earned returns were degraded, the benefits of that relationship — low-cost debt, market access, and financing flexibility — would be at risk, to the detriment of California ratepayers. The securitization criteria adopted in D.18-09-017 — no change to the debt-to-equity ratio on the non-securitized portion of Project costs, no change to the authorized return on equity, and no negative impact to credit ratings — were designed specifically to protect these arrangements.

Q33. How does the proposed securitization interact with the credit metrics of California American Water and American Water?

A33. The securitization is structured so that it does not burden the credit of California American Water or American Water. The Water Rate Relief Bonds will be non-recourse to California American Water; the sale of the property right to the SPE will be a true sale for bankruptcy purposes; a default on the bonds will not be a default of California American Water; and the transaction requires no separate California American Water-specific credit rating. Rating agencies evaluate properly structured utility securitizations on the strength of the dedicated, non-bypassable charge rather than the utility's corporate credit. Consistent with D.18-09-017, the public agency will request letters from the rating agencies affirming that the securitization will not negatively impact the credit of California American Water, as a stand-alone entity, or of American Water. American

Water and California American Water support the use of securitized bonds where, as here, the customer benefits are significant enough to justify the costs and complexities of the transaction.

Q34. What is the role of American Water's Treasury organization in executing the financing plan?

A34. American Water's Treasury organization will coordinate the execution of each element of the plan: working with the lead underwriter, bond counsel, and California American Water to structure, rate, market, and price the Water Rate Relief Bonds; managing AWCC's issuance calendar so that the long-term debt component is placed on terms and timing aligned with the construction schedule; pursuing the tax-exempt PAB allocation through Capital Programs & Climate Financing Authority ("CPCFA") and the California Debt Limit Allocation Committee ("CDLAC"); leading the rating agency process; and assisting California American Water in administering the SRF and WIFIA application processes.

Q35. What are California American Water's currently authorized cost of capital and capital structure, and how do they compare to the values reflected in Resolution W-5211?

A35. Resolution W-5211 reflected the cost of capital authorized in D.18-03-035 — a 9.20 percent return on equity and a 5.63 percent return on debt — and the tax rates, tax provisions, and depreciation rates approved in D.18-12-021. California American Water's current authorized return on equity, cost of debt, and overall rate of return is 10.20%, 4.33%, and 7.68%, respectively. These rates were effective January 1, 2024, were approved in Advice Letter 1424 and remain in effect today. The updated financing plan and financial model reflect the currently authorized values. This is precisely what Section 14 of the framework requires: the revenue requirement for the rate base portion of the Project is based on the current and effective cost of capital decision approved by the Commission, subject to future adjustment as the cost of capital changes.

VI. EVALUATION OF LOW-COST FINANCING OPTIONS

Q36. What evaluation of financing options did California American Water perform?

A36. In preparation for this filing, and in light of the increased costs of construction, California American Water performed a thorough evaluation of the low-cost financing options available to the Project. The low-cost financing options evaluated by California American Water are not only consistent with the financing framework approved by the Commission in D.18-09-017 but reflect many of the same sources identified in A.12-04-019. The options evaluated were: (1) SRF loans through the State Water Resources Control Board's ("SWRCB") Drinking Water State Revolving Fund ("DWSRF") program; (2) a federal loan under the Water Infrastructure Finance and Innovation Act ("WIFIA") through the U.S. Environmental Protection Agency ("EPA"); (3) taxable and tax-exempt securitization through the issuance of Water Rate Relief Bonds pursuant to Public Utilities Code sections 849 et seq.; (4) tax-exempt private activity bonds ("PABs") issued through CPCFA with an allocation from the California Debt Limit Allocation Committee ("CDLAC"); (5) continued use of approximately $20 million of short-term debt during construction; and (6) the $10 million grant from the Department of Water Resources ("DWR") under the Water Desalination Grant Program. Each option was evaluated against traditional rate base financing — American Water Capital Corp. ("AWCC") long-term debt and equity at California American Water's authorized capital structure — as the benchmark.

The evaluation proceeded in two parts. First, California American Water assessed the feasibility of each source individually, including program capacity and eligibility requirements, competitive award risk, environmental review requirements associated with state and federal funding programs, and compatibility with California American Water's and AWCC's existing financing arrangements. Second, California American Water modeled complete financing scenarios that combine these sources into full capital

structures for the Project and compared the resulting total revenue requirements against the rate base benchmark on both a nominal and a net present value basis.

Q37. What criteria did California American Water use to evaluate the financing options?

A37. California American Water evaluated each option on: (1) the all-in cost of funds, including upfront and ongoing financing costs; (2) availability, program limits, and eligibility requirements; (3) timing relative to the Project's construction and cash flow schedule; (4) consistency with the criteria and conditions of D.18-09-017 and Resolution W-5211, including the effect on California American Water's capital structure and credit; and (5) the overall customer rate impact.

In comparing complete financing scenarios, California American Water applied two affordability metrics. The primary metric is the net present value of the total revenue requirement over the life of the Project, consistent with the way the authorizing legislation measures customer savings from securitization. The scenario-level results of this modeling are presented in the Direct Testimony of Bahman Pourtaherian, Attachment 3. Additionally, California American Water evaluated the revenue requirement (Attachment 1 of Mr. Pourtaherian's testimony) and customer bill impacts (Attachment 5 of Mr. Morse's testimony) in the early years of Project operation, where rate impacts on Monterey service area customers will be most acute. As discussed below, these two metrics point to the same financing plan.

Q38. Please summarize the results of that evaluation for each source.

A38. First, the $10 million DWR grant has been approved and will directly offset Project costs that would otherwise require financing.

Second, SRF loans remain the lowest-cost debt available to the Project, but current SWRCB program terms limit availability to approximately $50 million, compared with

the approximately $237 million contemplated when Resolution W-5211 was adopted. California American Water's financing plan therefore reflects SRF funding to the full extent currently available. California American Water has initiated its DWSRF application with the SWRCB, as discussed further in Section X. The Company intends to pursue SRF loans because low-cost financing directly benefits customers, while recognizing that eligibility requirements and schedule considerations must be managed.

Third, securitization through the issuance of Water Rate Relief Bonds remains available under the existing authorizing legislation.[11] The bonds would be issued by a bankruptcy-remote Special Purpose Entity (SPE) created directly by California American Water. California American Water is also in discussions with CPCFA regarding issuance of the bonds as a "conduit issuer". In this instance, CPCFA would loan the proceeds to California American Water (or a related SPE) to achieve tax-exempt status. Securitization offers low-cost funds because of its substantially greater capacity, the largest aggregate customer savings of any source. Also, as addressed in more detail in Section IV of this testimony, the securitized bonds are not obligations of California American Water but are senior secured obligations of the bankruptcy-remote special purpose entity. The securitized bonds are secured solely by the securitized property and expressly non-recourse to California American Water. These bonds typically do not negatively impact the credit rating or credit metrics of California American Water or American Water. Thus, equity is not needed to balance California American Water's capital structure, reducing the overall project financing costs for customers. Lastly, utility securitizations typically obtain a high rating on the strength of the dedicated, non-bypassable charge that secures repayment. California American Water's financing plan reflects securitization of up to 50 percent of the Project's water supply costs.[12] Section

[11] See Attachment 1 hereto.
[12] Cal. Pub. Util. Code § 849.1(a)(2).

VII of the testimony addresses the financing authority and proposed use of the Water Rate Relief Bonds.

Fourth, tax-exempt PABs issued through CPCFA with a CDLAC allocation offer a meaningful interest rate benefit relative to taxable AWCC debt for the long-term debt component of the plan, subject to the statewide volume cap and CDLAC's competitive allocation process. AWCC will pursue multiple annual allocations to the extent it is available for the project. Section VII provides additional details on the CPCFA/CDLAC process.

Fifth, a WIFIA loan — available for up to 49 percent of eligible project costs at U.S. Treasury rates — is another possible option if securitization is unavailable or uneconomical, as discussed below.

Sixth, the approximately $20 million of short-term debt reduces the allowance for funds used during construction ("AFUDC") that would otherwise accrue during the construction period. A comparative summary of the sources and uses of funds for the base case scenario is provided in Table 1 of the Direct Testimony of Bahman Pourtaherian.[13]

Q39. Why is WIFIA not included in the base case financing plan?

A39. Both securitization and a WIFIA loan would be sized against the same portion of Project costs, so they are largely alternatives to one another rather than complements. Unlike securitization, the WIFIA loan would be a senior, unsecured obligation of California American Water and would impact the Company's capital structure. Consistent with the financial framework approved in D.18-09-017, equity would be needed to balance the

[13] The scenario-level revenue requirement analysis, including net present value comparisons, is presented in the Direct Testimony of Bahman Pourtaherian, Attachment 1 [financial model].

capital structure. Specifically, the WIFIA alternative would require California American Water to infuse equity over time to bring the capital structure in line with its other districts and authorized levels at the same time managing the overall rate impact.

Based on the NPV analysis summarized in Section V of the Direct Testimony of Bahman Pourtaherian and supported by the financial model described in Section III of Mr. Pourtaherian's testimony, securitization provides greater customer savings. WIFIA is therefore not reflected in the financial model as a scenario: if the securitization is not available or is not economical relative to modeled expectations, a WIFIA loan is an actionable, low-cost substitute. Although the ability to secure WIFIA funding as an investor-owned utility is not certain, California American Water has submitted a WIFIA letter of interest to EPA to preserve this option on the Project's timeline.

VII. THE UPDATED BASE CASE FINANCING PLAN

Q40. Please describe the updated base case financing plan for the desalination project.

A40. The base case financing plan consists of the following sources: (1) a tax-exempt securitization through the issuance of Water Rate Relief Bonds funding up to 50 percent of the Project's water supply costs,[14]; (2) the $10 million DWR grant, which will offset Project costs; (3) $50 million of SRF funding, which is the limit available to the Project under the current DWSRF program; and (4) the remaining approximately $471.5 million of Project costs financed with 57 percent equity and 43 percent long-term debt, consistent with California American Water's authorized capital structure. Within the long-term debt component, the financial model assumes $150 million of tax-exempt PABs issued through CPCFA with an allocation from CDLAC, with the balance provided as AWCC long-term debt. In addition, California American Water will continue to utilize the approximately $20 million of short-term debt during construction to reduce AFUDC,

[14] The base case model assumes the WRRBs are issued through CPCFA as a conduit issuer and obtains California state tax-exempt status. This results in lower interest costs of approximately 20 basis points.

consistent with D.18-09-017. The complete sources and uses of funds are presented in Table 1 to the Direct Testimony of Bahman Pourtaherian.

Q41. Please describe the role of tax-exempt PABs in the base case plan.

A41. On behalf of California American Water, AWCC is pursuing tax-exempt PABs through CPCFA with a CDLAC allocation as a lower-cost substitute for taxable long-term debt. The financial model conservatively assumes $150 million of tax-exempt PABs. AWCC will seek additional allocations from CPCFA/CDLAC, and to the extent additional allocations are available, they will be used to offset taxable AWCC debt, further lowering the cost of the long-term debt component for customers. The tax-exempt PAB process requires an inducement resolution from CPCFA and a volume cap allocation from CDLAC. If an allocation is not obtained, the affected debt is simply placed as conventional AWCC long-term debt — a higher cost, but with no change to the structure of the plan. I note that the use of CPCFA financing is not new to this Project: the Comprehensive Settlement itself identified CPCFA as a potential source of long-term debt financing for the MPWSP.

Q42. Why is the SRF component limited to $50 million?

A42. Under current SWRCB DWSRF program terms, approximately $50 million is the limit available to the Project. The limit ensures that financial assistance is distributed fairly among hundreds of participating water systems across California, prioritizes small and disadvantaged communities, and protects the long-term sustainability of the fund. This is a significant change from the approximately $237 million DWSRF loans contemplated at the time of Resolution W-5211, and it is one of the realities of today to which the financing plan has been updated. The framework's preference for SRF financing is unchanged: California American Water will pursue the full amount available.

Q43. Please describe the legislative authority that permits securitization financing for the MPWSP.

A43. In 2014, the California Legislature enacted Senate Bill 936 (Stats. 2014, ch. 482) ("SB 936"), which became effective January 1, 2015. SB 936 added the Monterey Peninsula Water Supply Securitization Act, codified at Sections 849 through 849.6 of the Public Utilities Code (the "Act"). The Act was adopted specifically to provide a lower-cost financing mechanism for water supply costs associated with the Monterey Peninsula Water Supply Project. It authorizes the Commission to approve a financing order allowing the recovery of water supply costs through the issuance of water rate relief bonds. A copy of SB 936 is provided as Attachment 2 to this testimony.

Q44. At a high level, how does the securitization structure authorized under the Act work?

A44. Under the Act, the Commission may issue a financing order that authorizes a financing entity to issue water rate relief bonds. The financing order establishes a dedicated water supply charge on customer bills that is pledged to repay the bonds. Because the bonds are secured by this dedicated, Commission-authorized charge rather than the general credit of the utility, they can achieve very high credit ratings and correspondingly low interest rates. In addition, the securitized costs are recovered without a shareholder return on the securitized amount. Together, these features are expected to produce significant savings for customers relative to conventional utility financing of the same costs.

Q45. Who may issue water rate relief bonds under the Act?

A45. The Act provides that water rate relief bonds may be issued by or through a "financing entity," which includes the utility, a subsidiary or affiliate of the utility, or a public financing entity authorized to issue water rate relief bonds pursuant to a financing order.

Q46. Does the Act limit the amount of water supply costs that may be recovered through securitization?

A46. Yes. Section 849.1(a)(1) of the Act provides that, commencing January 1, 2015, the qualifying water utility may apply to the Commission for a determination that no more than 50 percent of the qualifying water utility's water supply costs may be recovered through water supply charges, which would be water supply property under the Act. That section further provides that the Commission shall not approve an increase in a financing order that exceeds a total amount of 5 percent of the water supply costs. The Company's proposal in this proceeding has been developed to be consistent with these statutory limits.

Q47. How does California American Water propose to use the Act in this proceeding?

A47. The Company will request that the Commission issue a financing order authorizing the issuance of water rate relief bonds to recover a portion of the water supply costs of the MPWSP, consistent with the limits set forth in the Act. To further reduce financing costs, the Company has contacted the CPCFA, an established state financing authority with experience issuing bonds for water furnishing facilities, regarding CPCFA serving as the conduit issuer for the bonds. Structuring the issuance through CPCFA is intended to allow the bonds to be issued on a basis exempt from California state income tax (though subject to federal income tax), which is expected to lower the interest rate on the bonds and increase savings to customers. The Company intends to pursue this structure under the existing legislation.

Q48. How will California American Water maintain its capital structure under the base case plan?

A48. Excluding the securitization amount and the equity related to California American Water's investment in the SPE — which will be capitalized at the minimum amount required for the SPE to be a legally distinct entity, expected to be approximately three percent (3%) of the Water Rate Relief Bonds, and placed in rate base consistent with Section 11.4(d) of the settlement framework — California American Water will balance

the remaining Project costs with SRF, long-term debt and equity at its authorized ratio. As sources are drawn during and after construction, SRF, long-term debt, and equity will be used to true up to the target so that California American Water maintains its fixed equity investment and its opportunity to earn its authorized rate of return, exactly as Sections 11 and 13 of the framework contemplate.

Q49. How will California American Water fund pre-construction and construction-period costs pending the permanent financing?

A49. Through the approximately $20 million of short-term debt committed under D.18-09-017, with AFUDC accruing at the actual cost of funds and recorded in the PCMA in accordance with Resolution W-5211. Beyond this short-term financing, California American Water expects to fund construction-period costs through a combination of long-term debt and equity consistent with its authorized capital structure. Following completion of construction, and subject to regulatory authorization, California American Water may refinance a portion of these costs through securitization or other lower-cost financing alternatives, as discussed elsewhere in this testimony. If alternative tax-exempt or low-cost debt financing becomes available during construction, California American Water would use those instruments to supplement existing or future long-term debt.

Q50. Please provide comparative cost-of-funds for each financing source evaluated.

A50. **Table 1** below shows the comparative cost-of-funds by financing source (SRF, tax-exempt PABs, taxable and state tax-exempt Water Rate Relief Bonds, WIFIA, AWCC debt, and equity).

Table 1 - Comparative Cost-of-Funds by Financing Source[15]

Financing Option	Estimated Interest Rate (Indicative)	Key Characteristics and Rate Payer Impact
Tax-Exempt Private Activity Bonds (Proposed – via CPCFA/CDLAC)	5.425% (tax-exempt municipal market rate, 30-year)	Lowest available cost for long-duration infrastructure financing. Interest on bonds is excluded from federal and California income tax, enabling investors to accept below-market coupons. Available only through conduit issuer (CPCFA) with CDLAC volume cap allocation. Direct ratepayer benefit: tens of millions in reduced financing cost over bond life.
State Revolving Fund Loans (SWCRB DWSRF / SRF)	2.10% (below-market program rates)	Lowest absolute cost if available, but subject to limited program funding, strict federal eligibility requirements, and SWRCB program priorities. California American Water has historically been removed from SRF funding lists due to project delays. May be combined with tax-exempt bonds as a complementary financing tranche, not a complete substitute.
Investment-Grade Taxable Corporate Bonds	6.20% (30-year taxable, AWK credit)	Readily available to California American Water as a subsidiary of American Water Works (AWK, investment-grade rated), through AWCC.
Equity / Internal Capital	10.20% (CPUC authorized equity return)	CPUC-authorized rate of return on equity is the highest-cost capital source. Financing the MPWSP entirely with equity would require the largest rate base impact and result in the highest ratepayer costs. Equity financing is appropriate for a portion of the capital structure but not as a substitute for long-term debt.
Water Rate Relief Bonds (Securitization)	5.50% – 6.76%; 6.1675% modeled (ratepayer-backed,	Available for certain CPUC-approved water supply projects. Functions similarly to tax-exempt bonds but

[15] Savings are illustrated on a simple-interest basis and are not discounted; actual savings depend on final bond pricing, call features and the PAB and AWCC rates at issuance. Rates are indicative as of September 30, 2026.

	tax-exempt equivalent)	requires CPUC approval of a dedicated ratepayer surcharge. May be used in combination with CPCFA/CDLAC bonds. Does not replace the need for CDLAC volume cap allocation for a project of this magnitude.

Q51. What are the quantified ratepayer benefits of using tax-exempt financing?

A51. The interest cost differential between tax-exempt private activity bonds and taxable corporate bonds represents a direct, dollar-for-dollar ratepayer benefit, because California American Water's financing costs flow into the CPUC-regulated revenue requirement. The following **Table 2** illustrates the estimated cumulative ratepayer savings from tax-exempt versus taxable financing across a range of principal amounts and rate differentials:

Table 2: Estimated Cumulative Ratepayer Savings

Principal Amount	Rate Differential (bps)	Annual Interest Savings	30-Year Cumulative Savings
$150 million (base case)	77.5 bps (0.775%)	~$1.16 million	~$35 million
$163 million (full modeled long-term debt component)	77.5 bps (0.775%)	~$1.26 million	~$38 million
$150 million	50 bps (0.50%)	~$0.75 million	~$22.5 million
$150 million	100 bps (1.00%)	~$1.50 million	~$45 million

VIII. WHAT IS SECURITIZATION AND WHY IS IT BENEFICIAL

Q52. Please explain what securitization is in the context of the MPWSP.

A52. Securitization is a financing mechanism that allows certain approved project costs to be financed through the issuance of Water Rate Relief Bonds. Unlike traditional utility financing, which is supported by the utility's overall credit profile and recovered through base rates, securitized bonds are supported by a dedicated, non-bypassable customer

charge authorized by the Commission. Under the statutory framework established for the MPWSP, those charges are pledged to bondholders and are designed to provide a highly secure source of repayment. The dedicated revenue stream generally allows the bonds to achieve a higher credit quality and, consequently, lower interest rates than would otherwise be available through conventional utility financing. The securitization framework for the MPWSP was established through the 2013 Comprehensive Settlement, incorporated into Decision 18-09-017, and is authorized under the Monterey Peninsula Water Supply Securitization Act.

Q53. Why can securitization provide benefits to customers?

A53. The principal benefit of securitization is its potential to reduce financing costs. Because investors are repaid from a dedicated customer charge rather than relying solely on the utility's corporate credit, securitized bonds generally carry lower interest rates than traditional utility debt. Lower financing costs translate directly into lower revenue requirements over the life of the project and, therefore, lower customer bills than would otherwise be incurred. The regulatory framework governing the MPWSP expressly requires that securitization produce measurable customer benefits before it may be used. Specifically, the Comprehensive Settlement requires that securitization lower customer costs and meet other customer-protection criteria before any transaction can proceed.

Q54. Why is securitization particularly relevant for the MPWSP desalination facilities?

A54. The desalination plant, intake wells, conveyance facilities, and related infrastructure represent a significant long-lived investment needed to provide a reliable and drought-resilient water supply for the Monterey Peninsula. Given the scale of the investment, even modest reductions in financing costs can produce meaningful savings for customers over time. As a result, California American Water has evaluated securitization alongside other low-cost financing alternatives, including state and federal financing programs and tax-exempt financing opportunities, to determine the most cost-effective financing

structure available. The objective is to identify the financing plan that minimizes customer costs while maintaining appropriate financial flexibility and credit protections.

Q55. Does securitization affect the Company's financial integrity or credit quality?

A55. No. The existing securitization framework includes specific protections to ensure that any securitization transaction does not adversely affect the credit quality of California American Water, American Water, or American Water Capital Corp. The framework requires confirmation that securitization will not negatively impact credit ratings and preserves the Company's authorized capital structure and return on equity for project costs financed outside the securitization structure. These protections were included to ensure that customers receive financing benefits without compromising the Company's long-term financial strength.

Q56. Please explain how securitization works.

A56. Securitization is a financing structure that converts a dedicated future revenue stream into a source of low-cost upfront financing. Under the Monterey Peninsula Water Supply Securitization Act and the regulatory framework previously adopted for the MPWSP, a Commission-approved customer charge is established specifically to repay securitization bonds. That dedicated charge is separate from traditional utility rates and is pledged solely for repayment of the bonds. Because investors have a dedicated and legally protected source of repayment, the bonds generally receive stronger credit support and can be issued at lower interest rates than traditional utility debt.

Q57. What are the basic steps in a securitization transaction?

A57. First, the Commission issues a financing order authorizing a dedicated customer charge. Second, a special-purpose financing entity issues bonds to investors. This special purpose entity could be a tax-exempt issuer, such as the Capital Programs & Climate Financing Authority. Third, bond proceeds are provided to help finance approved project

costs. Finally, the dedicated customer charge is collected over time and used solely to repay bond principal, interest, and associated financing costs. By isolating the repayment source from the general business risks of the utility, investors typically require a lower return, which reduces financing costs. The previously approved MPWSP securitization framework contemplates a special-purpose entity, Water Rate Relief Bonds, and a dedicated non-bypassable charge on customer bills.

The utility securitization framework is well known to the Commission. For example, it has approved utility securitizations for Southern California Edison (D.25-08-033) and Pacific Gas & Electric (D.21-06-030). As outlined herein, California American Water's proposed securitization will follow a similar process.

Q58. Why is securitization beneficial?

A58. For the Monterey desalination project specifically:

1. Lower financing costs. The dedicated repayment mechanism generally allows bonds to be issued at lower interest rates than conventional utility financing.

2. Reduced customer bill impacts. Because financing costs are lower, the overall revenue requirement associated with the project is reduced. The MPWSP framework requires securitization to produce measurable customer benefits before it can be used.

3. Preserves utility credit quality. The existing framework includes protections intended to ensure securitization does not adversely affect the credit ratings of California-American Water, American Water, or AWCC.

4. Supports affordability for large infrastructure projects. The desalination plant and related facilities represent significant investment. Even relatively small reductions in financing costs can create meaningful savings over the life of the project.

Q59. What interest rate does California American Water expect the securitization bonds to bear?

A59. The final interest rate will depend on market conditions at the time of issuance, the credit ratings assigned to the securitization bonds, bond structure, maturity profile, and investor demand. California American Water developed indicative interest rate assumptions for modeling purposes. Those assumptions are intended to evaluate the potential customer benefits of securitization relative to traditional utility financing and will be updated as market conditions evolve. Because the bonds have not yet been structured or marketed, the actual interest rate cannot be determined at this time. Based on the current market, the model assumes 6.1675%, which is the average of both taxable and non-taxable 25-year indicative rates. The greatest financing benefit may come from using any available CDLAC volume cap to issue tax-exempt securitization bonds rather than taxable corporate debt, subject to market conditions.

Q60. How do the indicative securitization interest rates compare to California American Water's current financing rates through AWCC?

A60. Based on the indicative interest rate assumptions currently available, securitization financing is projected to provide borrowing costs below California American Water's current cost of long-term financing through AWCC. For example, using current market indications, the estimated securitization bond interest rates range from approximately 5.50% to 6.76%, compared to AWCC long-term financing rates of approximately 6.20%. While the actual rates achieved at issuance will depend on market conditions, credit ratings, bond structure, and investor demand, the Company's analysis indicates that

securitization has the potential to reduce financing costs relative to traditional utility financing.

Q61. How do the projected securitization borrowing costs compare to California American Water's traditional financing costs?

A61. Based on current analyses, securitization is expected to provide financing at a lower cost than traditional utility financing. The lower expected financing cost is attributable to the securitization bonds being secured by a dedicated property right and associated charge established under the Act, which generally results in lower financing costs than unsecured utility debt. The magnitude of any savings will ultimately depend on prevailing market conditions and the final terms of the bonds at the time of issuance.

Q62. Will the securitization transaction require upfront costs?

A62. Yes. As with any capital markets financing, the issuance of securitization bonds would involve upfront transaction costs, including legal, financial advisory, underwriting, rating agency, accounting, administrative, and other issuance-related expenses. These costs would be incurred to establish the financing structure, obtain ratings, prepare offering documents, and complete the bond issuance.

Q63. What are the estimated upfront costs for securitization?

A63. The estimated upfront costs for securitization are $5,315,052, based on issuance costs of 1.0% on $531,505,210 of assumed securitization bonds.

Q64. What are the estimated ongoing costs?

A64. The estimated ongoing costs are approximately $300,000 per year, which is comprised of 0.05% for servicing fees and 0.005% for rating agency fees.

Q65. Does California American Water intend to issue securitization bonds regardless of market conditions?

A65. No. California American Water will continue to evaluate market conditions, projected financing costs, transaction expenses, regulatory requirements, and customer impacts before proceeding with any bond issuance. Securitization would be pursued only if it is determined to be available, cost-effective, and in the best interests of customers.

IX. CONSISTENCY WITH D.18-09-017 AND RESOLUTION W-5211

Q66. Is the updated base case financing plan consistent with D.18-09-017 and Resolution W-5211?

A66. Yes. Every element of the base case plan is drawn from the authorized framework. Securitization through Water Rate Relief Bonds was authorized in Section 11 of the settlement framework and in D.18-09-017, which expressly directed California American Water to file the application for the financing order. SRF financing remains the preferred debt option under Section 13, and California American Water is pursuing the full amount available. The fixed equity investment and the balancing of non-securitized costs at the authorized capital structure come from Sections 11 and 13. The approximately $20 million short-term debt commitment comes from Section 15 and D.18-09-017. The DWR grant was addressed in Resolution W-5211. Securitization is not a new concept being introduced in this application — it is a core component of the framework the Commission adopted in 2018 and has been part of the Project's financing plan since the 2013 Comprehensive Settlement.

Q67. What changes from the framework as implemented in Resolution W-5211 does the updated plan reflect, and why are they appropriately characterized as updates?

A67. There are four principal changes, each driven by current circumstances rather than by any change in approach. First, the SRF component is reduced from the approximately $237 million contemplated in 2019 to $50 million — a function of program availability, not of

California American Water's preference. Second, tax-exempt PABs are identified as the vehicle for a portion of the long-term debt component — a lower-cost execution of the debt element already in the framework, and a source (CPCFA) expressly contemplated by the Comprehensive Settlement. Third, WIFIA has been added to the evaluated options as a contingency scenario — a federal program whose current terms were not available when the framework was adopted. Fourth, the cost of capital, tax, and depreciation inputs are updated to currently authorized values — exactly as Section 14 of the framework requires. Each is an update to the realities of today, within the flexibility that D.18-09-017 identified as a virtue of the framework. The section-by-section treatment of Attachment A to Resolution W-5211 is presented in the testimony of Jonathan Morse at Attachment 1.

Q68. Does the base case plan satisfy each of the seven securitization criteria from D.18-09-017 at the updated Project cost?

A68. Yes. First, the securitization lowers costs to customers: the NPV analysis discussed in the Direct Testimony of Bahman Pourtaherian at Section V demonstrates estimated annual customer benefits exceeding the settlement benchmark. Second, the securitization does not adversely affect California American Water customers outside the Monterey service area: the non-by passable charge applies only as authorized for the Project, and no costs are shifted to other districts. Third, no separate California American Water-specific credit rating is required. Fourth, California American Water will balance the non-securitized portion of Project costs at its authorized debt-to-equity ratio. Fifth, the plan does not change California American Water's authorized return on equity. Sixth, the securitization should not delay the Project: the financing for securitization is expected on or just before project completion, and the WIFIA scenario provides a substitute if execution risk materializes. Seventh, the transaction will be structured to avoid a taxable event, and the public agency will provide a legal opinion to that effect, consistent with

Section 11.4(k) of the framework. The rating agency letters affirming no negative credit impact will be requested in the course of the rating process.

X. REQUIRED APPROVALS AND CONTINGENCY PLANS

Q69. What applications and filings will California American Water make to execute the base case financing plan?

A69. California American Water is actively pursuing all available options and has recently submitted: (1) an application with the SWRCB for DWSRF funding; and (2) a letter of interest with EPA for a WIFIA loan, to preserve that option. On behalf of California American Water, AWCC submitted (3) a request to CPCFA for an inducement resolution and will seek a CDLAC allocation.

By the end of October 2026, California American Water will file a separate application with the Commission for authorization to incur the debt associated with the SRF which would be direct California American Water obligations owed to the SWRCB.[16] In addition to the authorization, Section 13.4 of the Comprehensive Settlement requires Commission approval of the SRF funding agreement, which the Company will address through a future filing. California American Water will also file a separate application with the Commission for a financing order to allow securitization, as directed by D.18-09-017.

Q70. What is the status of California American Water's DWSRF application?

A70. California American Water has initiated its DWSRF application for the MPWSP through the SWRCB Division of Financial Assistance's ("DFA") Financial Assistance Application Submittal Tool ("FAAST") portal. Three of the application's four packages — the General Package, the Financial Package, and the Environmental Package — have

[16] This application seeks authorization from the Commission for California American Water to obtain direct long-term borrowings under PU Code §§ 816–818.

been submitted, and the application has received an active tracking number. California American Water intends to submit the remaining Technical Package before the December 2026 submission deadline so that the Project may be considered for inclusion on the SWRCB's 2027–2028 Fundable List.

Q71. Please describe the process and remaining steps for California American Water to obtain SRF funding.

A71. The DWSRF program is administered by DFA under an annual Intended Use Plan ("IUP") adopted by the SWRCB. A complete application consists of the four packages described above. Once an application is complete, DFA reviews it for eligibility and completeness, scores the project under the priority ranking criteria set out in the IUP, and places eligible projects on the program's project lists: all eligible projects appear on the Comprehensive List, and those expected to be financed within the plan year are placed on the Fundable List. Placement on the Fundable List is the gateway to development of a financing agreement.

From the Project's current posture, the remaining steps are: (1) submission of the Technical Package before the December 2026 deadline, which completes the application; (2) DFA's completeness and eligibility review, including responses to any requests for additional information; (3) scoring and ranking of the Project under the IUP priority criteria and, if successful, placement on the 2027–2028 Fundable List upon the SWRCB's adoption of that IUP; (4) DFA's environmental review and its own determination under CEQA as a funding agency, together with the federal cross-cutting requirements that attach to federally capitalized SRF funds, including American Iron and Steel and Build America, Buy America provisions; (5) DFA's technical and financial review and the development of financing agreement terms, including the program interest rate set at one-half the average interest rate of State of California general obligation bonds; and (6) execution of the financing agreement, followed by California American

Water's application to this Commission for approval of the SRF funding agreement, consistent with Section 13.4 of the framework.

Two aspects of this process require careful coordination with the Project schedule. First, SRF awards are competitive, and the Fundable List is adopted annually, so the timing and amount of any award are not within California American Water's control; the contingency plan discussed below addresses the possibility that SRF funding is unavailable or is available in a reduced amount. Second, commencing construction before the necessary DFA approvals are received could affect the Project's eligibility, so California American Water will consult with DFA regarding pre-construction approval requirements as the application advances. California American Water will keep the Commission informed of material developments in the SRF application process.

Q72. What happens if one or more of the low-cost financing sources is not available, or is available in a reduced amount?

A72. The framework was designed for exactly this flexibility, and no contingency requires departing from it. If the CDLAC allocation for tax-exempt PABs is not obtained, or is obtained in a smaller amount, the affected long-term debt is placed as conventional AWCC taxable debt — higher cost, but with no structural change to the plan. If SRF funding is unavailable or further reduced, the shortfall is replaced with long-term debt and equity at the authorized ratio, and Section 13.2 of the framework also permits California American Water to pursue SRF funds through a public agency partner. If the securitization is not available or not economical, the WIFIA scenario described above is the primary substitute; the framework also permits an alternative form of public agency contribution; and, consistent with the Comprehensive Settlement, California American Water — through AWCC — stands ready to provide long-term debt and equity financing so that the Project is not delayed.

Q73. Is California American Water's cost recovery protected if the securitization is pursued but is not successful?

A73. Yes. D.18-09-017 found it reasonable to allow California American Water to recover securitization expenses reasonably and prudently incurred — whether or not the securitization is successful — from customers in the Monterey service area. In addition, if California American Water is shown to have been negatively impacted by the securitization at any time over the life of the bonds, California American Water may seek a determination of the impact in a cost of capital or other applicable Commission proceeding.

XI. CONCLUSION

Q74. Please summarize your testimony.

A74. The financing plan has been an integral part of the MPWSP since the original application in 2012. From the original SRF-plus-surcharge financing concept, through the 2013 Comprehensive Settlement's securitization framework and capital structure safeguards, through the Commission's adoption of that framework in D.18-09-017, and through California American Water's implementation of the framework in AL 1220 and Resolution W-5211 — including the substitution of lower-cost DWSRF loans for the construction-period surcharge — California American Water has consistently pursued every available low-cost financing option to mitigate customer bill impacts in a relatively small service territory. The updated base case plan continues that commitment: a securitization funding up to 50 percent of the Project's water supply costs under the existing legislative authority; the $10 million DWR grant; $50 million of SRF funding, the limit available to the Project; and the remaining approximately $471.5 million financed at 57 percent equity and 43 percent long-term debt, with the model assuming $150 million of tax-exempt PABs and California American Water seeking additional CPCFA/CDLAC allocations to offset taxable AWCC debt to the extent available. The plan is consistent with D.18-09-017 and Resolution W-5211, satisfies each of the

securitization criteria, preserves the California American Water/AWCC financing relationship and California American Water's capital structure for the benefit of customers, and is demonstrated by the NPV analysis to be the low-cost option — with WIFIA identified as an actionable scenario if the securitization is not available or not economical, and robust contingencies for every other source.

Q75. Does this conclude your testimony?

A75. Yes, it does.

ATTACHMENT 1

AMENDED IN ASSEMBLY JULY 1, 2014

AMENDED IN ASSEMBLY JUNE 11, 2014

AMENDED IN SENATE MAY 6, 2014

AMENDED IN SENATE APRIL 21, 2014

AMENDED IN SENATE APRIL 8, 2014

AMENDED IN SENATE MARCH 10, 2014

SENATE BILL No. 936

Introduced by Senator Monning
(Principal coauthor: Senator Cannella)
(Principal coauthors: Assembly Members Alejo and Stone)

February 3, 2014

An act to amend Sections 955.1 and 3440.1 of the Civil Code, to amend Section 9109 of the Commercial Code, to add Section 6537 to the Government Code, to amend Section 1731 of, to add Section 1770 to, and to add Article 5.7 (commencing with Section 849) to Chapter 4 of Part 1 of Division 1 of, the Public Utilities Code, and to add Article 8 (commencing with Section 685) to Chapter 3 of Part 5 of the Monterey Peninsula Water Management District Law (Chapter 527 of the Statutes of 1977), relating to water.

LEGISLATIVE COUNSEL'S DIGEST

SB 936, as amended, Monning. Monterey Peninsula Water Management District: financing orders and water rate relief bonds.

(1) Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including water corporations. Existing law authorizes the commission to fix just and reasonable rates

and charges. The existing Monterey Peninsula Water Management District Law establishes the Monterey Peninsula Water Management District and provides for its powers and purposes.

This bill would authorize the commission to issue financing orders to facilitate the recovery, financing, or refinancing of water supply costs, defined to mean reasonable and necessary costs incurred or expected to be incurred by a qualifying water utility, as defined, undertaking water supply activities, as specified. The bill would authorize the Monterey Peninsula Water Management District to issue water rate relief bonds if the commission finds that the bonds will provide savings to water customers on the Monterey Peninsula, as specified.

(2) This bill would make legislative findings and declarations as to the necessity of a special statute for the Monterey Peninsula, the California American Water, and the Monterey Peninsula Water Management District.

(3) Existing law requires the Public Utilities Commission to issue a decision and order or rehearing regarding the implementation of certain provisions of law related to the Department of Water Resources within 20 days after the filing of an application. This bill would allow the commission 210 days to issue the decision and order.

(4) Existing law makes any public utility, as defined, and any corporation other than a public utility that violates the Public Utilities Act guilty of a crime.

Because a violation of certain provisions of the bill would be a violation of the act, this bill would impose a state-mandated local program by creating a new crime.

The California Constitution requires the state to reimburse local agencies and school districts for certain costs mandated by the state. Statutory provisions establish procedures for making that reimbursement.

This bill would provide that no reimbursement is required by this act for a specified reason.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: yes.

The people of the State of California do enact as follows:

SECTION 1. The Legislature finds and declares all of the following:

(a) Under existing law, the Public Utilities Commission has regulatory authority over public utilities, including water utilities. Existing law authorizes the commission to fix just and reasonable rates and charges.

(b) To address the unique needs for integrated water management on the Monterey Peninsula, the Legislature adopted special legislation creating the Monterey Peninsula Water Management District (Monterey Peninsula Water Management District Law, as added by Section 118 of Chapter 527 of the Statutes of 1977, as amended).

(c) California American Water (CAW) is the water utility that provides water to most of the residents and businesses within the Monterey Peninsula.

(d) CAW provides water to its customers from the surface water in the Carmel River and its tributaries, water in the Carmel Valley Alluvial Aquifer that underlies the Carmel River, and water in the Seaside Groundwater Basin that includes the Northern and Southern Coastal Subunits and the Northern and Southern Inland Subareas.

(e) CAW's lawful right to obtain water supplies from the Carmel Valley Alluvial Aquifer was determined by the State Water Resources Control Board (SWRCB) in SWRCB Order No. WR 95-10, dated July 6, 1995. The SWRCB found that CAW does not possess the legal right to divert from the Carmel River system the amount of water historically, and presently, being diverted, and required CAW to diligently pursue a substitute water supply. SWRCB Order No. WR 95-10 limited CAW production from the Carmel River system to 10,308 acre-feet annually (Water Year 2012), and ordered CAW to terminate its unpermitted diversions from the Carmel River, and in the interim, to maximize its production from the Seaside Groundwater Basin.

(f) Subsequently, the SWRCB issued a cease and desist order (CDO) against CAW in October 2009 as Order No. WR 2009-0060. The CDO prescribed a series of significant cutbacks to CAW's production from the Carmel River system from January 2010 to December 2016, inclusive. Pursuant to the CDO, CAW's customers are subject to a moratorium on water permits for new construction and remodels, and may be subject to water rationing, fines, or both if CAW production limits are exceeded.

(g) CAW's ability to produce water from the Seaside Groundwater Basin has also been limited by the adjudication of the Monterey County Superior Court. CAW's right to groundwater from Coastal Subareas and the Laguna Seca Subarea of the Seaside Groundwater Basin, without causing adverse effects such as seawater intrusion, declining water levels, or land subsidence, characterized as a "safe yield," was determined in California American Water v. City of Seaside (2010) (183 Cal.App.4th 471). The 2006 final judgment imposes a series of pumping reductions designed to limit production of natural basin water to its safe yield, initially set at 3,000 acre-feet per year. CAW's share of the safe yield is reduced proportionately at each stage.

(h) The need for infrastructure to expand CAW sources of water has been heightened by the lack of legal water supplies resulting from the CDO, SWRCB Order No. WR 95-10, the listing of the California red-legged frog and the steelhead trout as threatened species under the federal Endangered Species Act of 1973 (16 U.S.C. Sec. 1531 et seq.) and the limitations on water from the Seaside Groundwater Basin adjudication.

(i) These circumstances create a special and unique need to augment potable water supplies on the Monterey Peninsula. Potential infrastructure projects necessary to develop new sources of supply to resolve the critical water supply shortage within CAW's Monterey County District include desalination, aquifer storage and recovery projects, and the production and use of recycled water.

(j) It may benefit the customers of CAW to finance the capital costs associated with the construction and installation of water infrastructure, plants, and facilities necessary to resolve the critical water supply shortage through an alternative financing mechanism.

(k) Alternative financing mechanisms exist that can result in lower costs to customers of CAW as compared to traditional utility financing mechanisms. To use alternative financing mechanisms, the Public Utilities Commission must be empowered to issue financing orders to allow the issuance of bonds secured by water supply property.

(*l*) CAW customers may take advantage of additional costs savings if a public agency assists in the financing of water project capital costs on a tax-exempt basis. It is necessary for California

to provide express authority for a public agency to issue bonds or other evidences of indebtedness on this basis.

(m) In confirming the Public Utilities Commission's authority to approve water supply property, including a dedicated customer surcharge to support the issuance of water rate relief bonds, the Legislature is not ratifying or endorsing any particular outcome for proceeding A.12-04-019, but rather is authorizing a means by which the commission may reduce the cost impact on Monterey Peninsula customers if a water supply project is approved by the commission in proceeding A.12-04-019.

SEC. 2. Section 955.1 of the Civil Code is amended to read:

955.1. (a) Except as provided in Sections 954.5 and 955 and subject to subdivisions (b) and (c), a transfer other than one intended to create a security interest pursuant to paragraph (1) or (3) of subdivision (a) of Section 9109 of the Commercial Code, of any payment intangible, as defined in Section 9102 of the Commercial Code, and any transfer of accounts, chattel paper, payment intangibles, or promissory notes excluded from the coverage of Division 9 of the Commercial Code by paragraph (4) of subdivision (d) of Section 9109 of the Commercial Code shall be deemed perfected as against third persons upon there being executed and delivered to the transferee an assignment thereof in writing.

(b) As between bona fide assignees of the same right for value without notice, the assignee first giving notice of the right to the obligor in writing has priority.

(c) The assignment is not, of itself, notice to the obligor so as to invalidate any payments made by the obligor to the transferor.

(d) This section does not apply to transfers or assignments of transition property, as defined in Section 840 of the Public Utilities Code, transfers or assignments of recovery property, as defined in Section 848 of the Public Utilities Code, or transfers or assignments of water supply property, as defined in Section 849 of the Public Utilities Code.

SEC. 3. Section 3440.1 of the Civil Code is amended to read:

3440.1. This chapter does not apply to any of the following:

(a) Things in action.

(b) Ships or cargoes if either are at sea or in a foreign port.

(c) The sale of accounts, chattel paper, payment intangibles, or promissory notes governed by the Uniform Commercial Code, security interests, and contracts of bottomry or respondentia.

(d) Wines or brandies in the wineries, distilleries, or wine cellars of the makers or owners of the wines or brandies, or other persons having possession, care, and control of the wines or brandies, and the pipes, casks, and tanks in which the wines or brandies are contained, if the transfers are made in writing and executed and acknowledged, and if the transfers are recorded in the book of official records in the office of the county recorder of the county in which the wines, brandies, pipes, casks, and tanks are situated.

(e) A transfer or assignment made for the benefit of creditors generally or by an assignee acting under an assignment for the benefit of creditors generally.

(f) Property exempt from enforcement of a money judgment.

(g) Standing timber.

(h) Subject to the limitations in Section 3440.3, a transfer of personal property if all of the following conditions are satisfied:

(1) Before the date of the intended transfer, the transferor or the transferee files a financing statement, with respect to the property transferred, authorized in an authenticated record by the transferor. The financing statement shall be filed in the office of the Secretary of State in accordance with Chapter 5 (commencing with Section 9501) of Division 9 of the Commercial Code, but may use the terms "transferor" in lieu of "debtor" and "transferee" in lieu of "secured party." The provisions of Chapter 5 (commencing with Section 9501) of Division 9 of the Commercial Code shall apply as appropriate to the financing statement.

(2) The transferor or the transferee publishes a notice of the intended transfer one time in a newspaper of general circulation published in the judicial district in which the personal property is located, if there is one, and if there is none in the judicial district, then in a newspaper of general circulation in the county embracing the judicial district. The publication shall be completed not less than 10 days before the date the transfer occurs. The notice shall contain the name and address of the transferor and transferee and a general statement of the character of the personal property intended to be transferred, and shall indicate the place where the personal property is located and a date on or after which the transfer is to be made.

(i) Personal property not located within this state at the time of the transfer or attachment of the lien if the provisions of this subdivision are not used for the purpose of evading this chapter.

(j) A transfer of property that (1) is subject to a statute or treaty of the United States or a statute of this state that provides for the registration of transfers of title or issuance of certificates of title and (2) is so far perfected under that statute or treaty that a bona fide purchaser cannot acquire an interest in the property transferred that is superior to the interest of the transferee.

(k) A transfer of personal property in connection with a transaction in which the property is immediately thereafter leased by the transferor from the transferee provided the transferee purchased the property for value and in good faith pursuant to subdivision (c) of Section 10308 of the Commercial Code.

(*l*) Transition property, as defined in Section 840 of the Public Utilities Code, recovery property, as defined in Section 848 of the Public Utilities Code, or water supply property, as defined in Section 849 of the Public Utilities Code.

(m) A transfer of property by any governmental entity.

SEC. 4. Section 9109 of the Commercial Code is amended to read:

9109. (a) Except as otherwise provided in subdivisions (c) and (d), this division applies to each of the following:

(1) A transaction, regardless of its form, that creates a security interest in personal property or fixtures by contract.

(2) An agricultural lien.

(3) A sale of accounts, chattel paper, payment intangibles, or promissory notes.

(4) A consignment.

(5) A security interest arising under Section 2401 or 2505, subdivision (3) of Section 2711, or subdivision (e) of Section 10508, as provided in Section 9110.

(6) A security interest arising under Section 4210 or 5118.

(b) The application of this division to a security interest in a secured obligation is not affected by the fact that the obligation is itself secured by a transaction or interest to which this division does not apply.

(c) This division does not apply to the extent that either of the following conditions is satisfied:

(1) A statute, regulation, or treaty of the United States preempts this division.

(2) The rights of a transferee beneficiary or nominated person under a letter of credit are independent and superior under Section 5114.

(d) This division does not apply to any of the following:

(1) A landlord's lien, other than an agricultural lien.

(2) A lien, other than an agricultural lien, given by statute or other rule of law for services or materials, however Section 9333 applies with respect to priority of the lien.

(3) An assignment of a claim for wages, salary, or other compensation of an employee.

(4) A sale of accounts, chattel paper, payment intangibles, or promissory notes as part of a sale of the business out of which they arose.

(5) An assignment of accounts, chattel paper, payment intangibles, or promissory notes which is for the purpose of collection only.

(6) An assignment of a right to payment under a contract to an assignee that is also obligated to perform under the contract.

(7) An assignment of a single account, payment intangible, or promissory note to an assignee in full or partial satisfaction of a preexisting indebtedness.

(8) A loan made by an insurance company pursuant to the provisions of a policy or contract issued by it and upon the sole security of the policy or contract.

(9) An assignment of a right represented by a judgment, other than a judgment taken on a right to payment that was collateral.

(10) A right of recoupment or setoff, provided that both of the following sections apply:

(A) Section 9340 applies with respect to the effectiveness of rights of recoupment or setoff against deposit accounts.

(B) Section 9404 applies with respect to defenses or claims of an account debtor.

(11) The creation or transfer of an interest in or lien on real property, including a lease or rents thereunder, except to the extent that provision is made for each of the following:

(A) Liens on real property pursuant to Sections 9203 and 9308.

(B) Fixtures pursuant to Section 9334.

(C) Fixture filings pursuant to Sections 9501, 9502, 9512, 9516, and 9519.

(D) Security agreements covering personal and real property pursuant to Section 9604.

(12) An assignment of a claim arising in tort, other than a commercial tort claim, however Sections 9315 and 9322 apply with respect to proceeds and priorities in proceeds.

(13) An assignment of a deposit account in a consumer transaction, however Sections 9315 and 9322 apply with respect to proceeds and priorities in proceeds.

(14) A security interest created by the assignment of the benefits of a public construction contract under the Improvement Act of 1911 (Division 7 (commencing with Section 5000) of the Streets and Highways Code).

(15) Transition property, as defined in Section 840 of the Public Utilities Code, except to the extent that the provisions of this division are referred to in Article 5.5 (commencing with Section 840) of Chapter 4 of Part 1 of Division 1 of the Public Utilities Code, recovery property, as defined in Section 848 of the Public Utilities Code, except to the extent that the provisions of this division are referred to in Article 5.6 (commencing with Section 848) of Chapter 4 of Part 1 of Division 1 of the Public Utilities Code, and water supply property, as defined in Section 849 of the Public Utilities Code, except to the extent that the provisions of this division are referred to in Article 5.7 (commencing with Section 849) of Chapter 4 of Part 1 of Division 1 of the Public Utilities Code.

(16) A claim or right of an employee or employee's dependents to receive workers' compensation under Division 1 (commencing with Section 50) or Division 4 (commencing with Section 3200) of the Labor Code.

(17) A transfer by a government or governmental unit.

SEC. 5. Section 6537 is added to the Government Code, to read:

6537. (a) The Legislature finds that it is in the best interest of the communities on the Monterey Peninsula that any joint exercise of powers authority formed under this article to which the Monterey Peninsula Water Management District and one or more other public agencies are members is authorized to issue water rate relief bonds, hereafter "agency bonds," the proceeds of which will be used to

purchase water rate relief bonds that are authorized to be issued by an affiliate of a qualifying water utility in a financing order issued pursuant to Article 5.7 (commencing with Section 849) of Chapter 4 of Part 1 of Division 1 of the Public Utilities Code, to fund any necessary reserves and to pay the costs of issuance of the agency bonds. The agency bonds may be issued only if the commission finds in a financing order that the issuance, due to the availability of a federal or state income tax exemption, will provide savings to water customers on the Monterey Peninsula.

(b) Notwithstanding any other provision of law, the joint powers agency may issue bonds pursuant to Article 2 (commencing with Section 6540) or Article 4 (commencing with Section 6584). If the agency issues bonds under this section, the agency, notwithstanding Article 5 (commencing with Section 53760) of Chapter 4 of Part 1 of Division 2 of Title 5, shall not be eligible to file for bankruptcy pursuant to Chapter 9 (commencing with Section 901) of Title 11 of the United States Code as long as the bonds and any related financing costs are outstanding and unpaid and shall remain ineligible for a period of one year and one day after repayment of the bonds and any related financing costs.

SEC. 6. Article 5.7 (commencing with Section 849) is added to Chapter 4 of Part 1 of Division 1 of the Public Utilities Code, to read:

Article 5.7. Monterey Peninsula Water Supply Securitization Act

849. For purposes of this article, the following definitions shall apply:

(a) "Ancillary agreement" means a bond insurance policy, letter of credit, reserve account, surety bond, swap arrangement, hedging arrangement, liquidity or credit support arrangement, or other similar agreement or arrangement entered into in connection with the issuance of water rate relief bonds that is designed to promote the credit quality and marketability of the bonds or to mitigate the risk of an increase in interest rates.

(b) "Customer" means an individual, governmental body, trust, business entity, or nonprofit organization that is a customer of the qualifying water utility, has responsibility for a service address

provided water service by the utility, or consumes water that has been transmitted or distributed by means of distribution facilities.

(c) "District" means the Monterey Peninsula Water Management District, or its successor or assignee.

(d) "Financing costs" means the costs to issue, service, repay, or refinance water rate relief bonds, whether incurred or paid upon issuance of the bonds or over the life of the bonds, and approved for recovery by the commission in a financing order. "Financing costs" may include any of the following:

(1) Principal, interest, and redemption premiums that are payable on water rate relief bonds.

(2) A payment required under an ancillary agreement and an amount required to fund or replenish a reserve account or other account established under an indenture, ancillary agreement, or other financing document relating to the water rate relief bonds.

(3) Costs of retiring or funding an existing debt and equity security of a qualifying water utility in connection with the issuance of water rate relief bonds to the extent the securities were issued for the purpose of financing water supply costs.

(4) Costs incurred by, on behalf of, or allocated to, a qualifying water utility to obtain modifications of, or amendments to, an indenture, financing agreement, security agreement, or similar agreement or instrument relating to an existing secured or unsecured obligation of a qualifying water utility or an affiliate of a qualifying water utility, or any costs incurred by or allocated to a qualifying water utility to obtain the consent, release, waiver, or approval from the holder of the obligation, that are necessary to be incurred to permit a qualifying water utility to issue or cause the issuance of water rate relief bonds.

(5) Taxes, franchise fees, or license fees imposed on water supply charges.

(6) Costs related to issuing and servicing water rate relief bonds or the application for a financing order, including, without limitation, servicing fees and expenses, trustee fees and expenses, legal fees and expenses, accounting fees, administrative fees, underwriting and placement fees, financial advisory fees, capitalized interest, rating agency fees, and any other related costs that are approved for recovery in the financing order, including costs incurred by a public financing entity.

(7) Other costs as specifically authorized by a financing order.

(e) "Financing entity" means either or both of the following:

(1) The qualifying water utility, or its subsidiary or affiliate, that is authorized by the commission to issue water rate relief bonds, or acquire water supply property, or both, pursuant to a financing order.

(2) A public financing entity authorized to issue water rate relief bonds pursuant to a financing order.

(f) "Financing order" means an order of the commission adopted in accordance with this article, which shall include a procedure for periodic true-up adjustments to water supply charges.

(g) "Qualifying water utility" means California American Water, or any successor public utility described in Section 2701 of the Public Utilities Code that is engaged in the delivery of water to customers on the Monterey Peninsula.

(h) "Public financing entity" means any of the following:

(1) The district.

(2) A joint exercise of powers authority in which the district is a member.

(3) A public agency that is authorized to issue water rate relief bonds, or acquire water supply property, or both.

(i) "Service territory" means the geographical area within or surrounding the Monterey Peninsula that the qualifying water utility provides water service to in accordance with its certificate of public convenience and necessity and within which water supply charges may be imposed and collected as further described in the financing order.

(j) "True-up adjustment" means a formula-based adjustment to the water supply charges as they appear on customer bills that are necessary to correct for any overcollection or undercollection of the water supply charges authorized by a financing order and to otherwise ensure the timely and complete payment and recovery of water supply costs and financing costs over the authorized repayment term.

(k) "Water rate relief bonds" means bonds, notes, certificates of participation or beneficial interest, or other evidences of indebtedness or ownership, issued pursuant to an executed indenture or other agreement of a financing entity, the proceeds of which are used, directly or indirectly, to provide, recover, finance, or refinance water supply costs and financing costs, and that are directly or indirectly secured by, or payable from, water

supply property. Water rate relief bonds may be issued simultaneously by two financing entities, but water rate relief bonds shall not be issued after the seventh anniversary of a financing order issued in connection with commission proceeding A.12-04-019. Water rate relief bonds may be issued for a term not to exceed 30 years.

(*l*) "Water supply activity" means an activity or activities by or on behalf of a qualifying water utility in connection with the acquisition and construction of ~~infrastructure, plants, including, desalination facilities, pipelines, and other facilities, to developnew sources of supply~~ *infrastructure directly related to a desalination facility and necessary equipment solely for that facility, including the pipes necessary for conveyance and tanks necessary for water storage*, as authorized by the commission in proceeding A.12-04-019.

(m) "Water supply charges" means those nonbypassable charges that are authorized by the commission in a financing order to recover water supply costs and all financing costs specified in a financing order.

(n) "Water supply costs" means any reasonable and necessary costs, including capitalized interest costs relating to regulatory assets and capitalized costs associated with permitting, design, and engineering work, approved in a financing order, incurred or expected to be incurred by a qualifying water utility in undertaking water supply activities. Water supply costs include preliminary expenses and investments associated with water supply activities that are incurred before the issuance of a financing order and that are to be reimbursed from the proceeds of water rate relief bonds.

(o) (1) "Water supply property" means the property right created pursuant to this article, including, without limitation, the right, title, and interest of the qualifying water utility or its transferee in all of the following:

(A) In and to the water supply charges established pursuant to a financing order, including all rights to obtain adjustments to the water supply charges in accordance with Section 849.1 and the financing order.

(B) To be paid the amount that is determined in a financing order to be the amount that the qualifying water utility or its transferee is lawfully entitled to receive pursuant to the provisions of this article and the proceeds thereof, and in and to all revenues,

collections, claims, payments, money, or proceeds of or arising from the water supply charges that are the subject of a financing order.

(2) "Water supply property" shall constitute a current property right notwithstanding the fact that the value of the property right will depend on customers using water or, in those instances where customers are customers of the qualifying water utility, the qualifying water utility performing certain services.

849.1. (a) (1) The commission may issue financing orders in accordance with this article to facilitate the recovery, financing, or refinancing of water supply costs. A financing order may be adopted only upon the application of the qualifying water utility and shall become effective in accordance with its terms.

(2) Commencing January 1, 2015, the qualifying water utility may apply to the commission for a determination that no more than 50 percent of the qualifying water utility's water supply costs may be recovered through water supply charges, which would be water supply property under this article.

(3) A public financing entity that proposes to issue water rate relief bonds pursuant to Article 8 of Chapter 3 of Part 5 of the Monterey Peninsula Water Management District Law, as added by Chapter 527 of the Statutes of 1977, or Section 6537 of the Government Code, shall provide information as requested by the commission in connection with the application and proceeding.

(4) In its application the qualifying water utility shall specify how customers may benefit from reduced rates on a present value basis through the issuance of water rate relief bonds as compared to the use of traditional utility financing mechanisms. If a public financing entity proposes to issue water rate relief bonds, it shall provide evidence to the commission that the issuance of water rate relief bonds by the public financing entity, due to the availability of a federal or state income tax exemption, will provide savings to water customers on the Monterey Peninsula.

(5) The commission shall establish procedures for the expeditious processing of financing order applications, including the approval or disapproval of the qualifying water utility's application, within 180 days of the application submission.

(b) The commission shall authorize the imposition and collection of water supply charges in one or more financing orders if the commission determines, as part of its findings in connection with

the financing order, that each imposition and collection of the water supply charges, and the issuance of water rate relief bonds payable from those charges, would reduce the rates on a present value basis that customers within the qualifying water utility's service territory would pay as compared to the use of traditional utility financing mechanisms, which shall be calculated using the qualifying water utility's corporate debt and equity in the ratio approved by the commission at the time of the issuance of the financing order. The commission's determination shall consider all customer payments including rates, surcharges, taxes, water supply charges, and any other payments made by customers for water supply activities.

(c) *(1)* The commission shall establish in a financing order an effective mechanism that ensures recovery of water supply costs and financing costs through nonbypassable water supply charges. Water supply charges shall be imposed only on existing and future customers of the qualifying water utility's service territory, and those customers shall be required to pay those charges until the water rate relief bonds and all financing costs are paid in full by the financing entity, at which time those charges shall be terminated. Water supply charges shall be irrevocable, notwithstanding any true-up adjustment pursuant to subdivision (g).

(2) The commission shall not approve an increase in a financing order that exceeds a total amount of 5 percent.

(d) A financing order may specify how amounts collected from a customer shall be allocated between water supply charges and other charges of the qualifying water utility, consistent with Section 779.2.

(e) (1) Notwithstanding Section 455.5 or 1708, or any other provision of law, and except as otherwise provided in subdivision (g), water supply property that has been made the basis for the issuance of water rate relief bonds, the financing order, and the water supply charges shall be irrevocable. The commission shall not, either by rescinding, altering, or amending the financing order or otherwise, revalue or revise for ratemaking purposes the water supply costs or the financing costs, determine that the water supply charges are unjust or unreasonable, or in any way reduce or impair the value of water supply property either directly or indirectly by taking water supply charges into account when setting other rates

for the qualifying water utility. The amount of revenues arising shall not be subject to reduction, impairment, postponement, or termination.

(2) The State of California does hereby pledge and agree with the qualifying water utility, owners of water supply property, the financing entities, and owners of water rate relief bonds that the state shall neither limit nor alter, except as otherwise provided with respect to true-up adjustment of water supply charges pursuant to subdivision (g), the water supply charges, water supply property, financing orders, or any rights under a financing order until the water rate relief bonds, together with the interest on the bonds, and all related financing costs are fully paid and discharged, or, in the alternative, have been refinanced through an additional issue of water rate relief bonds, provided nothing contained in this section shall preclude the limitation or alteration if and when adequate provision shall be made by law for the protection of the qualifying water utility, financing entities, and owners. The financing entity is authorized to include this pledge and undertaking for the state in the water rate relief bonds.

(f) (1) Neither financing orders nor water rate relief bonds issued under this article shall constitute a debt or liability of the state or of any political subdivision of the state except a public financing entity, nor shall they constitute a pledge of the full faith and credit of the state or any of its political subdivisions, but are payable solely from the funds provided therefor under this article and shall be consistent with Sections 1 and 18 of Article XVI of the California Constitution. This subdivision shall not preclude bond guarantees or enhancements pursuant to this article or pursuant to Article 8 of Chapter 3 of Part 5 of the Monterey Peninsula Water Management District Law, as added by Chapter 527 of the Statutes of 1977, or Section 6537 of the Government Code. A water rate relief bond shall contain on the face of the bond a statement to the following effect: "Neither the full faith and credit nor the taxing power of the State of California is pledged to the payment of the principal of, or interest on, this bond."

(2) The issuance of water rate relief bonds under this article shall not directly, indirectly, or contingently obligate the state or any political subdivision of the state to levy or to pledge any form of taxation therefor or to make any appropriation for their payment. Nothing in this paragraph shall prevent or be construed to prevent

a public financing entity from pledging water supply property, or payments made on water rate relief bonds, together with any reserves or overcollateralization amounts approved in a financing order, to the payment of the water rate relief bonds.

(g) Any water supply charge authorized by a financing order shall appear on customer bills as a stand-alone, line-item surcharge. The commission shall, in any financing order, provide for a periodic true-up adjustment to water supply charges, which shall be made at least annually and may be made more frequently. The qualifying water utility shall file an advice letter with the commission to implement any true-up adjustment.

(h) Water supply charges are water supply property when, and to the extent that, a financing order authorizing the water supply charges has become effective in accordance with this article, and the water supply property shall thereafter continuously exist as property for all purposes with all of the rights and privileges of this article for the period and to the extent provided in the financing order, but in any event until the water rate relief bonds, including all principal, premium, if any, and interest with respect to the bonds and all other financing costs are paid in full. A financing order may provide that the creation of water supply property shall be simultaneous with the sale of the water supply property to a transferee or assignee as provided in the application and the pledge of the water supply property to secure water rate relief bonds.

(i) Any surplus water supply charges in excess of the necessary amounts to pay the principal premium, if any, and interest on the water rate relief bonds and all other financing costs shall be credited to customers through the adjustment mechanism described in subdivision (g) or used to prepay or defease water rate relief bonds, so long as this would not result in a recharacterization of the tax, accounting, and other intended characteristics of the financing, including, but not limited to, the following:

(1) Avoiding the recognition of debt on the qualifying water utility's balance sheet for financial accounting and regulatory purposes.

(2) Treating the water rate relief bonds as debt of the qualifying water utility or its affiliates for federal income tax purposes.

(3) Treating the transfer of the water supply property by the qualifying water utility as a true sale for bankruptcy purposes.

(4) Avoiding any adverse impact of the financing on the qualifying water utility's credit rating.

(j) (1) The commission may, pursuant to its authority in Section 739.8, implement a program to allow the qualifying water utility to exclude low-income water ratepayers from the payment of any water supply charge imposed pursuant to this section, if it determines that the exclusion from the charge will have no significant impact on the ability of the financing entity to finance the water supply activity. The commission may also allow the adjustment of the amount of the charge, as necessary, to cover any costs associated with implementation of the exclusion.

(2) For purposes of this subdivision, "low-income" means a household with income that is equal to or no greater than 200 percent of the federal poverty guideline level. For one-person households, "low-income" shall be based on the two-person household guidelines.

849.2. (a) A qualifying water utility for which a financing order has been issued shall cause the proceeds of any water rate relief bonds issued pursuant to a financing order to be placed in a separate account. A qualifying water utility may use the proceeds of the issuance of water rate relief bonds for paying water supply costs and financing costs and for no other purpose.

(b) A financing order may require the qualifying utility to file with the commission a periodic report showing the receipt and disbursement of proceeds of water rate relief bonds. A financing order may authorize the staff of the commission to review and audit the books and records of the qualifying water utility relating to the receipt and disbursement of proceeds of water rate relief bonds. The provisions of this subdivision shall not be construed to limit the authority of the commission to investigate the practices of the qualifying utility or to audit the books and records of the qualifying water utility.

(c) A qualifying water utility for which a financing order has been issued shall annually provide to its customers a concise explanation of the water supply charges approved in a financing order, as modified by subsequent issuances of water rate relief bonds authorized under a financing order, if any, and by application of the true-up adjustment mechanism as provided in the financing order. These explanations shall be made after the annual true-up adjustment pursuant to subdivision (g) of Section 849.1 and prior

to, or simultaneous with, the effective date of the adjustment, and may be made by bill inserts, Internet Web site information, or other appropriate means. If water rate relief bonds are issued by a public financing entity, the public financing entity, or its trustee or representative, shall provide the information to the qualifying water utility as reasonably requested in order to comply with its obligations under this section.

(d) The failure of a qualifying water utility to apply the proceeds of water rate relief bonds in a reasonable, prudent, and appropriate manner or otherwise comply with any provision of this section shall not invalidate, impair, or affect any financing order, water supply property, water supply charges, or water rate relief bonds.

849.3. (a) Financing entities may issue water rate relief bonds upon approval by the commission in the financing order. Water rate relief bonds shall be nonrecourse to the credit or any assets of the qualifying water utility, other than the water supply property as specified in the financing order.

(b) A qualifying water utility may sell and assign all or portions of its interest in water supply property to an affiliate. A qualifying water utility or its affiliates may sell or assign their interests to one or more financing entities authorized under this article that make that property the basis for issuance of water rate relief bonds to the extent approved in the financing order. A qualifying water utility, its affiliates, or financing entities may pledge and assign water supply property as collateral, directly or indirectly, to the extent approved in the financing order providing for a security interest in the water supply property, in the manner set forth in Section 849.4. In addition, water supply property may be sold or assigned by either of the following:

(1) The financing entity or a trustee for the holders of water rate relief bonds or the holder of an ancillary agreement in connection with the exercise of remedies upon a default.

(2) A person acquiring the water supply property after a sale or assignment made pursuant to this article.

(c) To the extent that any interest in water supply property is sold, assigned, or pledged as collateral, the commission shall authorize the qualifying water utility to contract with the financing entity or entities that it will continue to operate its system to provide service to its customers, will collect water supply charges for the benefit and account of the financing entities and their

pledgees, and will account for and remit these amounts to or for the account of the financing entities and their pledgees. Contracting with a financing entity in accordance with that authorization shall not impair or negate the characterization of the sale, assignment, or pledge as an absolute transfer, a true sale, or security interest, as applicable.

(d) Water supply property that is specified in a financing order shall constitute an existing, present property right, notwithstanding the fact that the imposition and collection of water supply charges depend on the qualifying water utility continuing to provide water service or continuing to perform its servicing functions relating to the collection of water supply charges or on the level of future water consumption. Water supply property shall exist whether or not the water supply charges have been billed, have accrued, or have been collected and notwithstanding the fact that the value for a security interest in the water supply property, or amount of the water supply property, is dependent on the future provision of service to customers by the qualifying water utility. All water supply property specified in a financing order shall continue to exist until the water supply bonds issued pursuant to a financing order and all other financing costs are paid in full.

(e) If a qualifying water utility defaults on any required payment of water supply charge revenues, a court, upon application by an interested party and without limiting any other remedies available to the applying party, shall order the sequestration and payment of the water supply charges, and the proceeds of the water supply charges, for the benefit of bondholders, any assignee and financing entities or their pledgees, and the counterparties to any ancillary agreement. The order shall remain in full force and effect notwithstanding bankruptcy, reorganization, or other insolvency proceedings with respect to the qualifying water utility or any affiliate of the qualifying water utility.

(f) Water supply property, water supply charges, and the interests of an assignee, bondholder or financing entity, or any pledgee in water supply property and water supply charges are not subject to setoff, counterclaim, surcharge, or defense by the qualifying utility or any other person or in connection with the bankruptcy, reorganization, or other insolvency proceeding of the qualifying water utility, any affiliate of the qualifying water utility, or any other entity.

(g) Notwithstanding Section 1708 or any other provision of law, any requirement under this article, or a financing order, that the commission take action with respect to the subject matter of a financing order, shall be binding upon the commission, as it may be constituted from time to time, and any successor agency exerting functions similar to the commission. The commission shall not have authority to rescind, alter, or amend that requirement in a financing order. The approval by the commission in a financing order of the issuance by the qualifying water utility or a financing entity of water rate relief bonds shall include the approvals, if any, required by Article 5 (commencing with Section 816) and Section 701.5. Section 701.5 shall not be construed to prohibit the issuance of water rate relief bonds upon the terms and conditions approved by the commission in a financing order. Section 851 is not applicable to the transfer or pledge of water supply property, the issuance of water rate relief bonds, or related transactions approved in a financing order.

(h) A financing entity issuing water rate relief bonds shall include in its preliminary notice and final report for the water rate relief bonds submitted to the California Debt and Investment Advisory Commission pursuant to Section 8855 of the Government Code, a statement that the water rate relief bonds are being issued pursuant to this section. A financing entity issuing water rate relief bonds shall include in its final report for the water rate relief bonds submitted to the California Debt and Investment Advisory Commission pursuant to Section 8855 of the Government Code, the savings realized by issuing the water rate relief bonds rather than using traditional utility financing mechanisms.

849.4. (a) A security interest in water supply property is valid, is enforceable against the pledgor and third parties, is subject to the rights of any third party holding a security interest in the water supply property perfected in the manner described in this section, and attaches when all of the following occur:

(1) The commission has issued the financing order authorizing the water supply charges included in the water supply property.

(2) Value has been given by the pledgees of the water supply property.

(3) The pledgor has signed a security agreement that includes an indenture or financing agreement relating to the issuance of the water rater relief bonds covering the water supply property.

(b) A valid and enforceable security interest in water supply property is perfected when it has attached and when a financing statement has been filed in accordance with Chapter 5 (commencing with Section 9501) of Division 9 of the Commercial Code, naming the pledgor of the water supply property as "debtor" and identifying the water supply property. Any description of the water supply property shall be sufficient if it refers to the financing order creating the water supply property. A copy of the financing statement shall be filed with the commission by the qualifying water utility that is the pledgor or transferor of the water supply property, and the commission may require the qualifying water utility to make other filings with respect to the security interest in accordance with procedures it may establish, provided that the filings do not affect the perfection of the security interest.

(c) A perfected security interest in water supply property is a continuously perfected security interest in all revenues and proceeds arising with respect to the water supply property, whether or not the revenues or proceeds have accrued. Conflicting security interests shall rank according to priority in time of perfection. Water supply property shall constitute property for all purposes, including for contracts securing water rate relief bonds, whether or not the revenues and proceeds arising with respect to the water supply property have accrued.

(d) Subject to the terms of the security agreement covering the water supply property and the rights of any third party holding a security interest in the water supply property perfected in the manner described in this section, the validity and relative priority of a security interest created under this section is not defeated or adversely affected by the commingling of revenues arising with respect to the water supply property with other funds of the qualifying water utility that is the pledgor or transferor of the water supply property, or by any security interest in a deposit account of that qualifying water utility perfected under Division 9 (commencing with Section 9101) of the Commercial Code into which the revenues are deposited. Subject to the terms of the security agreement, upon compliance with the requirements of subdivision (b) of Section 9312 of the Commercial Code, the pledgees of the water supply property shall have a perfected security interest in all cash and deposit accounts of the qualifying water utility in which revenues arising with respect to the water

supply property have been commingled with other funds, but the perfected security interest shall be limited to an amount not greater than the amount of the revenues with respect to the water supply property received by the qualifying water utility within 12 months before either of the following:

(1) A default under the security agreement.

(2) The institution of insolvency proceedings by or against the qualifying water utility, less payments from the revenues to the pledgees during that 12-month period.

(e) If a default occurs under the security agreement covering the water supply property, the pledgees of the water supply property, subject to the terms of the security agreement, shall have all rights and remedies of a secured party upon default under Division 9 (commencing with Section 9101) of the Commercial Code, and shall be entitled to foreclose or otherwise enforce their security interest in the water supply property, subject to the rights of any third party holding a prior security interest in the water supply property perfected in the manner provided in this section. In addition, the commission may require, in the financing order creating the water supply property, that in the event of default by the qualifying water utility in payment of revenues arising with respect to the water supply property, the commission and any successor to the commission, upon the application by the pledgees or transferees, including transferees under Section 849.5, of the water supply property, and without limiting any other remedies available to the pledgees or transferees by reason of the default, shall order the sequestration and payment to the pledgees or transferees of revenues arising with respect to the water supply property. Any order shall remain in full force and effect notwithstanding bankruptcy, reorganization, or other insolvency proceedings with respect to the debtor, pledgor, or transferor of the water supply property. Any surplus in excess of amounts necessary to pay principal, premium, if any, interest on the water rate relief bonds, and other financing costs arising under the security agreement, shall be remitted to the debtor or to the pledgor or transferor.

(f) Sections 9204 and 9205 of the Commercial Code shall apply to a pledge of water supply property by a qualifying water utility, an affiliate of a qualifying water utility, or a financing entity, other than a public financing entity.

(g) (1) This section sets forth the terms by which a consensual security interest shall be created and perfected in the water supply property. Unless otherwise ordered by the commission with respect to any series of water rate relief bonds on or before the issuance of the series, there shall exist a statutory lien as provided in this subdivision.

(2) Upon the effective date of the financing order, there shall exist a first priority lien on all water supply property then existing or thereafter arising pursuant to the terms of the financing order. This lien shall automatically arise pursuant to this section without any action on the part of the qualifying water utility, any affiliate of the qualifying water utility, the issuing entity, or any other person. This lien shall secure all obligations, then existing and subsequently arising, to the holders of the water rate relief bonds issued pursuant to the financing order, the trustee or representative for the holders, and any other entity specified in the financing order. The persons for whose benefit this lien is established shall, upon occurrence of any defaults specified in the financing order, have all rights and remedies of a secured party upon default under Chapter 1 (commencing with Section 9101) of Division 9 of the Commercial Code, and shall be entitled to foreclose or otherwise enforce this statutory lien in the water supply property. This lien shall attach to the water supply property regardless of who shall own, or shall subsequently be determined to own, the water supply property, including any qualifying water utility, affiliate of the qualifying water utility, financing entity, or any other person. This lien shall be valid, perfected, and enforceable against the owner of the water supply property and all third parties upon the effectiveness of the financing order without any further public notice, provided, however, that any person may, but shall not be required to, file a financing statement in accordance with subdivision (b). These financing statements may be protective filings and shall not be evidence of the ownership of the water supply property.

(h) Notwithstanding any other provision of law, Section 5451 of the Government Code shall apply to any pledge by the public financing entity of water supply property or other security for any water rate relief bonds issued by a public financing entity.

849.5. (a) A sale, assignment, or transfer of water supply property by a qualifying water utility to an affiliate or to a financing

entity, or by an affiliate of a qualifying water utility or a financing entity to another financing entity, which the parties, in the governing documentation, have expressly stated to be a sale or other absolute transfer, in a transaction approved in a financing order, shall be treated as an absolute transfer of all of the transferor's right, title, and interest, as in a true sale, and not as a pledge or other financing order of the water supply property, other than for federal and state income and franchise tax purposes.

(b) The characterization of the sale, assignment, or transfer as an absolute transfer and true sale and the corresponding characterization of the property interest of the purchaser shall not be affected or impaired by, among other things, the occurrence of any of the following:

(1) Commingling of water supply charge revenues with other amounts.

(2) The retention by the seller of either of the following:

(A) A partial or residual interest, including an equity interest, in the water supply property, whether direct or indirect, subordinate or otherwise.

(B) The right to recover costs associated with taxes, franchise fees, or license fees imposed on the collection of water supply charge revenues.

(3) Any recourse that the purchaser may have against the seller.

(4) Any indemnification rights, obligations, or repurchase rights made or provided by the seller.

(5) The obligation of the seller to collect water supply charge revenues on behalf of an assignee.

(6) The treatment of the sale, assignment, or transfer for tax, financial reporting, or other purposes.

(7) Any true-up adjustment of the water supply charges as provided in the financing order.

(c) A sale, assignment, or transfer of water supply property shall be deemed perfected against third persons when both of the following occur:

(1) The commission issues the financing order authorizing the water supply charges included in the water supply property.

(2) An assignment of the water supply property in writing has been executed and delivered to the transferee.

(d) As between bona fide assignees of the same right for value without notice, the assignee first filing a financing statement in

accordance with Chapter 5 (commencing with Section 9501) of Division 9 of the Commercial Code naming the assignor of the water supply property as debtor and identifying the water supply property has priority. Any description of the water supply property shall be sufficient if it refers to the financing order creating the water supply property. A copy of the financing statement shall be filed by the assignee with the commission, and the commission may require the assignor or the assignee to make other filings with respect to the transfer in accordance with procedures it may establish, but these filings shall not affect the perfection of the transfer.

849.6. A successor to the qualified water utility, whether pursuant to bankruptcy, reorganization, or other insolvency proceeding, or pursuant to merger, sale, or transfer, by operation of law, or otherwise, shall perform and satisfy all obligations of the qualifying water utility pursuant to this article in the same manner and to the same extent as the qualified water utility, including, but not limited to, collecting and paying to the holders of water rate relief bonds or any financing entities or their pledgees revenues arising with respect to the water supply property sold to the applicable financing entity or pledged to secure water rate relief bonds.

SEC. 7. Section 1731 of the Public Utilities Code is amended to read:

1731. (a) The commission shall set an effective date when issuing an order or decision. The commission may set the effective date of an order or decision before the date of issuance of the order or decision.

(b) (1) After an order or decision has been made by the commission, a party to the action or proceeding, or a stockholder, bondholder, or other party pecuniarily interested in the public utility affected may apply for a rehearing in respect to matters determined in the action or proceeding and specified in the application for rehearing. The commission may grant and hold a rehearing on those matters, if in its judgment sufficient reason is made to appear. A cause of action arising out of any order or decision of the commission shall not accrue in any court to any corporation or person unless the corporation or person has filed an application to the commission for a rehearing within 30 days after the date of issuance or within 10 days after the date of

issuance in the case of an order issued pursuant to either Article 5 (commencing with Section 816) or Article 6 (commencing with Section 851) of Chapter 4 relating to security transactions and the transfer or encumbrance of utility property.

(2) The commission shall notify the parties of the issuance of an order or decision by either mail or electronic transmission. Notification of the parties may be accomplished by one of the following methods:

(A) Mailing the order or decision to the parties to the action or proceeding.

(B) If a party to an action or proceeding consents in advance to receive notice of any order or decision related to the action or proceeding by electronic mail address, notification of the party may be accomplished by transmitting an electronic copy of the official version of the order or decision to the party if the party has provided an electronic mail address to the commission.

(C) If a party to an action or proceeding consents in advance to receive notice of any order or decision related to the action or proceeding by electronic mail address, notification of the party may be accomplished by transmitting a link to an Internet Web site where the official version of the order or decision is readily available to the party if the party has provided an electronic mail address to the commission.

(3) For the purposes of this article, "date of issuance" means the mailing or electronic transmission date that is stamped on the official version of the order or decision.

(c) A cause of action arising out of an order or decision of the commission construing, applying, or implementing the provisions of Chapter 4 of the Statutes of the 2001–02 First Extraordinary Session that (1) relates to the determination or implementation of the department's revenue requirements, or the establishment or implementation of bond or power charges necessary to recover those revenue requirements, or (2) in the sole determination of the Department of Water Resources, the expedited review of order or decision of the commission is necessary or desirable, for the maintenance of any credit ratings on any bonds or notes of the department issued pursuant to Division 27 (commencing with Section 80000) of the Water Code or for the department to meet its obligations with respect to any bonds or notes pursuant to that division, shall not accrue in any court to any corporation or person

unless the corporation or person has filed an application with the commission for a rehearing within 10 days after the date of issuance of the order or decision. The Department of Water Resources shall notify the commission of any determination pursuant to paragraph (2) of this subdivision before the issuance by the commission of any order or decision construing, applying, or implementing the provisions of Chapter 4 of the Statutes of the 2001–02 First Extraordinary Session. The commission shall issue its decision and order on rehearing within 210 days after the filing of the application.

(d) A cause of action arising out of an order or decision of the commission construing, applying, or implementing the provisions of Article 5.7 (commencing with Section 849) of Chapter 4 shall not accrue in any court to any entity or person unless the entity or person has filed an application to the commission for a rehearing within 10 days after the date of issuance of the order or decision. The commission shall issue its decision and order on rehearing within 210 days after the filing of that application.

SEC. 8. Section 1770 is added to the Public Utilities Code, to read:

1770. The following procedures shall apply to the judicial review of an order or decision of the commission in interpreting, implementing, or applying the provisions of Article 5.7 (commencing with Section 849) of Chapter 4 of Part 1 of Division 1:

(a) Within 30 days after the commission issues its order or decision denying the application for a rehearing or, if the application is granted, within 30 days after the commission issues its decision on rehearing, an aggrieved party may petition for a writ of review in the California Supreme Court for the purpose of determining the lawfulness of the original order or decision or of the order or decision on the rehearing. If the writ is issued, it shall be made returnable at a time and place specified by court order and shall direct the commission to certify its record in the case to the court within the time specified. No order of the commission interpreting, implementing, or applying the provisions of Article 5.7 (commencing with Section 849) of Chapter 4 of Part 1 of Division 1 shall be subject to review in a court of appeals.

(b) The petition for review shall be served upon the executive director of the commission either personally or by service at the office of the commission.

(c) For purposes of this section, the issuance of a decision or the granting of an application shall be construed to have occurred on the date when the commission mails the decision or grant to the parties of the action or proceeding.

(d) To the extent that the provisions do not conflict, provisions in this article shall apply to actions under this section.

SEC. 9. Article 8 (commencing with Section 685) is added to Chapter 3 of Part 5 of the Monterey Peninsula Water Management District Law (Chapter 527 of the Statutes of 1977), to read:

Article 8. Tax Exempt Water Relief Reduction Bonds

685. (a) The district may issue water rate relief bonds for the purpose of purchasing water rate relief bonds issued by another financing entity pursuant to a financing order authorized pursuant to Article 5.7 (commencing with Section 849) of Chapter 4 of Part 1 of Division 1 of the Public Utilities Code, to fund any necessary reserves and to pay the costs of issuance of the water rate relief bonds. These bonds may be issued only if the commission finds in the financing order that the issuance, due to the availability of a federal or state income tax exemption, will provide savings to water customers on the Monterey Peninsula. These bonds issued by the district, or "district bonds," shall be denominated "Monterey Peninsula Water Management District Water Rate Relief Bonds." These bonds shall have designations, details, and terms, be payable at times and places, and be sold in a manner as determined by the board. The resolution shall authorize the district to enter into a trust agreement or similar security agreement to secure payment of the district bonds.

(b) The district bonds shall be special limited obligations of the district, and shall be payable solely from payments made on the water rate relief bonds purchased with the proceeds of the district bonds and any reserve funded from the proceeds of the district bonds. The bonds shall not be payable from any other funds or assets of the district, and neither the full faith and credit nor taxing power of the district shall be pledged to or exercised for the payment of the bonds.

686. If the district authorizes the issuance of bonds under Section 685, the district, notwithstanding Article 5 (commencing with Section 53760) of Chapter 4 of Part 1 of Division 2 of Title 5 of the Government Code, shall not be eligible to file for bankruptcy pursuant to Chapter 9 (commencing with Section 901) of Title 11 of the United States Code as long as the district bonds and related financing costs are outstanding and unpaid and shall remain ineligible for a period of one year and one day following the full payment of the bonds and costs.

SEC. 10. The provisions of this act are severable. If any provision of this act or its application is held invalid, that invalidity shall not affect other provisions or applications that can be given effect without the invalid provision or application.

SEC. 11. The Legislature finds and declares that a special law is necessary and that a general law cannot be made applicable within the meaning of Section 16 of Article IV of the California Constitution because of the unique circumstances applicable only to the Monterey Peninsula, Californian American Water, and the Monterey Peninsula Water Management District. Therefore, this special statute is necessary.

SEC. 12. No reimbursement is required by this act pursuant to Section 6 of Article XIII B of the California Constitution because the only costs that may be incurred by a local agency or school district will be incurred because this act creates a new crime or infraction, eliminates a crime or infraction, or changes the penalty for a crime or infraction, within the meaning of Section 17556 of the Government Code, or changes the definition of a crime within the meaning of Section 6 of Article XIII B of the California Constitution.

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ATTACHMENT 2

Precedent Upfront and Ongoing Fees for CA Ratepayer-Backed Securitizations

Issuer	State	Amount ($mm)	Pricing Date	Total Upfront Costs ($mm)	Total Ongoing Financing Costs ($mm)
Pacific Gas & Electric	CA	1,419	7/24/2024	11.0 0.77%	0.7 0.05%
Southern Californa Edison	CA	775	4/19/2023	6.6 0.86%	0.4 0.05%
Pacific Gas & Electric	CA	983	11/18/2022	8.4 0.85%	0.5 0.05%
Pacific Gas & Electric	CA	3,900	7/13/2022	19.5 0.50%	1.6 0.04%
Pacific Gas & Electric	CA	3,600	5/3/2022	22.4 0.62%	1.5 0.04%
Edison International	CA	533	2/8/2022	5.7 1.06%	0.3 0.06%
Pacific Gas & Electric	CA	860	11/4/2021	10.4 1.20%	0.4 0.05%
Southern Californa Edison	CA	338	2/17/2021	6.0 1.76%	0.2 0.07%