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 JONATHAN MORSE

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DIRECT TESTIMONY OF JONATHAN MORSE

I. BACKGROUND

Q1. Please state your name and business address.

A1. My name is Jonathan Morse. My business address is 700 Riverpoint Rd, West Sacramento, CA 95605.

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

A2. I am employed by California-American Water Company ("California American Water" or the "Company") as the Senior Director of Rates & Regulatory.

Q3. Please briefly outline your responsibilities as the Senior Director of Rates & Regulatory.

A3. I oversee the preparation, filing, and processing of all requests for rate adjustments, financing, acquisitions, or any other applications before the California Public Utilities Commission ("Commission" or "CPUC"), including the regulatory and ratemaking components of this Application.

Q4. Please describe your educational, professional, and business background and experience.

A4. I received a Bachelor of Arts in Geography and Global Studies from the University of California, Santa Barbara, and a Master of Arts in International Policy from Stanford University, with a specialization in energy, environment, and natural resources. I have

worked in utility regulation for more than 15 years. I have worked for California American Water since 2018, and as Senior Director of Rates and Regulatory since 2025. From 2009 to 2014, I worked as a consultant with Utility Consultants of California on projects related to rate design, sales forecasting, and conservation. From 2014 to 2018, I worked as an Economist for the District of Columbia Public Service Commission ("DC PSC"), where I worked on two lengthy utility merger proceedings before the DC PSC. I have also attended the Biannual Utility Rate School sponsored by the Water Committee of the National Association of Regulatory Utility Commissioners ("NARUC"), as well as the Fundamentals and Intermediate Regulatory Studies Programs — known as "Camp NARUC" — offered by the Institute of Public Utilities at Michigan State University.

Q5. Have you previously provided testimony before the Commission?

A5. Yes. I provided direct and rebuttal testimony on various items for California American Water's 2022 and 2025 general rate cases, Application (A.) 22-07-001 and A.25-07-003, respectively. I also submitted testimony in California American Water's acquisition applications, A.18-04-025 and A.18-09-013. In 2014, I provided direct and rebuttal testimony on sales forecasting for Apple Valley Ranchos Water Company in its general rate case, A.14-01-002.

Q6. Are you sponsoring any attachments with your testimony?

A6. Yes. I am sponsoring Attachment 1, a comparison of the current and proposed text of Attachment A to Resolution W-5211; Attachment 2, the regulatory approval path and ratemaking treatment of each financing source; Attachment 3, Special Condition 16 of the Coastal Development Permit No. 9-20-0603; Attachment 4, the estimated financial impact of the Special Condition 16 limitation; Attachment 5, average residential CAP and non-CAP customer bills for 2027 through 2030; Attachment 6, the estimated impact of the Desalination CAP surcharge addition by service area; and Attachment 7, exemplary

tariffs reflecting rate schedules, special condition language, statewide CAP surcharge tariff, and an updated preliminary statement for the CAP balancing account.

II. PURPOSE, SCOPE, AND SUMMARY OF REQUESTS

A. Purpose of Testimony

Q7. What is the purpose of your testimony?

A7. The purpose of my testimony is to: (1) confirm that the relief California American Water requests in this Application is consistent with the ratemaking framework the Commission adopted in Decision (D.) 18-09-017 and implemented in Resolution W-5211; (2) confirm California American Water plans to pursue securitization consistent with D.18-09-017, Resolution W-5211 and Public Utilities Code §§ 849, et seq.; (3) provide a section by section proposed update to Attachment A of Resolution W-5211, other than Section 6.7 (cost cap mechanics and offset provisions), which is addressed in the testimony of Lacy Carothers; (4) explain the regulatory approval path and ratemaking treatment of each financing source for the Desalination Project ("the Project")[1] discussed in the Direct Testimony of Tricia Sinopole; (5) explain proposed protections for Monterey service area low-income customers; (6) propose that the Monterey Peninsula Water Management District User Fee not apply to the Desalination Project revenue requirement; (7) present the resulting bill impact for the average residential customer and the average residential low-income customer bill under the Customer Assistance Program ("CAP") in the Monterey service area and impacts to the statewide CAP surcharge applicable to all non-CAP customers; (8) describe timely recovery at the in-service date and California American Water's proposal to ensure timely recovery of the substantial revenue requirement associated with the Project once it is used and useful; (9) address future filings and memorandum/balancing accounts including the mechanics of the Monterey Peninsula Water Supply Project ("MPWSP") Project Cost Memorandum Account ("PCMA") and the MPWSP Operations and Maintenance Memorandum Account

[1] Attachment A to Resolution W-5211 refers to the Project costs as "Phase 1 project costs."

("MOMMA"); and (10) present exemplary tariffs for the desalination base rate increment, statewide CAP surcharge, and an updated preliminary statement for CAP balancing account reflecting the calculation of the Desalination CAP budget and Desalination CAP surcharge addition.

B. Scope of the Application

Q8. What is the scope of this application?

A8. The Commission has already determined that the MPWSP is necessary to meet the long-term water supply needs of California American Water's Monterey service area. This application is, therefore, limited to California American Water's requests that the Commission approve the updated cost cap discussed in the Direct Testimony of Lacy Carothers, and approve the updated ratemaking framework, as discussed in my Direct Testimony.

C. Summary of Requests

Q9. What does California American Water request the Commission approve through your testimony?

A9. California American Water requests the Commission:

1) Approve the updated Attachment A of W-5211 shown in Attachment 1 of my testimony including:

- The updated cost cap supported by Ms. Carothers (Section 6.7);
- Updates to the framework's figures and assumptions (Sections 8, 11, 13, 14, and 15);
- Updates to the financing source information as discussed in the Direct Testimony of Tricia Sinopole (Section 16);

- The implementation provisions described in Sections VI, VII, X, and XI of my testimony (Section 17): the layered rate structure, CAP customer protections, the Desalination CAP program under Special Condition 16, timely recovery at the in-service date, and a semi-annual Consumption Adjustment Mechanism for the first two years; and

2) Find that the Desalination Project rate components are separate Project charges and not part of the "water charges" on which California American Water collects the Monterey Peninsula Water Management District ("MPWMD") user fee, as discussed in Section VIII.

Section V summarizes each change to Attachment A section by section.

D. Other Witnesses

Q10. Who will testify on behalf of the Company and what subjects will they address?

A10. In addition to my Direct Testimony, the following witnesses provide testimony:

Witness Name	Title	Subject of Testimony
Carothers, Lacy	California American Water, Director of Engineering	Ms. Carothers' testimony addresses costs incurred to date and the updated costs for the Project.
Dr. William Ibbs	The Ibbs Consulting Group, Inc., President; Professor Emeritus in Construction Management, University of California, Berkeley	Dr. Ibbs' testimony addresses the reasonableness of cost estimates and increases for the Project.
Pezzini, David	California American Water, Senior Manager, Engineering	Mr. Pezzini's testimony addresses updated operations and maintenance cost estimates for the Project.

Pourtaherian, Bahman	Blue Planet Utility Consulting, Principal Consultant	Mr. Pourtaherian addresses modeling and rate design.
Sinopole, Tricia	American Water Service Company, Director, Treasury	Ms. Sinopole addresses updates to the financing sources for the Project.

E. Organization of Testimony

Q11. Please summarize the organization of your testimony.

A11. My testimony is organized as follows:

1) Section III explains the ratemaking framework established in D.18-09-017 and Resolution W-5211;
2) Section IV explains securitization: prior Commission authorization and statutory basis;
3) Section V presents the requested section-by-section updates to Attachment A of Resolution W-5211;
4) Section VI addresses the regulatory approval path and ratemaking treatment of each financing source;
5) Section VII covers low-income customers and Special Condition 16;
6) Section VIII addresses the MPWMD User Fee;
7) Section IX addresses Customer Bill Impacts and Affordability;
8) Section X describes timely recovery at the in-service date;
9) Section XI covers future filings and memorandum/balancing accounts; and
10) Section XII provides my conclusion.

III. THE RATEMAKING FRAMEWORK ESTABLISHED IN D.18-09-017 AND RESOLUTION W-5211

Q12. What is the source of the ratemaking framework applicable to the Project?

A12. D.18-09-017, issued September 20, 2018, declined to adopt the 2013 Comprehensive Settlement Agreement ("Comprehensive Settlement") as submitted, but adopted its framework, with conditions, and granted California American Water a certificate of public convenience and necessity for the 6.4 mgd desalination plant and related facilities.[2] Section 7.2 of D.18-09-017, titled "Ratemaking," explains that no party contested the ratemaking provisions of the Comprehensive Settlement, and that the Commission agreed with California American Water that the framework set out in Sections 12 and 14 of the Comprehensive Settlement provides the general structure and key elements for rate recovery of the rate-base portion of the MPWSP.[3]

Q13. What did D.18-09-017 direct California American Water to do to implement that framework?

A13. 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 20 provided that rate recovery of O&M expenditures would be authorized consistent with Section 8 of the Comprehensive Settlement. Ordering Paragraph 28 directed California American Water to record and track all MPWSP capital costs in a memorandum account, with quarterly reporting. And Ordering Paragraph 30 directed California American Water to file a Tier 2 advice letter, after consulting with parties and Water Division staff, for the first-year revenue requirement once the facility is built and online, consistent with the ratemaking framework set forth in Sections 6, 7, 8, and 14 of the Comprehensive Settlement, the filing I discuss further in Section X below.[4]

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[2] D.18-09-017 (issued September 20, 2018).

[3] D.18-09-017 at Section 7.2 (Ratemaking).

[4] D.18-09-017, Ordering Paragraphs 20, 25, 28, and 30.

Q14. How did California American Water implement these directives?

A14. California American Water consulted with the parties and Water Division staff and filed Advice Letter ("AL") 1220 on December 31, 2018, with supplemental AL 1220-A filed on September 10, 2019. In Resolution W-5211, adopted December 19, 2019, the Commission approved the adjusted financing and ratemaking framework as Attachment A to the Resolution, finding the adjustments just and reasonable and in compliance with D.18-09-017, and approved the establishment of the PCMA and the MOMMA, both effective December 31, 2018.[5]

Q15. Is the relief California American Water requests in this Application consistent with the ratemaking framework adopted in D.18-09-017 and Resolution W-5211?

A15. Yes. The relief I sponsor is covered in the updated Attachment A to Resolution W-5211 shown in Attachment 1.

Most of the changes bring the framework's figures and assumptions up to date: the O&M estimate, the amount of State Revolving Fund ("SRF") financing, the cost of capital inputs, and confirmation the securitization criteria are still met at the updated Project cost. These changes alter the numbers within the framework, not how it works.

The remaining changes, new Sections 16 and 17, add provisions on questions the framework did not address: the additional financing sources now available, how the Project revenue requirement is recovered in the Monterey service area rates, how low-income customers are treated, and when rates take effect once the Project is in service. Some of these questions arose only after Resolution W-5211 was adopted. The most significant example is Special Condition 16 of the Coastal Development Permit, which

[5] Resolution W-5211 (adopted December 19, 2019), Attachment A.

the California Coastal Commission imposed in November 2022.[6] Each provision builds on the framework's existing structure and on mechanisms the Commission has already approved, such as the statewide CAP surcharge and the Tier 2 advice letter required by Ordering Paragraph 30.

The only request outside Attachment A is the finding on the MPWMD user fee discussed in Section VIII. Attachment A remains the operative statement of the framework, and the PCMA and MOMMA remain in effect. This Application requests approval of updates to that framework, not adoption of a new one.

IV. SECURITIZATION: PRIOR COMMISSION AUTHORIZATION AND STATUTORY BASIS

Q16. Is the use of securitization in the updated financing plan a new concept introduced by this Application?

A16. No. Securitization through the issuance of Water Rate Relief Bonds has been part of the MPWSP financing framework since the 2013 Comprehensive Settlement and has been repeatedly authorized and carried forward since then. The 2013 Comprehensive Settlement's Sections 11 through 15 established the complete securitization framework, the Special Purpose Entity, the Water Rate Relief Bonds, the seven qualifying conditions, and the associated credit-rating protections. In 2014, the California Legislature enacted the enabling legislation, SB 936. In D.18-09-017, the Commission adopted the seven settlement criteria as findings, confirmed the SPE/non-bypassable-charge/true-sale/non-recourse structure, found that no party contested the overall financing framework, and directed California American Water to file the financing-order application.[7] And

[6] Special Condition 16(b)(ii) places a $10 cap on rate increases per month for CAP customers for Project related costs.

[7] D.18-09-017 at Section 7.1.3 (Financing).

Resolution W-5211, Attachment A, Section 11 carried the securitization framework forward and authorized a dedicated cost-tracking subaccount.

Q17. What is the significance of this history for the Application?

A17. It confirms that the base case financing plan's use of securitization of 50 percent of Project costs is the exercise of authority the Commission already granted in 2018 and implemented in 2019, not a new request requiring new authorization of the concept itself. As discussed in Section XI below, California American Water will file a separate application for a financing order to actually authorize issuance of Water Rate Relief Bonds ("WRRB"); that filing implements the securitization authority already established, rather than seeking it for the first time.

Q18. What authorizes securitization financing for the Project?

A18. In 2014, the California Legislature enacted SB 936 (Stats. 2014, ch. 482), effective January 1, 2015, which added the Monterey Peninsula Water Supply Securitization Act, codified at Public Utilities Code §§ 849 through 849.6 (the "Act").[8] Under the Act, the Commission may issue a financing order authorizing a "financing entity," which may be California American Water, an affiliate, or a public financing entity, to issue water rate relief bonds secured by a dedicated, non-bypassable water supply charge on customer bills.

Q19. Does the Act limit the amount of costs that may be recovered through securitization?

A19. Yes. Public Utilities Code § 849.1(a)(2) provides that a qualifying water utility may apply to the Commission for a determination that no more than 50% of its water supply costs may be recovered through water supply charges, and that the Commission shall not

[8] SB 936 (Stats. 2014, ch. 482); Cal. Pub. Util. Code §§ 849–849.6.

approve an increase in a financing order exceeding a total of 5 percent of water supply costs.[9]

Q20. Is California American Water's proposal consistent with that statutory limit?

A20. Yes. As shown in Ms. Sinopole's testimony (Section VII) and Table 1 of Mr. Pourtaherian's testimony, the base case financing plan sizes the securitization at 50% of water supply costs, within the statutory limit. The separate 5% limit in Section 849.1(a)(2) 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." It limits later increases to a financing order after that order has been issued; it does not limit the initial size of the securitization. Because the Commission has not yet issued a financing order for the Project, the 5 percent limit does not affect the financing plan in this Application.

Q21. How does this Application relate to the separate financing-order application referenced by Ms. Sinopole in Section X of her Direct Testimony?

A21. This Application requests approval of the section-by-section updates to Attachment A and the associated cost cap and rate design; it does not itself request the financing order needed to actually authorize issuance of the Water Rate Relief Bonds. As Ms. Sinopole explains in Section X of her testimony, California American Water will file a separate application for that financing order under the Act. The Commission's decision in this Application therefore establishes the ratemaking framework within which that later financing-order application will be evaluated but does not itself authorize bond issuance. California American Water has not yet applied for a financing order because the financing order fixes the bond amount and charge, which requires the updated Project cost and financing plan this Application presents.

[9] Cal. Pub. Util. Code § 849.1(a)(2).

A timely decision in this Application also protects access to the lower-cost financing in the plan. The financing-order application cannot proceed until the updated cost cap is approved, and the SRF loan and the Private Activity Bond allocation each depend on their own schedules. A delay in this proceeding increases the risk that these sources are reduced or lost, which would increase what customers pay.

V. UPDATES TO ATTACHMENT A OF RESOLUTION W-5211

Q22. What is the scope of the changes to Attachment A that your testimony addresses?

A22. My testimony covers every change California American Water requests to Attachment A of Resolution W-5211 other than Section 6.7 (cost cap mechanics and offset provisions), which is supported in the testimony of Lacy Carothers. The changes I sponsor update figures and assumptions to reflect current conditions and are reflected in Attachment 1 to my testimony and are summarized below:

- **Section 6.7 (cost cap):** updates the Project cost cap to $825 million for the 4.8 mgd initial capacity plant, as supported by the direct testimony of Ms. Carothers at Section III, and provides that California American Water will file a petition for modification or, if necessary, a separate application, to update the cost cap when it expands the plant to 6.4 mgd.

- **Section 8:** replaces the O&M estimate with the updated estimate of $14.85 million for the initial 4.8 mgd plant presented in Attachment 1 to the Direct Testimony of Mr. Pezzini. Membrane replacement and long-term equipment renewal costs are treated as capital items rather than O&M. Section 8.3(a) ties the timing of the updated O&M filing to the anticipated in-service date. The Tier 2 advice letter process and the MOMMA true-up do not change.

- **Sections 11.1-11.2 (securitization amount and equity)**: provide that securitization is the base case financing, up to 50 percent of the Project's water supply costs under §849.1(a)(2). The base case sizes securitization at 50 percent, as shown in the direct testimony of Ms. Sinopole (Section VII) and Table 1 of Mr. Pourtaherian's direct testimony.

- **Section 11.3 (securitization criteria):** confirms that the seven securitization criteria adopted in D.18-09-017 are still met at the updated Project cost. The customer benefit benchmark in Section 11.3(a) is met, as shown by the net present value analysis in Section V of Mr. Pourtaherian's direct testimony. Sections 11.3(c) and (d) remove the specific capital structure and return on equity values from D.18-03-035 so that California American Water's currently authorized values apply.

- **Section 11.4 (securitization implementation):** reflects the enactment of SB 936 (Stats. 2014, ch. 482), codified at Public Utilities Code §§ 849 – 849.6. It updates the expected capitalization of the special purpose entity to approximately three percent of the Water Rate Relief Bonds, as Ms. Sinopole describes in Section VII of her direct testimony, and provides that true-ups of the WRRB surcharge follow the true-up mechanism in the financing order under Section 849.1(g).

- **Section 11.6 (securitization contingency):** replaces the Proposition 218 alternative with a taxable securitization, and allows California American Water to substitute a WIFIA loan for up to 49 percent of eligible Project costs if securitization is not available or economical. As Ms. Sinopole explains in Section X of her testimony, WIFIA is a contingency and not part of the base case.

- **Section 13 (SRF financing)**: reduces the SRF amount from approximately $237 million to approximately $50 million. This reflects how much Drinking Water State Revolving Fund financing is now available, not a choice by California American Water. Section 13.1(c) confirms that securitization, not SRF, is the base case for the securitized share of Project costs. Section 13.4 provides that California American Water will seek authority to incur the SRF debt through a separate financing application under Public Utilities Code Sections 816-818 and will place the SRF surcharge into rates by Tier 2 advice letter. I acknowledge that this change increases the revenue requirement compared with the 2019 financing plan. It does so because lower-cost SRF money is less available, not because the method has changed.

- **Section 14 (ratemaking):** provides that the cost of capital inputs used to set Project rates will be those authorized when rates take effect. It updates the depreciation and income tax references to D.24-12-025 and adds the interest cost of Private Activity Bonds and any WIFIA loan to the debt costs recovered in rates. Section 14.6 provides that the first-year Tier 2 advice letter will be filed no later than 60 days before the anticipated in-service date and will present only the desalination base rate increment, net of Project costs financed through the Water Rate Relief Bonds and the SRF loan, and net of the DWR grant.

- **Section 15 (project cash flow):** reflects that the Monterey Pipeline & Pump Station project is complete and in rates, so the full $20 million of short-term debt is available during Project construction to reduce Allowance for Funds Used During Construction ("AFUDC"). The cash flow statement reflects the financing sources in this Application.

- **Section 16 (new, additional financing sources):** adds the $10 million Department of Water Resources grant and tax-exempt Private Activity Bonds to the base case financing plan and adds the WIFIA contingency described above. It also confirms that this Application does not itself authorize the debt or the Water Rate Relief Bonds; California American Water will seek that authority separately.

- **Section 17 (new, additional ratemaking conditions):** sets out the implementation proposals discussed in Sections VI, VII, X, and XI of my testimony:

    - The layered rate structure (WRRB surcharge, SRF surcharge, and desalination base rate increment);

    - The exclusion of CAP customers from the WRRB surcharge under Section 849.1(j) and from the SRF surcharge;

    - The $10 per month limitation required by Coastal Commission Special Condition 16, and the Desalination CAP program that implements it;

    - Timely recovery at the in-service date, subject to refund; and

    - The semi-annual Consumption Adjustment Mechanism for the first two years.

- Attachment A does not include a Section 12 (Construction Funding Charge) because that charge was replaced with expanded SRF loans through AL 1220-A and Resolution W-5211. California American Water does not request any change to Section 7 (Monterey Pipeline & Pump Station project costs). Attachment 1 to

my testimony also includes conforming changes, such as updated terminology and the removal of references to appendices that were not attached to Resolution W-5211.

VI. REGULATORY APPROVAL PATH AND RATEMAKING TREATMENT OF EACH FINANCING SOURCE

Q23. For each source in the updated base case financing plan sponsored by Tricia Sinopole, please describe the regulatory approval path and the resulting ratemaking treatment.

A23. Attachment 2 to my testimony summarizes for each source, the Department of Water Resources ("DWR") grant, SRF, the Water Rate Relief Bonds, tax-exempt Private Activity Bonds ("PABs"), American Water Capital Corp. ("AWCC") long-term debt, equity, and the short-term debt used during construction, the regulatory vehicle by which it is (or will be) approved, and the resulting ratemaking treatment. In addition, Attachment 2 includes a figure of the existing Monterey revenue requirement and rate structure. The Direct Testimony of Bahman Pourtaherian discusses how these components come together in Monterey service area rates in Section VI of his testimony.

A. Existing Monterey rate structure

Q24. Can you describe the territory covered by California American Water's Monterey service area and California American Water's Central Division?

A24. Yes. The Monterey service area is part of California American Water's Central Division. As described on the Monterey service area Tariffs, the service area is comprised of "The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, Hidden Hills and Ryan Ranch subdivisions, Bishop subdivision including the area known as Laguna Seca Ranch Estates, and vicinity and certain unincorporated areas in the County of Monterey."[10] In addition to the Monterey service area, the Central Division also contains the Central Satellite service area which as

[10] California American Water Tariff Schedule Nos. MO-1-SF, MO-1-MF, MO-1C, and MO-1O.

described on its tariff schedule is comprised of the "Toro sub-unit including Mesa del Sol, Monterey County, Ambler Park Subdivision, Oaks subdivision, Rim Rock subdivision, Rancho El Toro Country Club (located nine miles southwest of Salinas), Chualar sub-units, Ralph Lane, and vicinity. The unincorporated communities, subdivisions, and adjacent areas generally known as Garrapata and vicinity."[11] Throughout this testimony I will refer to the 'Monterey service area' or 'Monterey' and when I do, I am describing the territory described above for the Monterey service area. The WRRB surcharge, the SRF surcharge, the desalination base rate increment, and the $10 CAP contribution apply only to customers in the Monterey service area. Non-CAP customers in all service areas, including the Central Satellite service area, pay the Desalination CAP surcharge addition.

Q25. How is the Monterey service area's existing revenue requirement recovered from customers today?

A25. As shown in Figure 2 of Attachment 2, the existing Monterey service area revenue requirement is recovered through base rates, under the authorized rate design, where revenue is collected through both a fixed meter charge and a volumetric charge. All customers are billed these base rates. Customers enrolled in the Customer Assistance Program ("CAP") receive a discount on their base rates. That discount is funded through the existing statewide CAP surcharge, which is paid by non-CAP customers in all service areas statewide. This non-desalination revenue requirement will continue to be tracked and updated separately through the general rate case process.

B. Recovery of Each Financing Source

Q26. How will the revenue requirement related to the desalination project be added to this structure?

[11] California American Water Tariff Schedule No. CEN-SAT. In A.25-07-003, California American Water's pending general rate case, the Company requested consolidation of West San Martin into the Central Satellite service area.

A26. The desalination revenue requirement will be layered on top of the existing revenue requirement, not merged into it. As shown in Figure 3 of Attachment 2, it is made up of three financing components, and each is recovered through its own mechanism.

1. **Water Rate Relief Bonds ("WRRB").** The WRRB revenue requirement is recovered through a separate WRRB surcharge. That surcharge is set under the authorized rate design, using both meter and volumetric charges, and will not be billed before deliveries of desalinated water begin.

2. **State Revolving Fund ("SRF") loan.** SRF debt service is recovered through a meter-based surcharge.

3. **Desalination base rates (equity, AWCC debt, PABs, net of the DWR Grant).** This component is recovered through a desalination base rate increment. The increment is set under the authorized rate design and added to existing base rates.

Keeping each component separate lets each one be tracked, trued up, and eventually retired on its own schedule without affecting the others.

Q27. How is each component updated over time?

A27. Each component uses the mechanism that fits its financing structure:

- **WRRB:** recorded and trued-up semi-annually through an advice letter filing under the true-up mechanism in the financing order, as required by Pub. Util. Code § 849.1(g).

- **SRF:** recorded in a balancing account and trued-up as required. Authority to implement a surcharge, and any associated balancing account and true-up, will be

established in the Commission's decision on California American Water's financing application.

- **Desalination base rate increment:** initially set by the post-completion Tier 2 advice letter described in Section XI, effective on the later of 30 days after filing or the in-service date; thereafter updated through base rate proceedings, including GRC implementation, step filings, Cost of Capital, and Annual Consumption Adjustment Mechanism ("ACAM") filings.

- **CAP surcharge addition:** updated through an annual update filing.

C. CAP Customers and Customer Bill Comparison

Q28. Can you describe the ratemaking treatment for Monterey CAP customers?

A28. Yes, Monterey CAP customers are billed a $10 monthly CAP contribution related to the Project. The ratemaking treatment for CAP customers is described in detail in Section VII below. Additionally, a comparison of Monterey non-CAP and Monterey CAP customer bill components is in Figure 4 of Attachment 2.

Q29. For each source, does the Commission's decision in this proceeding grant final authorization to incur the associated debt or issue the associated bonds?

A29. No, as described in Section XI below, California American Water is separately seeking Commission authorization to incur the SRF loan. If needed as a contingency substitute for the Water Rate Relief Bonds, California American Water will seek Commission authorization to incur a WIFIA loan. The Private Activity Bonds would be issued through Capital Programs & Climate Financing Authority ("CPCFA") with AWCC as the borrower, and California American Water would incur the related intercompany indebtedness to AWCC under its existing financing arrangements. California American

Water will also apply for a financing order for the Water Rate Relief Bonds, as Ms. Sinopole describes in Section X of her Direct Testimony.

VII. LOW-INCOME CUSTOMERS, SPECIAL CONDITION 16, AND THE DESALINATION CAP PROGRAM

A. Special Condition 16

Q30. Are there any measures that have been proposed to mitigate the rate impacts to low-income customers associated with the Project costs?

A30. Yes. The California Coastal Commission's Coastal Development Permit ("CDP") for the Project, CDP No. 9-20-0603, includes Special Condition 16(b):

PRIOR TO ANY INCREASE IN RATES RELATED TO THE DESALINATION FACILITY TAKING EFFECT, the Applicant shall implement the following:

i. A $500,000 grant to the United Way Hardship fund and proposal to continue funding the United Way Hardship fund in perpetuity.

ii. A $10 cap on rate increases per month for ratepayers enrolled in its Customer Assistance Program. The cap shall be in place for the duration of the Project. Annual reporting required here and under Special Condition 16 must demonstrate how the $10 cap is being met. [12]

B. Current Programs

Q31. What programs currently exist in California American Water's Monterey service area to assist low-income residential customers?

[12] California Coastal Commission, Staff Report: Recommendation on Appeal De Novo Hearing and Consolidated Coastal Development Permit, Final Adopted Findings, Appeal No. A-3-MRA-19-0034 / Application No. 9-20-0603 (hearing Nov. 17, 2022), Special Condition 16 at pp. 36-37. The full text of Special Condition 16 is reproduced in Attachment 3 to this testimony.

A31. California American Water currently offers several programs to support income-qualifying and financially struggling residential customers in the Monterey service area. California American Water's Customer Assistance Program ("CAP") provides a discount on the water bills of income-qualifying residential customers, funded through a statewide, customer-funded surcharge on non-CAP customer bills statewide.[13] Monterey service area CAP customers currently receive a 35% discount applied to the monthly service charge on every bill and to usage in rate Tiers 1 through 3.

California American Water partners with United Way Monterey to currently offer a Hardship Benefit Program that helps struggling customers avoid having their water service shut off for non-payment. Currently funded 30% by California American Water shareholders, the program has assisted and prevented service disconnection for 296 approved Monterey customers, with an average benefit payout of approximately $629 per customer.[14]

California American Water has pledged $500,000 in additional shareholder funding for the program as the need materializes. California American Water is committed to funding the program through United Way Monterey or a similar organization in the future.

California American Water also offers a water-energy retrofit program, administered jointly with participating energy utilities, under which California American Water typically covers the cost of toilet upgrades, aerators, and leak repairs, while the partnering energy utility covers hot-water measures such as water heater, showerhead, and washing

[13] D.12-06-016, pp. 18-19 (Section 6.7 - Low-Income Tariff Consolidation), 90, Ordering Paragraph 10. In D.12-06-016 the CAP was called the Low-Income Ratepayer Assistance Program ("LIRAP") and in D.20-08-047 Ordering Paragraph 4 the CPUC ordered water utilities to rename the LIRAP program CAP. California American Water filed Advice Letter 1326 on March 5, 2021 in compliance with this order.

[14] A.25-07-003, Exh. CALAM-09, Direct Testimony of Patrick Pilz, at 22.

machine upgrades. This program is available to single-family customers in all California American Water service areas, including Monterey. In its pending TY2027 general rate case, California American Water is seeking to expand the program to cover multi-family buildings and mobile home parks, both master-metered and individually metered. Lastly, California American Water also provides several payment options. Customers who are unable to pay their bill by the due date may contact California American Water's customer service center to arrange a payment plan, which typically requires payment of at least 25 percent of the past-due balance within 48 hours of the call, with the remaining balance, including any applicable late payment charge, paid over an agreed-upon schedule not to exceed 12 months. Budget Billing is a free program available to eligible residential customers that provides predictable monthly payments and helps customers avoid seasonal bill spikes.

Q32. How many Monterey service area customers currently participate in CAP?

A32. As of October 2026, approximately 3,243 Monterey service area customer accounts participate in CAP. **Table 1** presents average monthly Monterey service area CAP enrollment for 2021 through 2026. The financial estimates in Attachments 4 and 6 instead use the enrollment counts that support the current statewide CAP surcharge.[15]

[15] The estimates in Attachments 4 and 6 use the customer and CAP enrollment counts from the workpapers supporting Advice Letter 1493-A (filed November 17, 2025), which set the current statewide CAP surcharge of $3.25. These include approximately 3,394 Monterey service area CAP accounts out of approximately 38,924 total Monterey service area customer accounts, and approximately 158,912 non-CAP accounts statewide. The Desalination CAP surcharge addition will be recalculated in the annual update filing using customer counts and CAP enrollment current at that time.

Table 1

Monterey service area CAP Enrollment Summary (2021 - 2026)	
Year	Average Monthly Enrollment
2021	3,256
2022	3,371
2023	3,440
2024	3,408
2025	3,315
2026	3,243

Q33. What CAP discount currently applies to Monterey service area customers, and is that discount level changing?

A33. Monterey service area CAP customers currently receive a 35% discount on the service charge and on usage in Tiers 1 through 3, compared to the 25% discount provided to CAP customers in California American Water's other California service areas, to account for Monterey's steeply inclining conservation rate design.[16]

In California American Water's pending TY2027 general rate case, A.25-07-003, California American Water proposed to increase the Monterey discount to 50%, while limiting the enhanced discount to the service charge and to Tier 1 usage only.[17] On June 8, 2026, California American Water and the Public Advocates Office filed a Settlement Agreement in A.25-07-003 that would adopt this increase, raising the Monterey CAP

[16] Exh. CALAM-09 at Q14/A14.

[17] Exh. CALAM-09 at Q16/A16, Q17/A17.

discount from 35% to 50%, while discontinuing the discount previously available on Tier 2 and Tier 3 usage.[18]

California American Water also proposed, and the Settlement Agreement would adopt, continuation of the Hardship Benefit Program and the water-energy retrofit program described above. The Settlement Agreement would also extend to the Monterey service area an existing pilot program that provides CAP discounts to tenants of master-metered properties within a disadvantaged or severely disadvantaged community.[19] Several of these proposals comply with components of Special Condition 16 of the Coastal Development Permit.

The customer bill impacts in Section IX reflect the Monterey CAP discount assuming the 50% CAP discount proposed in the A.25-07-003 settlement is approved.

C. CAP Customers and the Desalination CAP Program

Q34. How are CAP customers treated under this proposal?

A34. CAP customers are not billed the WRRB surcharge. Under Public Utilities Code § 849.1(j), the exclusion from the WRRB surcharge applies if the Commission determines that it will have no significant impact on the ability of the financing entity to finance the Project.[20] Additionally, CAP customers are not billed the SRF surcharge. Unlike the

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[18] Joint Motion of California-American Water Company and the Public Advocates Office for Approval of Settlement Agreement, A.25-07-003 (filed June 8, 2026), Exhibit A (Settlement Agreement), Section 5.1 (Customer Assistance Programs).

[19] Joint Motion of California-American Water Company and the Public Advocates Office for Approval of Settlement Agreement, A.25-07-003 (filed June 8, 2026), Exhibit A (Settlement Agreement), Section 12.9 (Special Request No. 11 – Multi Family Low Income Pilot Program Extension and Expansion).

[20] Pub. Utilities Code § 849.1(j) (The commission shall, pursuant to its authority in Section 739.8, implement a program to exclude low-income water ratepayers participating in commission-approved, low-income rate assistance programs 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

WRRB exclusion, the SRF exclusion is not required by statute; California American Water proposes it so that CAP customers' total Project-related increase stays within Special Condition 16's $10 limit. CAP customers are also not billed the desalination base rate increment. Instead, consistent with Coastal Development Permit Special Condition 16 described above, each CAP customer pays a $10 per month CAP contribution to the Project. CAP customers continue to receive their authorized discount on existing Monterey base rates that are not related to the desalination project. Figure 4 of Attachment 2 compares the billing components of a Monterey non-CAP customer bill with those of a Monterey CAP customer bill.

Q35. Can you explain how the desalination base rate increment is recovered when it is not being paid by CAP customers?

A35. Yes, recovery is through a Desalination CAP program for the project. The program's budget equals the desalination base rate increment per customer[21] multiplied by the number of CAP customers. The total $10 per month contribution from CAP customers is subtracted from that budget. The remainder is recovered through a flat addition to the existing statewide CAP surcharge, paid by non-CAP customers in all of California American Water's service areas. The proposed Desalination CAP program is the rate relief program contemplated by Special Condition 16(c), which refers to California American Water implementing "CPUC-approved rate relief programs that effectively cap rate increases to no more than $10 per month for such customers." Commission approval of the program in this proceeding will provide the mechanism through which California American Water meets the $10 limitation in Special Condition 16(b)(ii) for the duration

adjustment of the amount of the charge, as necessary, to cover any costs associated with implementation of the exclusion.).

[21] This amount is based on a Monterey single family customer with a 5/8-inch meter and average monthly usage of 34.93 cgl per month.

of the Project. The CAP discount is not applied to the desalination base rate increment; the Desalination CAP budget is measured on the full increment.

Q36. Are the WRRB and SRF amounts that CAP customers do not pay also recovered through the CAP program?

A36. No. WRRB and SRF costs are not charged to CAP customers, and they are not included in the Desalination CAP program budget. They are recovered entirely from non-CAP customers in the Monterey service area through the WRRB surcharge and the SRF surcharge. The Desalination CAP program covers only the desalination base rate increment, net of the $10 contribution.

Q37. Why is it appropriate to fund the CAP portion through the statewide CAP surcharge?

A37. There are four reasons.

First, it is consistent with how CAP is already funded. Today, CAP discounts in every California American Water service area are funded through a single statewide CAP surcharge paid by non-CAP customers. The Commission approved that structure in D.12-06-016.[22] The proposal does not create a new funding approach. It applies the existing, Commission approved treatment to a new cost.

Second, it keeps the CAP program working as designed. The purpose of the CAP is to provide meaningful relief to income-eligible customers. Without this proposal, Monterey CAP customers would face a rate increase of approximately $69.27 per month from the desalination base rate increment, which would substantially offset the discount they receive today. Covering the increment through the CAP budget, net of the $10 per month contribution, preserves the value of the program for enrolled customers.

[22] D.12-06-016 at 18-19, Ordering Paragraph 10.

Third, it keeps the statewide per-customer impact small. The statewide CAP surcharge would increase from $3.25 to approximately $4.52 per month per non-CAP account (+$1.27), approximately 0.8% to 2.3% of the average residential base bill depending on service area, and a smaller share for non-residential customers. Spreading the CAP budget across approximately 158,912 non-CAP customers statewide produces a flat addition of approximately $1.27 per month per customer.

Fourth, it relies on existing mechanisms. The statewide CAP surcharge and its annual update filing are already in place. No new billing mechanism or balancing account is needed, and the CAP budget is updated and reviewed through a process the Commission and parties already know.

Q38. Why not recover the CAP portion only from Monterey non-CAP customers?

A38. Monterey non-CAP customers already bear the full WRRB surcharge, the SRF surcharge, and the desalination base rate increment. Adding the CAP portion on top would raise their impact to approximately $5.66 per month, compared with approximately $1.27 per month when spread statewide. Recovering the CAP portion only from Monterey non-CAP customers would also depart from the statewide funding structure the Commission has already approved for CAP. The proposed approach keeps CAP funding consistent across all service areas.

Q39. Do CAP customers contribute toward the cost of the desalination project?

A39. Yes. Each CAP customer pays a $10 per month CAP contribution. CAP customers therefore share in the cost of the project, while the contribution stays predictable and does not undercut the discount the program is meant to provide.

Q40. How long does the $10 per month limitation apply?

A40. Per the Coastal Development Permit, the condition lasts for the duration of the Project under Special Condition 16(b)(ii).

Q41. What are the estimated financial impacts associated with complying with the $10 per month limitation for CAP customers?

A41. Attachment 4 presents California American Water's current estimate of the financial impacts associated with the Special Condition 16 limitation, based on California American Water's Monterey service area customer counts and its current financing plan for the Project. Attachment 4 is an estimate and will be updated at the time the Project goes into rates, reflecting the final approved revenue requirement, rate design, and CAP enrollment. Attachment 6 provides, for each service area, the estimated incremental impact on the CAP surcharge associated with the project costs in excess of the $10 per month limitation for CAP customers in Monterey required under Special Condition 16 to the CDP.

Q42. Is California American Water proposing any additional steps to increase CAP participation for eligible Monterey service area customers?

A42. California American Water regularly communicates with customers about the programs described above. Between December 2024 and November 2025, California American Water developed and launched 60 separate communication pieces to share information about its various affordability programs with customers in its Monterey service area. Of the 60 pieces, nine specifically focused on customer assistance programs, while the remaining pieces primarily focused on other topics but featured additional information about customer assistance. Some of the informational materials targeted customers already enrolled in the Customer Assistance Program and some materials just targeted new customers, while most others targeted California American Water's entire customer base. Outreach included 33 emails, 13 direct mail pieces, nine bill inserts and messaging, two fact sheets, two social media campaigns, and one radio sponsorship. California

American Water remains committed to providing customers with information about available programs at least quarterly.

In addition to these regular communications, California American Water receives enrollment information from Pacific Gas and Electric's CARE Program on a quarterly basis to match customers who have qualified and enrolled in the CARE program. California American Water will use this data to create a separate outreach program for its proposed expanded Multi-Family Assistance Pilot Program in Monterey, which is pending in the settlement agreement with the Public Advocates Office in California American Water's pending general rate case, A.25-07-003.

Q43. How will the revenue requirement associated with the Project be tracked for purposes of the CAP surcharge?

A43. Because California American Water's CAP surcharge is calculated and recovered on a statewide basis across all of California American Water's service areas, and because Special Condition 16's $10 per month limitation applies specifically and only to Project-related costs, the revenue requirement associated with the Project must be tracked separately from, and not consolidated with, California American Water's non-Project Monterey service area and statewide revenue requirements. Incremental tracking of the Project revenue requirement will allow California American Water to identify the discrete amount of CAP customer cost associated with the Project in excess of the $10 per month limitation in any given period, and to report compliance with Special Condition 16 to the Commission and the California Coastal Commission. Additionally, within the CAP balancing account California American Water will track the Desalination CAP surcharge addition and annually update the CAP surcharge to reflect updated customer counts, CAP enrollment, and base rates either through GRC implementation advice letters, step advice letters, or a separate annual advice letter. California American Water will use this tracking to report to the Coastal Commission, as Special Condition

16(c) requires, on how the Desalination CAP program keeps Project related increases for CAP customers at $10 per month.

Q44. Where does your testimony present the resulting average residential customer bill impacts for CAP and non-CAP customers in the Monterey service area?

A44. Section IX (Customer Bill Impacts) provides the average residential customer bill impact for CAP and non-CAP customers in Monterey for 2030 associated with the Project costs. The 2030 bill impact requires a forecast of average customer bills for 2027 through 2029, which are based on the expected outcomes of the pending Test Year 2027 general rate case (A.25-07-003).

VIII. MONTEREY PENINSULA WATER MANAGEMENT DISTRICT USER FEE

Q45. Please describe the MPWMD user fee that appears on Monterey service area customer bills.

A45. The MPWMD user fee is a charge set by MPWMD under its enabling legislation, currently 8.325% of the water charges California American Water bills to Monterey service area customers.[23] California American Water does not set the fee or keep any of it. California American Water collects it from customers as a billing service on MPWMD's behalf and sends the proceeds to MPWMD, as the Commission authorized following the California Supreme Court's 2016 decision on the fee.[24] Among other things, the fee funds MPWMD's Carmel River Mitigation Program, which addresses environmental effects of streamflow on the river. It also funds the Aquifer Storage and Recovery ("ASR") program which stores surplus winter Carmel River flows in the

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[23] MPWMD Law, Stats. 1977, ch. 527, § 326, Cal. Water Code App. § 118-326. MPWMD Ordinance No. 123, Aug. 15, 2005. (The current 8.325% Water Distribution System User Fee was established under MPWMD Ordinance No. 123 and is identified in MPWMD Resolution No. 2011-09 as taking effect on October 14, 2005.)

[24] D.17-01-013, A.10-01-012 (authorizing California American Water to resume collecting and remitting the 8.325 percent user fee and to restore the tariff reference removed in 2009.), see *Monterey Peninsula Water Management District v. Public Utilities Commission* (2016) 62 Cal. 4th 693.

Seaside Groundwater Basin to reduce summer diversions.[25] MPWMD more broadly describes the fee as supporting "environmental mitigation, water supply, conservation, and other activities."[26]

Q46. Does California American Water propose that the MPWMD user fee apply to the Project revenue requirement?

A46. No, California American Water proposes that the MPWMD user fee does not apply to the Project revenue requirement.

Q47. Is California American Water asking the Commission to review or change the MPWMD user fee?

A47. No. The Supreme Court has held that the Commission does not have authority to review the District's fee,[27] and California American Water is not asking it to. California American Water does not propose any change to the fee's rate, to MPWMD's use of the money, or how the fee applies to California American Water's existing charges. California American Water's request concerns its own tariffs and rate design, which are within the Commission's authority. Specifically, California American Water asks the Commission to find that the Project rate components described in Section VI of my testimony are separate Project charges, not part of the "water charges" on which California American Water collects the user fee under its tariff.[28] This is consistent with how California American Water treats the Pure Water Monterey purchased water surcharge today. California American Water will implement this finding through a

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[25] *Monterey Peninsula Water Management District v. Public Utilities Commission* (2016) 62 Cal. 4th 696 (describing the Mitigation Program and the ASR Program).

[26] D.17-01-013, Attachment 1; MPWMD, "District User Fee to be Reinstated" (Feb. 2017) https://www.mpwmd.net/district-user-fee-to-be-reinstated/

[27] *Monterey Peninsula Water Management District v. Public Utilities Commission* (2016) 62 Cal. 4th 696.

[28] Monterey service area tariff schedules No. MO-1-SF, MO-1-MF, MO-1C, MO-1O and Advice Letter 1152 which made effective the current effective tariff rate of 8.325 percent rate.

special condition in its Monterey service area tariffs stating that the MPWMD user fee does not apply to the desalination base rate or other associated Project charges, as shown in the exemplary tariffs in Attachment 7.

Q48. Why should the Project rate components be kept out of the base on which the user fee is calculated?

A48. The user fee is a percentage of California American Water's water charges, so the money generated by the fee goes up automatically when California American Water's charges go up, whether or not MPWMD's own costs change. California American Water plans, builds, finances, and operates the Project, and California American Water, not MPWMD, carries the Project's permit and mitigation obligations. The Project gives MPWMD no new program responsibilities or costs. Applying the fee to the Project rate components would therefore produce substantial new revenue for MPWMD, approximately $10.1 million in the first full year of the Project, without any matching increase in the cost the program pays for.

Q49. Will the Project affect the programs the user fee supports?

A49. The Project will not add to the work those programs fund. The Mitigation Program addresses the environmental effects of California American Water's diversions from the Carmel River. Desalinated water from the Project will reduce reliance on the Carmel River and provide the permanent supply of replacement water needed under State Water Resources Control Board Order WR 95-10 and the Cease and Desist Order, Order WR 2009-0060, as amended.[29] California American Water will continue to divert under its lawful rights, but the Project does not increase diversions from the Carmel River. Because desalinated water is not drawn from the river, it does not create any of the

[29] SWRCB Order WR 95-10; SWRCB Order WR 2009-0060, as amended by Order WR 2016-0016.

effects the Mitigation Program exists to address. If anything, desalination should reduce those effects.

Q50. Is there another reason the user fee should not apply to the Project rate components?

A50. Yes. MPWMD's enabling legislation describes its core mandate in terms of water supply,[30] and MPWMD's own environmental review documents say the district was formed mainly for "augmenting water supplies to meet existing and future needs of the Monterey Peninsula…"[31] The Project is the long-term water supply solution for the Monterey Peninsula. Customers will pay for that solution directly through the Project rate components. A percentage-based fee calculated on those same components would have customers pay MPWMD for the same water supply without any cost change to MPWMD and without any customer benefit provided by MPWMD.

Q51. Does anything about the WRRB surcharge bear on this question?

A51. Yes. The WRRB surcharge is a water supply charge created under the Monterey Peninsula Water Supply Securitization Act and to be imposed under a Commission financing order. [32] Under the Act, "'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,"[33] and any supply charge "shall appear on customer bills as a stand-alone, line-item surcharge."[34] Once the financing order is effective, the water supply charges are water supply property, and the revenue they produce belongs to the financing entity and must be used to pay the

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[30] Cal. Water Code App. § 118-2; see also *Save Our Carmel River v. Monterey Peninsula Water Mgmt. Dist.* (2006) 141 Cal.App.4th 677.

[31] Monterey Peninsula Water Management District, Environmental Impact Report, ch. 1, https://www.mpwmd.net/seir/sha/CH_1.htm.

[32] Pub. Util. Code §§ 849-849.6.

[33] Pub. Util. Code § 849(m).

[34] Pub. Util. Code § 849.1(g).

WRRBs. The WRRB surcharge is therefore not a charge for California American Water's water service and is not one of the "water charges" on which the user fee is collected.[35] This is an additional reason, specific to the WRRB surcharge, why the user fee should not apply to it.

Q52. How would applying the MPWMD user fee to the Project revenue requirement impact customers?

A52. As noted above, it would add approximately $10.1 million in MPWMD user fee charges to Monterey service area customer bills in the first full year of Project rates. That figure is 8.325% of the Base Case Year 1 revenue requirement of approximately $121.4 million as shown in Attachment 1 of Mr. Pourtaherian's testimony.[36] California American Water has taken the same position on the same issue before. In California American Water's pending Test Year 2027 general rate case, A.25-07-003, MPWMD recommended moving the Pure Water Monterey purchased water surcharge into base rates. California American Water's witness testified that doing so would newly subject an estimated $15 million in annual Pure Water Monterey surcharge revenue to the user fee, increasing customer bills by approximately $1.25 million per year with no corresponding benefit to customers.[37]

Q53. Does California American Water propose any other change to the MPWMD user fee?

A53. No. The user fee would continue to apply to all of California American Water's other Monterey service area water charges exactly as it does today.

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[35] See MPWMD Rule 64 – Water Distribution System User Fee; see also Pub. Util. Code § 849.1(g) and §849(o).

[36] Direct Testimony of Bahman Pourtaherian Attachment 1, Base Case Year 1 revenue requirement.

[37] Vol. 5 RT 283:22–284:8, 286:12–20 (Pourtaherian/ California American Water), A.25-07-003; Exh. CALAM-04 at 52–55.

IX. CUSTOMER BILL IMPACTS AND AFFORDABILITY

A. Customer Bill Impacts

Q54. What is the purpose of this section of your testimony?

A54. This section presents the resulting bill impact for the average residential customer in the Monterey service area, applying the authorized rate design described in Section VI of Mr. Pourtaherian's testimony. This section will also present the Desalination CAP surcharge addition which will be paid by all non-CAP customers across all California American Water's service areas. This information will be provided in the customer notices for this application.

Q55. How does California American Water define the average residential customer for the Monterey service area?

A55. Consistent with how California American Water has presented average residential bill impacts in other Monterey service area proceedings, I define the average residential customer as a customer served under the residential, single-family tariff through a 5/8-inch meter, using approximately 34.93 CGLs per month.[38]

Q56. Over what period does your bill impact presentation extend, and why?

A56. The desalination plant is forecast to be in service at the end of 2029. The plant, source wells, conveyance and associated facilities are expected to be used and useful and placed into rates at that time. The bill impact associated with the incremental revenue requirement for the Project is presented for 2030, this includes the WRRB surcharge which starts with the other Project charges in 2030. California American Water has provided a forecast of rates for 2027 through 2029, based on expected rate increases for the pending Test Year 2027 general rate case. Attachment 5 provides the average residential CAP and non-CAP customer bills for 2027 through 2030. Attachment 6

[38] A.25-07-003, pending GRC settlement. CGL on a water bill stands for 100-gallon increments, where 1 CGL = 100 gallons of water used.

provides the statewide addition to the CAP surcharge related to the Project. Attachment 7 provides exemplary tariffs for the desalination base rate increment, statewide CAP surcharge, and an updated preliminary statement for CAP balancing account reflecting the calculation of the Desalination CAP budget and Desalination CAP surcharge addition.

Q57. What is the bill impact of the Project on Monterey service area customers?

A57. In 2030, the first full year of Project rates, an average residential non-CAP customer's total monthly bill would increase by approximately $118.91, or approximately 87.8% above the forecast 2029 bill, which incorporates the Test Year 2027 general rate case and step increases for 2027 – 2029 associated with California American Water's pending GRC A.25-07-003 (Attachment 5).[39] Impacts for other customer classes are reflected in Attachment 4 of Mr. Pourtaherian's testimony. These are significant increases. California American Water has worked to reduce the total cost of the Project and proposed specific protections for low-income customers. I describe these below, along with California American Water's proposals on how remaining costs are recovered. California American Water is also addressing the impact on customers who are not eligible for CAP. The financing plan reduces the Project revenue requirement in Year 1 by approximately $35.8 million compared with traditional ratemaking, and keeping the Project rate components out of the MPWMD user fee keeps approximately $10.1 million per year off Monterey service area bills.

Q58. Why is the bill impact larger than was anticipated when the Commission approved the Project in 2018?

A58. The cost of building the Project is higher than the 2017 estimate on which the original cost cap was based. Ms. Carothers explains the reasons for the increase in detail in her direct testimony at Section IV. They include construction cost escalation over the nearly

[39] A.25-07-003 GRC rate increase forecasts reflect the pending GRC settlement between California American Water and Cal Advocates.

nine years since the estimate was prepared, additional requirements for permitting and environmental review, and a more complete design included in the updated estimate. The direct testimony of William Ibbs at Attachment 1 further discusses the reasons and reasonableness of the cost increases. The financing plan has also changed. Substantially less low-cost SRF financing is available than what was assumed in 2019, and that deficit would now be financed with higher-cost financing options. The bill impact I present reflects the requested cost increase and the updated financing plan. And as I explain below, the need for the Project has not changed.

Q59. Does the higher cost change the need for the Project?

A59. No. In D.18-09-017, the Commission found the Project necessary to:

- Replace Carmel River supplies that California American Water must reduce under the State Water Resources Control Board's Cease and Desist Order;
- Meet reasonable demand in the Monterey service area;
- Provide a reliable long-term supply with a reasonable buffer against uncertainty.[40]

In D.25-08-006, the Commission adopted updated estimates of 2050 demand (13,732 AFY) and firm supply (11,114 AFY), which show demand exceeding existing firm supplies.[41] Desalinated water does not depend on rainfall, so the Project provides supply in drought years, when Carmel River and groundwater supplies are most constrained. This Application asks the Commission to approve two things: the updated cost cap, supported by Ms. Carothers, and the ratemaking that will recover the Project's cost at the lowest reasonable cost to customers.

[40] D.18-09-017, Conclusion of Law 4 at 193.
[41] D.25-08-006, Ordering Paragraphs 1 and 2 at 51.

B. Affordability

Q60. What has California American Water done to reduce the total cost of the Project?

A60. The two primary factors are covered by Ms. Carothers and Ms. Sinopole respectively:

1. **Construction cost.** As Ms. Carothers describes, California American Water continued design work during permitting so the Project would be ready for construction. It refined the facility design to improve constructability and reduce the Project footprint, and kept the design-build delivery model to manage construction risk.

2. **Financing cost.** As noted by Ms. Sinopole, the updated financing plan combines Water Rate Relief Bonds, a $10 million DWR grant, $50 million of State Revolving Fund financing, and $150 million of tax-exempt Private Activity Bonds. Each of these costs less than financing at California American Water's authorized capital structure. As Mr. Pourtaherian shows, the plan reduces the Year 1 Project revenue requirement by approximately $35.8 million, or 23 percent, compared with traditional ratemaking and over $588 million over the 40-year life of the Project.[42] Public Utilities Code § 849.1(b) also allows the Commission to authorize the Water Rate Relief Bonds only if they reduce rates on a present-value basis compared with traditional financing.

Q61. Do any of California American Water's other proposals affect what customers pay?

A61. Yes. Two proposals do not change the total cost of the Project, but they determine who pays and when:

[42] Direct testimony of Mr. Pourtaherian at Section V.

1. MPWMD user fee. Keeping the Project rate components out of the base for the MPWMD user fee keeps approximately $10.1 million per year of user fee charges off Monterey service area bills (Section VIII).

2. Statewide CAP funding. Recovering the CAP portion of the desalination base rate increment through the statewide CAP surcharge adds approximately $1.27 per month per non-CAP customer statewide (Attachment 6). Recovering it only from Monterey non-CAP customers would add approximately $5.66 per customer per month to their bills. This treatment is consistent with how CAP discounts have been funded since D.12-06-016 (Section VII).

Q62. How does California American Water's proposal protect low-income customers?

A62. Low-income customers are most exposed to the bill impact, and the proposal addresses them directly. Consistent with Public Utilities Code § 849.1(j), CAP customers are excluded from the WRRB surcharge. They are also excluded from the SRF surcharge. Consistent with Special Condition 16 of the Coastal Development Permit, their Project-related increase is limited to $10 per month for the duration of the Project (Attachment 5). If the settlement in A.25-07-003 is approved, the Monterey CAP discount increases to 50 percent, and California American Water's multifamily pilot will be extended to the Monterey service area. That pilot provides CAP discounts to tenants of master-metered properties in disadvantaged communities. Because these programs depend on enrollment, California American Water will expand outreach to eligible customers who are not yet enrolled (Section VII). Customers who have difficulty paying their bills also have access to the Hardship Benefit Program, payment arrangements and budget billing. As noted in Section VII, California American Water has pledged $500,000 in additional shareholder funding for the Hardship program as the need materializes and California American Water is committed to funding the program through United Way Monterey or a similar organization in the future.

X. TIMELY RECOVERY AT IN-SERVICE DATE

Q63. Why is timely rate recovery of particular importance for the Project?

A63. The Project facilities will represent a very substantial addition to California American Water's Monterey service area rate base and O&M expense. Consistent with established ratemaking practice, rates should reflect when the plant begins providing service to customers, so that the customers receiving the service pay for it and the utility's investment is recognized when it becomes used and useful. Given the size of the Project, a delay between the in-service date and rate recovery would also create significant regulatory lag that could affect California American Water's financial integrity. The mechanism I propose aligns the start of the Project rates with the start of service.

Q64. What is California American Water concerned may occur in connection with the post-completion Tier 2 advice letter, and what does California American Water propose?

A64. Given the size and visibility of the revenue requirement associated with the Project, California American Water is concerned that the Tier 2 advice letter could be protested, or elevated to Tier 3 review by Water Division, which could substantially delay implementation of rates reflecting the Project's revenue requirement even after the facilities are used and useful. To ensure timely recovery notwithstanding the possibility of a protest or a Tier 3 elevation, California American Water proposes that the rates reflecting the Project's first-year revenue requirement go into effect on the later of (a) 30 days after the Tier 2 advice letter is filed or (b) the in-service date of the facility, subject to refund pending final disposition of the advice letter, including Commission resolution of any protest.

This approach is consistent with how the Commission has used interim rates in California American Water's own general rate cases to allow timely rate recovery while preserving the Commission's ability to true up rates once its review is complete. For example, the decision in California American Water's 2019 general rate case, D.21-11-018, was issued

on November 23, 2021, nearly one year after 2021 test year rates were scheduled to be in effect. Given the delay in the final decision, California American Water was granted authorization to track in a memorandum account the difference between interim rates and final rates for subsequent recovery or refund. California American Water implemented interim rates effective January 1, 2021 and tracked the difference between interim and final rates in the GRC Interim Rate True-up Memorandum Account established through Advice Letter 1318-A.[43] The mechanism I propose works the same way: rates take effect on schedule, and any difference from the final outcome is refunded or recovered.

The mechanism applies only to the desalination base rate increment; the WRRB surcharge is set and trued up only under the financing order and is not subject to refund, and the SRF follows the decision on California American Water's financing application.

Q65. What is California American Water requesting the Commission approve with respect to this proposal in this Application?

A65. California American Water requests that the Commission approve, as part of the ratemaking framework adopted in this proceeding, the mechanism described above: rates reflecting the post-completion Tier 2 advice letter revenue requirement becoming effective on the later of (a) 30 days after filing or (b) the in-service date of the facility, subject to refund, so that the mechanism is established in advance of the filing itself and does not need to be separately litigated at the time rates are most urgently needed.

[43] D.21-11-018 was issued November 23, 2021 after the 2021 Test Year began. On September 10, 2020 ALJ Kelly issued a ruling (A.19-07-004, *Administrative Law Judge's Ruling Granting Interim Rates*) authorizing California American Water to file interim rates and establish a memorandum account to track the difference between the interim rates and the final rates adopted by the Commission pursuant to Public Utilities Code §455.2 and Decision 07-05-062. California American Water filed Advice Letter 1318 on December 18, 2020 (supplemented by Advice Letter 1318-A on December 23, 2020) to implement interim rates.

For the purposes of this mechanism, the in-service date is the first date on which all of the following have occurred: (1) the Project facilities have completed startup and performance acceptance testing; (2) the State Water Resources Control Board Division of Drinking Water has issued the permit amendment authorizing delivery of desalinated water to the Monterey service area distribution system; and (3) the facilities are delivering desalinated water to the Monterey service area distribution system for customer use. California American Water will confirm the in-service date with a filing served on the service list, with supporting documentation. On that date, AFUDC on the Project facilities will cease and the recorded plant balance will be transferred to utility plant in service.

XI. FUTURE FILINGS AND MEMORANDUM/BALANCING ACCOUNTS

Q66. Please summarize the additional regulatory filings California American Water anticipates in connection with the updated financing plan.

A66. California American Water is actively pursuing all available options. It recently submitted an SRF funding application to the SWRCB, a letter of interest to the Environmental Protection Agency ("EPA") for a WIFIA loan to preserve that option, and through AWCC submitted a request to CPCFA for an inducement resolution and will shortly submit to CDLAC for a tax-exempt PAB allocation. California American Water will be filing a financing application by the end of October 2026 with a request to, among other items, authorize debt associated with SRF. California American Water anticipates filing additional Commission applications for a financing order authorizing issuance of Water Rate Relief Bonds under Section 849 of the Public Utilities Code. If California American Water pursues a WIFIA loan, the company will separately seek Commission authorization.

Q67. Please describe the Project Cost Memorandum Account ("PCMA").

A67. The PCMA is the memorandum account, established effective December 31, 2018 pursuant to D.18-09-017 Ordering Paragraph 28 and Resolution W-5211, in which California American Water records and tracks all MPWSP Project capital costs, including AFUDC and the approximately $20 million of short-term debt used during construction to reduce AFUDC, and California American Water reports PCMA activity quarterly. Detailed support for the historical and projected capital costs, including AFUDC, is included in this proceeding to support the requested cost cap increase.[44] Additionally, the capital costs recorded in the PCMA will be reviewed for reasonableness in the first general rate case following the in-service date.

Q68. Please describe the Operations and Maintenance Memorandum Account ("MOMMA").

A68. The MOMMA is the memorandum account, also established effective December 31, 2018, that tracks differences between the O&M costs reflected in rates, set through the post-completion Tier 2 advice letter described below, and the actual O&M costs California American Water incurs once the desalination plant becomes operational, as more fully described in the testimony of Mr. Pezzini. Differences tracked in the MOMMA will be reviewed for reasonableness, and incorporated into California American Water's ongoing revenue requirement, in the first general rate case filed after the plant has been in service for approximately one year.

Q69. How does California American Water propose to implement the post-completion Tier 2 advice letter required by Ordering Paragraph 30 of D.18-09-017?

A69. Consistent with Ordering Paragraph 30 and Section 8 of the framework, California American Water will file a Tier 2 advice letter, after consultation with Commission Water Division staff and parties, presenting the desalination base rate increment first-year revenue requirement for the Project facilities net of Project costs financed through the

[44] California American Water Direct Testimony of Lacy Carothers at Section III.

Water Rate Relief Bonds and the SRF loan and of the DWR grant, reflecting both the updated O&M cost estimate described by Mr. Pezzini and the financing costs described by Ms. Sinopole, no later than 60 days prior to the anticipated in-service date.

Q70. Does California American Water propose any additional filings?

A70. Yes. For the first two years after the desalination base rate increment takes effect, California American Water requests authority to file a semi-annual Consumption Adjustment Mechanism to true up the desalination base rate increment for differences between adopted and actual Monterey service area consumption. Sales will be uncertain in those first years as new supply comes online. The adopted sales forecast for 2030 as Mr. Pourtaherian explains in Section VI therefore carries more risk than in a normal year. Because the increment is large and largely fixed cost, a sales shortfall would leave a significant under-collection to be recovered later in a single annual adjustment, causing a larger rate swing. Semi-annual updates spread the correction more evenly for customers. After two years, adjustments return to the Annual Consumption Adjustment Mechanism.

XII. CONCLUSION

Q71. Please summarize your testimony.

A71. The relief California American Water requests in this Application is consistent with, and builds on, the ratemaking framework the Commission approved in D.18-09-017 and Resolution W-5211. Attachment 1 of my testimony brings the framework's figures and assumptions up to date, which includes the O&M estimate, the amount of SRF financing, the cost of capital inputs, and confirmation the securitization criteria are still met at the updated Project cost. Attachment 1 also adds provisions on questions the framework does not address: a layered rate structure for the Project; low-income customer protections that meet both Public Utilities Code Section 849.1(j) and Special Condition 16; rates that take effect when the Project enters service, subject to refund; and a semi-annual Consumption Adjustment Mechanism for the first two years. Separately, I ask the

Commission to find that the Project rate components are not part of the water charges on which the MPWMD user fee is collected. Together these let California American Water recover the Project's revenue requirement promptly once the facilities are used and useful, while protecting low-income customers and presenting bill impacts clearly.

Q72. Does this conclude your testimony?

A72. Yes, it does.

ATTACHMENT 1

ATTACHMENT 1

PROPOSED MODIFICATIONS TO RESOLUTION W-5211, ATTACHMENT A

(Redline of Attachment A to Resolution W-5211, adopted December 19, 2019)

Legend: Additions are shown as blue underlined text; deletions are shown as ~~red strike-through text~~. Unmarked text is carried forward unchanged from Attachment A to Resolution W-5211. Attachment A contains Sections 6, 7, 8, 11, 13, 14 and 15 of the Comprehensive Settlement framework, as adjusted; Sections 16 and 17 are new.

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LARGE SETTLEMENT AGREEMENT MODIFICATIONS

6. DESALINATION PLANT ~~AND REMAINING CAW-ONLY FACILITIES~~ (~~PHASE 1~~ DESALINATION PROJECT COSTS)

6.7 Cost Cap

(a) The cost cap for the MPWSP ~~and remaining California-American Water Company (Cal-Am) Only Facilities~~ ("~~Phase 1~~ Desalination project costs") is ~~$279.1~~$825 million, excluding the $50.3 million authorized in D.16-09-021 ~~("Phase 2~~ for the Monterey Pipeline & Pump Station ("MP&PS project costs"), with authority for ~~Cal-Am~~ California-American Water Company ("Cal-Am") to file a petition for modification if costs exceed the cost cap.[1] The cost cap excludes allowance for funds used during construction ("AFUDC") and any debt service coverage required to obtain financing for the project.[2]

(b) The cost caps are not absolute. If California American Water's Desalination ~~Phase 1~~ project costs exceed the estimated cost caps of ~~$279.1~~$825 million for the ~~6.4 mgd option~~4.8 mgd initial capacity plant, it will file a petition for modification with the Commission for recovery.[3] When it expands the desalination plant from 4.8 mgd to 6.4 mgd, California American Water will file a petition for modification or, if necessary, a separate application, to update the cost estimate and cost cap for the expanded plant.

~~(c) Cost overruns which cause California American Water to exceed the cost cap for the desalination facilities and remaining CAW-Only facilities (Phase 1 project costs) shall be counted against the cost cap for the Monterey Pipeline & Pump Station (Phase 2 project costs) set forth in Section 7.2, so long as California American Water has not exceeded the aggregate of the cost cap amounts for the Phase 1 and Phase 2 project costs of $329.4 million. Conversely, cost savings which California American Water achieves relative to the cost cap for the Phase 1 project costs shall be counted towards the cost cap for the Phase 2 project costs, so long as California American Water has not exceeded the aggregate of the cost cap amounts of $329.4 million for the desalination facilities and the remaining CAW-Only Facilities (Phase 1 and 2 project costs).~~

[1] Reference from Ordering Paragraph 21, Conclusion of Law 20, Finding of Fact 135
[2] Finding of Fact 151
[3] Finding of Fact 20, 77 and 78. Ordering Paragraph 21.

6.8 Ratemaking Process

(a) California American Water ~~will~~ has established ~~a~~ the MPWSP Project Cost Memorandum Account ("PCMA") ~~memorandum account~~ to track the ~~Phase 1~~ Desalination project costs for the desalination facilities and ~~remaining CAW-Only Facilities~~ Pure Water Monterey facilities.

(b) The ~~Phase 1~~ Desalination project costs will accrue Allowance for Funds Used During Construction ("AFUDC") at a rate of the actual cost of funds used to fund the desalination project costs. The rate shall be adjusted quarterly to reflect the latest funding costs and will be added into the desalination facility and ~~remaining CAW-Only~~ Pure Water Monterey facilities portion of the memorandum account.

(c) Once the desalination ~~and remaining CAW-Only~~ facilities go into service, California American Water will file a Tier 2 advice letter to put into rates the actual costs, along with the AFUDC accumulated in the expenditure portion of the memorandum account. Pure Water Monterey facilities will follow the process set forth in D.22-12-001.

7. MONTEREY PIPELINE & PUMP STATION (~~PHASE 2~~ MP&PS PROJECT COSTS)

7.1 Cost Estimate

(a) The cost cap for the Monterey pipeline and pump station is $50.3 million with authority for Cal-Am to file a Tier 3 advice letter if costs exceed the cost cap.[4]

7.2 Cost Cap

(a) Based on the cost estimate above, the cost cap for the Monterey Pipeline & Pump Station (~~Phase 2~~ MP&PS project costs) is $50.3 million.

(b) The cost cap is not absolute. If the costs for the Monterey Pipeline & Pump Station (~~Phase 2~~ MP&PS project costs) exceed $50.3 million California American Water may seek recovery for reasonable and prudent costs above the cap by filing a Tier 3 advice letter.[5]

(c) Cost overruns which cause California American Water to exceed the cost cap for the Monterey Pipeline & Pump Station (~~Phase 2~~ MP&PS project costs) shall be counted against the cost cap for the desalination and remaining ~~CAW-Only~~ Pure Water Monterey facilities (~~Phase 1~~ Desalination project costs) set forth in Section 6.7, so long as California American Water has not exceeded the aggregate of the cost cap amounts for the desalination facilities and the remaining Pure Water Monterey ~~CAW-Only~~ Facilities (~~Phase 1~~ Desalination

[4] D.16-09-021 -- Finding of Fact 41 and 42, Conclusion of Law 7 and Ordering Paragraph 6
[5] D.16-09-021, Ordering Paragraph 6.

project costs). Conversely, cost savings which California American Water achieves relative to the cost cap for the Phase 2 project costs shall be counted towards the cost cap for the Phase 1 project costs, so long as California American Water has not exceeded the aggregate of the cost cap amounts of $329.4 million for the desalination facilities and the CAW-Only Facilities (Phase 1 and 2 project costs).

7.3 Ratemaking Process

(a) California American Water will track the costs for the Monterey Pipeline & Pump Station (~~Phase 2~~ MP&PS project costs) and request recovery in rates through a Tier 2 advice letter as established in D.16-09-021. The memorandum account will accrue AFUDC at a rate of the actual cost of funds used to fund the ~~Phase 2~~ MP&PS project in accordance with D.16-09-021.

(b) The Monterey Pipeline & Pump Station (~~Phase 2~~ MP&PS project costs) will accrue AFUDC at a rate of the actual cost of funds used to fund the project costs. The rate shall be adjusted quarterly to reflect the latest funding costs.

(c) Once the ~~CAW-Only~~ MP&PS Facilities are used and useful, California American Water will file a Tier 2 advice letter to place into rates the project costs and AFUDC in accordance with D.16-09-021.

8. OPERATIONS & MAINTENANCE COSTS

8.1 Estimates

(a) The estimated net operations and maintenance costs[6] of ~~$11.16 million for the 6.4 mgd plant~~$14.85 million for the initial 4.8 mgd plant are reasonable for developing an estimate of total costs of the MPWSP.[7] These costs include power costs, labor costs, chemical costs, ~~membrane and media replacement costs, and repair and replacement costs~~ waste disposal costs, environmental monitoring costs, cartridge filter costs, maintenance costs, and miscellaneous operating costs. Membrane replacement and long-term equipment renewal costs are treated as capital items and are not included in the O&M estimate.

(b) D.18-09-017 affirms that estimates for use in setting the actual estimated operations and maintenance costs for development of the revenue requirement to be paid by the customers for the period up until the first test year from the first case filed after at least one full year of operation of the plant will be determined as described below in Section 8.3 (a) below.

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[6] Net operations and maintenance costs includes all costs to operate the plant less the costs that are anticipated to be saved as a result of reducing the same such costs of operating facilities that prior to the plant have been necessary to provide water service to customers.

[7] Costs are consistent with provided in testimony of David Pezzini~~Christopher Cook and reflected in MPWSP model submission~~.

Estimates of costs beyond this initial period will be determined as described in Section 8.3 (d) below.

8.2 Power Costs

(a) In an effort to achieve lower electricity rates for the desalination plant, alternative means of obtaining energy shall be considered as a means to identify the most optimum combination of power from multiple sources. Such consideration involves the potential use of power from landfill gas in combination with power from the Pacific Gas & Electric Company ("PG&E") grid. California American Water agrees to retain an outside consultant to study the various PG&E tariffs for possible transmission main installation(s) and how these tariffs would change with the introduction of power from the land fill gas, all in an effort to seek the lowest cost power to the Plant. Additionally, the outside consultant will review the power quality to insure a safe and reliable power supply to the Plant. California American Water shall provide a copy of the study to the Governance Committee and ~~Cal PA~~ the Commission's Public Advocates Office ("Cal Advocates"). Any change in estimated O&M costs resulting from the study will be reflected in the Tier 2 advice letter described in Section 8.3(a).

8.3 Ratemaking Process

(a) California American Water will provide updated operations and maintenance costs to the Commission at least 60 days prior to ~~the time the plant becomes operational and delivers water into the distribution system for provision to customers~~ the anticipated in-service date defined in Section 17.4(c). The notification will be made by a Tier 2 advice letter. This filing will determine the level of costs to be used in setting the initial revenue requirement for the MPWSP.

(b) D.18-09-017 authorizes California American Water to establish a MPWSP Operations and Maintenance memorandum account to track the differences between estimated costs adopted through the Tier 2 advice letter process and the actual incurred costs during the period of time from the beginning operation of the plant until the time an estimate of such future costs is filed as part of a future general rate case application, as described in Section 8.3 (d) below.

(c) In the first general rate case application after at least one full year of operation of the facilities, California American Water will "true up" the difference between the estimated and actual operations and maintenance costs tracked in a memorandum account and seek recovery of all reasonable and prudent differences.

(d) Estimates of operations and maintenance costs, after at least one full year of operation of the plant, will be included in the next to be filed general rate case application, and thereon forward, as part of each succeeding general rate case process.~~7~~

(e) The O&M memorandum account will also track for future recovery in rates any O&M costs that for accounting purposes cannot be capitalized as part of the project costs.

11. SECURITIZATION

11.1 Amount

California American Water ~~agrees to hold open the option to~~ will finance a portion of the MPWSP with a tax exempt or taxable securitization ~~until lower cost financing under the State Water Resources Control Board's ("SWRCB") Drinking Water State Revolving Fund ("DWSRF") is certain~~ as the base case, of up to 50 percent of the Project's water supply costs, consistent with Public Utilities Code Section 849.1(a)(2). The Water Rate Relief Bonds are expected to be issued through the Capital Programs & Climate Financing Authority ("CPCFA") as conduit issuer so as to be exempt from California state income tax. The securitization would be set at an amount ~~that will allow California American Water to maintain a fixed equity investment equal to approximately 27.0% of the value of the total project costs for the desalination plant and the remaining CAW-Only Facilities~~ not exceeding the statutory limit, with the remaining Project costs financed as provided in Sections 13, 14 and 16. ~~Examples of calculations using this financing for the 6.4 mgd plant size is provided in Appendix 2.~~

11.2 California American Water shall have the opportunity to invest equity in the MPWSP such that it has the opportunity to earn its authorized rate of return. D.18-09-017 agrees that California American Water will be taking on significant risk with the MPWSP and some equity investment serves the public interest. The securitization must allow California American Water to maintain a fixed equity investment equal to approximately 27% of the total cost of the MPWSP desalination plant ~~and remaining CAW-Only facilities~~(Project costs) upon completion of the financing. The proceeds from the securitization need to be received by California American Water in a manner such that State Revolving Funds (SRF) (or other long-term debt in the event SRF is not available and equity) can be used to balance the fixed equity investment to approximate as close as possible to the equity amount of 27% of the total costs for the desalination plant ~~and remaining CAW-Only Facilities~~(Project costs). Further, SRF (or other long-term debt in the event SRF is not available and equity) used to pay off any short-term debt provided by California American Water during construction would also be available to balance the fixed equity investment target. ~~Examples of the sources and uses of each component of financing is referenced in Section 15 and included as Appendix 3.~~

11.3 Criteria

D.18-09-017 agrees that using securitization as a component of financing for the MPWSP costs is only reasonable if the following conditions are met:

(a) The securitization lowers the cost to customers. D.18-09-017 agrees that as a reasonable benchmark to ensure that sufficient benefits accrue to customers, the estimated

annual customer benefits must, at a minimum, exceed 1.0% of the total annual revenue requirement for the MPWSP facilities. The securitization does not adversely affect other California American Water customers within California American Water's other service areas outside of the Monterey service area ~~County District~~. Securitization shall only be used to finance the costs of the desalination plant ~~and remaining CAW-Only Facilities~~ (Project costs) so long as it will not negatively impact the credit ratings of American Water or its affiliate American Water Capital Corporation, or in the event that California American Water is a stand-alone entity, then so long as the securitization will not negatively impact the credit ratings of California American Water, computed as a stand-alone entity. This will be determined by the letters from the ratings agencies provided for below.

(b) The securitization does not require a separate California American Water-specific credit rating.

(c) The securitization does not change California American Water's debt-to-equity ratio for the portion of the MPWSP costs not financed with securitized funds. Excluding the securitization amount and any equity related to California American Water's investment in the Special Purpose Entity ("SPE"), California American Water will balance the remaining MPWSP costs with debt and equity at its authorized ratio. ~~California American Water's currently authorized debt-to-equity ratio is 44.61% to 55.39% per D.18-03-035~~

(d) The securitization does not change California American Water's authorized rate of return on equity. ~~California American Water's currently authorized rate of return on equity is 9.20% per D.18-03-035.~~

(e) The securitization does not materially delay the MPWSP. The securitization amount must be available in a manner to allow for SRF (or other long-term debt in the event SRF is not available and equity) to be used to balance the equity target as discussed in Section 11.2.

(f) The securitization does not create a taxable event for California American Water. The tax impacts of securitization must be considered as part of the customer benefit analysis determination and must be recoverable in rates. D.18-09-017 agrees that there shall be no adverse tax implications that might accrue to the Monterey service area ~~County District~~ or other California American Water customers.

11.4 Implementation

(a) To implement the securitization, California American Water will establish a SPE, which will issue debt that will be purchased by the ~~public agency~~ financing entity, which in turn will issue financing. The ~~public agency~~ financing entity will issue the financing through "Water Rate Relief Bonds" and lend the proceeds to the SPE. California American Water will sell to the SPE a property right consisting of the right to impose, collect, and adjust from time to time a non-bypassable charge to California American Water customers. The sale of the property

right by California American Water will be a true sale for bankruptcy purposes. The payment of principal and interest on the Water Rate Relief Bonds are provided for through the non-bypassable charge received by the SPE and remitted to the ~~public agency~~ financing entity for payment of principal and interest on the Water Rate Relief Bonds.

(b) The securitization will be non-recourse to California American Water and a default of the bonds will not be a default of California American Water.

(c) The securitization will be of a long-term nature (20-30 years), with a preference for 30 years.

(d) Under Rev. Proc. 2005-62, California American Water will be required to capitalize the SPE. California American Water will capitalize the SPE at the minimum amount that is required to have it accounted for as a legally distinct entity and to provide reserves as needed. The amount of capitalization is expected to be approximately ~~1%~~3% of the Water Rate Relief Bonds. California American Water will place this amount in rate base and will earn interest on the amount at California American Water's then-authorized rate of return.

(e) Securitization ~~will require authorization from the California legislature and~~ was authorized by the California Legislature through SB 936 (Stats. 2014, ch. 482), codified at Public Utilities Code Sections 849–849.6, effective January 1, 2015, and requires a financing order from the Commission. The legislation ~~will authorize~~ authorizes the creation of the property right to impose, collect, and adjust from time to time the non-bypassable charge to California American Water customers sufficient to pay off the securitization. The legislation ~~will authorize~~ authorizes the Commission to issue a financing order to enable the financing.

(f) There shall be automatic true-up adjustments of the securitization surcharge, as necessary, to ensure sufficient funds for the timely payment of securitization principal, interest, and related costs. ~~D.18-09-017 agrees that such adjustments shall be done through a Tier 1 advice letter.~~ Such adjustments shall be made through the true-up mechanism established in the financing order, at least annually as required by Public Utilities Code Section 849.1(g).

(g) ~~The public agency will secure the legislation from the California legislature for the securitization.~~ The ~~public agency~~ financing entity will structure the financing and obtain the necessary documentation. The ~~public agency~~ financing entity will obtain the rating for the financing and arrange for sale of the debt.

(h) The ~~public agency~~ financing entity will endeavor to structure the securitization in a manner that will permit California American Water to avoid significant cash management costs. The Parties shall pursue a system of cost management approach that satisfies the requirement of securitization without resulting in excessive costs.

(i) California American Water will file an application with the Commission for a financing order pursuant to the legislation. To the extent necessary, California American Water will establish any internal financial separation systems required for the securitization. Any costs that are necessary will be added to working cash and recovered as set forth below.

(j) In the course of having the bonds rated by Standard & Poors and Moody's ratings agencies, the ~~public agency~~ financing entity will request a letter from each of the rating agencies that will affirm that the securitization will not negatively impact the credit of California American Water, as a stand-alone entity, or American Water.

(k) The ~~public agency~~ financing entity agrees to provide a legal opinion that the proposed securitization does not create a taxable event for California American Water.

11.5 Use of Proceeds and Recovery of Costs

(a) The proceeds of the securitization will be used for the following:

(i) Financing the MPWSP at the agreed-upon level.

(ii) Reimbursement of ~~public agency~~ financing entity fees and expenses associated with securitization.

(iii) California American Water will be reimbursed for all fees and expenses it incurs as a result of the securitization effort, including carrying cost on such fees and expenses at the actual cost incurred to fund such efforts (as referenced in Section 14.3). The reimbursement will occur at the time the securitization is funded.

(b) If the securitization is not successful, California American Water may recover all of its reasonably and prudently incurred costs related to the securitization from customers in the Monterey service area ~~County District~~. California American Water will track its securitization costs as debit entries in a ~~new subset~~ subaccount within the PCMA ~~of the Coastal Water Project memorandum account~~.

(c) If California American Water is shown to have been negatively impacted by the securitization at any time over the amortization period of the bonds, California American Water may seek a determination of the impact in the Cost of Capital or other applicable Commission proceeding and may recover the cost of the negative impact from the customers in the Monterey service area ~~County District~~. If California American Water is shown to have been negatively impacted by the securitization at any time after the issuance of the bonds but over the life of the bonds, California American Water may seek a determination of the impact in the Cost of Capital or other applicable Commission proceeding and may recover the cost of the negative impact from the customers in the Monterey service area ~~County District~~.

11.6 Contingency

(a) If the ~~public agency~~ financing entity is unsuccessful in obtaining a tax-exempt securitization, ~~the public agency may pursue an alternative form of public agency contribution (Proposition 218 process) if such contribution is feasible~~ California American Water will pursue a taxable securitization separate from the ~~public agency~~ financing entity if a taxable securitization is feasible, will result in lower costs to customers, and will be accomplished to meet all of the requirements of Sections 11.~~1~~3 through 11.~~5~~4.

(b) However, understanding the urgency to finance, construct and bring the desalination project on line, California American Water stands ready to provide long-term debt financing (either through American Water Capital Corporation or the Capital Programs & Climate Financing Authority, whichever is lowest cost to customers) and equity financing.

(c) If securitization is not available or is not economical relative to modeled expectations, California American Water may substitute a loan under the federal Water Infrastructure Finance and Innovation Act ("WIFIA") for up to 49% of eligible Project costs, if available. Because a WIFIA loan is a direct obligation of California American Water, equity would be infused over time as needed to maintain the authorized capital structure.

13. SRF FINANCING

13.1

(a) SRF financing remains the preferred option for debt financing for ~~both~~ the desalination plant ~~and the remaining CAW-Only Facilities~~(Project costs). SRF will be utilized ~~in proportion to the amount of equity financing necessary to maintain a balanced capital structure. The capital structure will exclude the amount of securitization bonds, assuming the securitized bonds meet the criteria discussed above~~ up to the amount available to the Project under the State Water Resources Control Board's ("SWRCB") Drinking Water State Revolving Fund ("DWSRF") program terms, currently approximately $50 million.

(b) ~~Based on the availability of low-cost financing under the SWRCB's DWSRF program and tax gross up associated with contributions under the Tax Cuts and Jobs Act ("TCJA"), California American Water agrees to finance the portion of the total construction costs previously assumed to be financed with the construction funding surcharge.~~[Reserved.]

(c) ~~Based on the availability of low-cost financing under the SWRCB's DWSRF program, California American Water agrees to finance the portion of the total construction costs previously assumed to be financed with a public agency securitization. The options for securitization will remain open in accordance with Section 11.1.~~Securitization is the base case financing for the portion of the Project's water supply costs assumed to be financed through Water Rate Relief Bonds, in accordance with Section 11. DWSRF funds are not assumed to replace securitization.

(d) California American Water will maintain a fixed equity investment equal to approximately 27.0% of the value of the total project costs for the desalination plant ~~and the remaining CAW-Only Facilities~~(Project costs), inclusive of AFUDC and net of grants, at the time the project is ~~place in-service~~ placed in service.

13.2 If California American Water is not successful in its attempt to obtain SRF funds on its own accord, it agrees to work with a public agency to secure these funds. California American Water will, at its sole discretion, select as a partner for pursuing SRF financing from among capable and willing public entities. If for some reason, SRF funds are not available under any circumstance, ~~then securitization under Section 11 will be pursued and~~ the shortfall will be financed with long-term debt and equity at California American Water's authorized ratio, and California American Water, through American Water Capital Corporation, stands ready to provide long-term debt financing, including tax-exempt Private Activity Bonds as described in Section 16 to the extent available.

13.3 SRF loans shall be treated for ratemaking purposes just as the Commission has previously determined in D.05-01-048. SRF loans will be treated as debt on California American Water's financial statements for financial reporting purposes.

13.4 California American Water will file a separate application ~~for a financing order from the Commission approving SRF funding~~ under Public Utilities Code Sections 816–818 for authority to incur the SRF debt. It will file a Tier ~~1~~2 advice letter to put the ~~changes approved in that order~~ SRF surcharge described in Section 17.1(a)(ii) into rates.

13.5 The Parties recognize the value in California American Water providing to the Parties documentation as soon as possible from the SWRCB demonstrating California American Water's ability to secure SRF financing. California American Water shall actively pursue such documentation and shall provide it to the Parties when available. ~~The Parties also recognize that documentation will not likely be forthcoming until the Commission has certified its EIR.~~ California American Water shall alert the Parties should it obtain any information suggesting SRF financing may not be available or may require a public agency partner.

14. RATEMAKING

14.1 The revenue requirement for the rate base portion of the desalination plant ~~and the remaining CAW-Only Facilities~~(Project costs) will be based on the current and effective cost of capital decision approved by the Commission, and subject to future adjustment as the cost of capital changes. However, the interest rate on the securitization and SRF or long-term debt (including tax-exempt Private Activity Bonds and WIFIA, if used) will be set at the time of funding and will be recovered in accordance with procedures set forth in Section 11 and Section 1~~2~~3 (and Section 16 for the additional financing sources).

14.2 Property taxes shall be included in the revenue requirement of the MPWSP in compliance with the findings of the tax assessor.

14.3 Depreciation rates on all facilities will be determined based on the latest rates filed with the Commission in either a general rate case or via the annual depreciation adjustment filing made in conjunction with Section 11.21 of the settlement agreement approved by the Commission in D.12-06-016. The latest depreciation rates were approved in Decision ~~D.18-12-021~~D.24-12-025.

14.4 AFUDC shall be allowed on all construction work in progress related to the desalination plant ~~and remaining CAW-Only facilities~~ at the actual rate of the instruments used to finance the construction.

14.5 Income Taxes will be calculated as part of the revenue requirements based on the same procedures and at the same rates as established in the latest authorized general rate case decision. The most recent tax rates were approved in Decision ~~D.18-12-021~~D.24-12-025.

14.6 First Year Revenue Requirement Determination for the Desalination Facilities ~~including the remaining CAW-Only Facilities~~(Project costs).

(a) ~~Upon completion of the desalination plant and remaining CAW-Only facilities~~ No later than 60 days prior to the anticipated in-service date defined in Section 17.4(c), California American Water shall determine the first year revenue requirement for the desalination facilities ~~(including the CAW-Only Facilities). At the time California American Water implements the first year revenue requirement for both such facilities, the authorization will supersede any previously established revenue requirement for the CAW-Only Facilities as authorized by Section 7.3 (c)~~.

(b) The first year revenue requirement will be determined based on the above assumptions and those established in Section 8.3.

(c) The revenue requirement will be placed into base rates via the tier 2 advice letter process, and will increase the authorized revenue requirement for the Monterey service area ~~County District~~, the same as any other authorized plant offset advice letter request, except that the increase will only be applicable to customers as determined by the Commission.

(d) The Tier 2 advice letter will present only the desalination base rate increment, net of Project costs financed through the Water Rate Relief Bonds and the SRF loan and of the Department of Water Resources grant, consistent with Section 17.1. Rates will take effect as provided in Section 17.4.

14.7 Revenue Requirements Beyond Year One

(a) The new revenue requirement as determined in Section 14.6 will remain in place until such time as the revenue requirement of the desalination plant ~~and remaining CAW-Only Facilities are~~ is considered in a subsequent GRC.

(b) Operation and maintenance estimates will be determined based on the procedures as set in Section 8.3.

15. PROJECT CASH FLOW

15.1 California American Water agrees to provide $20 million in short term debt to be used during construction as a means of reducing AFUDC. D.16-09-021 approved use of $7.4 million of short term debt funding until approved and included in rates. ~~The desalination plant and remaining CAW-Only facilities are allocated $12.6 million of short term debt until the $7.4 million allocated to the Phase 2 project is completed and included in rates at which time the funds become available to help financing the construction of the Phase 1 project.~~ The MP&PS project has been completed and included in rates, and the full $20 million of short term debt is available to help finance the construction of the Desalination Project.

15.2 ~~A proposed cash flow statement is provided as Appendix 3 that takes into account all sources of financing per D.18-09-017.~~ [Reserved.]

16. ADDITIONAL FINANCING SOURCES

16.1 Department of Water Resources Grant. The $10 million grant awarded to California American Water by the Department of Water Resources under the Water Desalination Grant Program will be applied to reduce the Project costs that must be financed.

16.2 Tax-Exempt Private Activity Bonds. California American Water will pursue tax-exempt Private Activity Bonds ("PABs") issued through CPCFA, subject to an inducement resolution from CPCFA and a volume cap allocation from the California Debt Limit Allocation Committee ("CDLAC"). PABs will replace American Water Capital Corporation ("AWCC") long-term debt to the extent of the allocation obtained. If an allocation is not obtained or is obtained in a smaller amount, the affected debt will be financed as AWCC long-term debt with no other change to the financing plan. The interest rate will be set at the time of funding in accordance with Section 14.1.

16.3 WIFIA Financing. WIFIA financing is not part of the base case. If securitization is unavailable or not economical, California American Water may use a WIFIA loan, if available, as provided in Section 11.6(c).

16.4 Commission Authorization of Debt. Nothing in this Attachment A grants authority to incur the debt described in Sections 13 and 16 or to issue the Water Rate Relief Bonds. California American Water will seek authority to incur direct borrowings from the SWRCB (SRF) and, if used, U.S. EPA (WIFIA) under Public Utilities Code Sections 816–818. The PABs described in Section 16.2 will be issued through CPCFA with AWCC as the borrower, and California American Water will incur the related intercompany indebtedness to AWCC. California American Water will separately apply for the financing order required to issue the Water Rate Relief Bonds under Section 11.

17. ADDITIONAL RATEMAKING CONDITIONS

17.1 Rate Structure

(a) The Project revenue requirement will be recovered through three separate components added to existing Monterey service area rates:

(i) the Water Rate Relief Bond ("WRRB") surcharge (the securitization surcharge described in Section 11.4(f)), which will appear as a separate line item on the bill as required by Public Utilities Code Section 849.1(g) and will be established and trued up under the financing order;

(ii) a State Revolving Fund ("SRF") surcharge, to be established following a decision in California American Water's financing application for the SRF loan; and

(iii) a desalination base rate increment, which recovers the revenue requirement associated with equity, American Water Capital Corp. debt and Private Activity Bonds, net of the Department of Water Resources grant.

(b) Each component will be tracked, trued up and retired on its own schedule without affecting the others.

(c) The desalination base rate increment will be set initially by the Tier 2 advice letter described in Section 14.6 and thereafter updated through general rate case implementation, step filings, cost of capital proceedings and Annual Consumption Adjustment Mechanism filings.

17.2 Low-Income Customer Protections

(a) Consistent with Public Utilities Code Section 849.1(j), customers enrolled in the Customer Assistance Program ("CAP") will be excluded from the WRRB surcharge, subject to the Commission's determination in the financing order that the exclusion will not significantly affect the ability to finance the Project.

(b) CAP customers will also be excluded from the SRF surcharge.

(c) To comply with Special Condition 16 of Coastal Development Permit No. 9-20-0603, each CAP customer's Project-related rate increase will be limited to $10 per month after desalinated water deliveries begin, for the duration of the Project.

(d) The remaining desalination base rate increment for CAP customers will be recovered through the Desalination CAP Program in Section 17.3.

17.3 Desalination CAP Program

(a) The Desalination CAP Program is established as the Commission-approved rate relief program contemplated by Special Condition 16(c) of the Coastal Development Permit and limits Project-related rate increases for CAP customers to no more than $10 per month.

(b) The Desalination CAP budget equals the desalination base rate increment per customer multiplied by the number of CAP customers. The CAP discount is not applied to the desalination base rate increment, and the budget is measured on the full increment.

(c) The $10 per month contributions from CAP customers will be subtracted from the budget. The remainder will be recovered through a flat addition to the existing statewide CAP surcharge, paid by non-CAP customers in all California American Water service areas.

(d) WRRB and SRF costs are not included in the Desalination CAP budget and will be recovered from non-CAP customers in the Monterey service area through the WRRB and SRF surcharges.

(e) California American Water will track the Project revenue requirement separately from its other Monterey service area and statewide revenue requirements. It will track the Desalination CAP surcharge addition in the CAP balancing account and update it annually to reflect customer counts, CAP enrollment and base rates, through GRC implementation advice letters, step advice letters or a separate annual advice letter.

(f) California American Water will use this tracking to report compliance with the $10 per month limitation to the Commission and the California Coastal Commission, as Special Condition 16 requires.

17.4 Timely Recovery at the In-Service Date

(a) Rates reflecting the first year revenue requirement for the desalination base rate increment in the Tier 2 advice letter described in Section 14.6 will take effect on the later of (i) 30 days after the Tier 2 advice letter is filed or (ii) the in-service date, subject to refund pending final disposition of the advice letter, including Commission resolution of any protest.

(b) This mechanism applies only to the desalination base rate increment. The WRRB surcharge will be set and adjusted only as provided in the financing order, and the SRF surcharge will be set and adjusted consistent with the Commission's decision on California American Water's financing application.

(c) The "in-service date" is the first date on which all of the following have occurred:

(1) the Project facilities have completed start-up and performance acceptance testing;

(2) the State Water Resources Control Board Division of Drinking Water has issued the permit amendment authorizing delivery of desalinated water to the Monterey service area distribution system; and

(3) the facilities are delivering desalinated water to the Monterey service area distribution system for customer use.

(d) California American Water will confirm the in-service date by a filing served on the service list, with supporting documentation. On the in-service date, AFUDC on the Project facilities will cease and the recorded plant balance will be transferred to utility plant in service.

17.5 Semi-Annual Consumption Adjustment Mechanism. For the first two years after the desalination base rate increment takes effect, California American Water may file a semi-annual Consumption Adjustment Mechanism to adjust the desalination base rate increment to reflect differences between adopted and actual Monterey service area consumption. Thereafter, adjustments will be made through the Annual Consumption Adjustment Mechanism.

ATTACHMENT 2

Figure 1

Regulatory approval path and ratemaking treatment of each financing source

Source	Approval vehicle	Ratemaking treatment
Water Rate Relief Bonds	Financing order (separate application under §849 et seq.)	WRRB surcharge; Monterey non-CAP customers; true-up per financing order
DWSRF loan	SWRCB funding agreement; CPUC financing application (Pub. Util. Code §§816-818; Attachment A §13.4)	SRF meter surcharge; Monterey non-CAP customers
DWR grant	DWR grant agreement	Reduces rate base; no customer charge
Tax-exempt PABs	CPCFA conduit issuance; CDLAC allocation. AWCC as borrower; intercompany debt to AWCC.	Desalination base rate increment (PAB rate on PAB-financed share)
AWCC long-term debt	Existing CPUC debt authority (AWCC)	Desalination base rate increment (authorized cost of debt)
Equity	Authorized capital structure (on costs not financed by securitization or SRF); approx. 27% fixed equity (Attachment A Section 13.1 (d))	Desalination base rate increment (authorized ROE)
Short-term debt	Attachment A §15.1	Reduces AFUDC during construction; not permanent financing
WIFIA loan (contingency)	EPA loan agreement; CPUC financing application	Desalination base rate increment, if substituted for WRRB

Figure 2

Existing Monterey rate structure

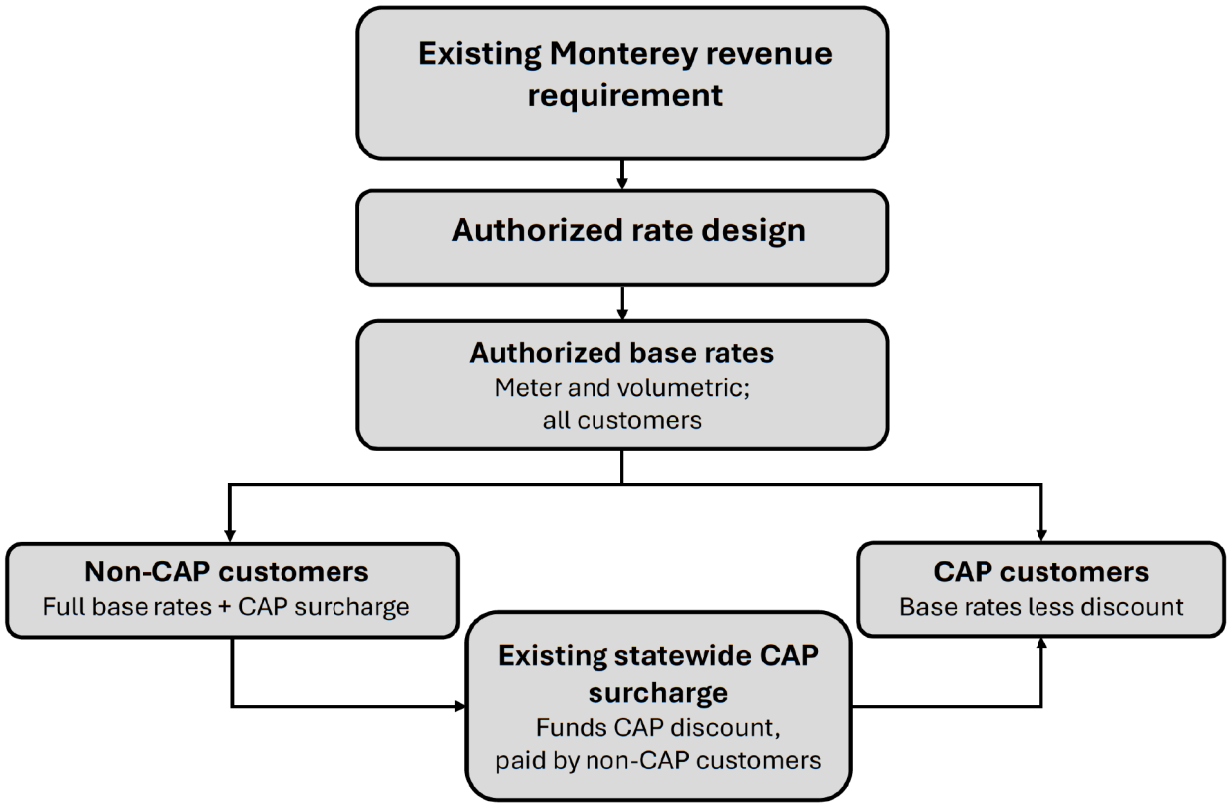


Figure 3

Desalination revenue requirement and recovery

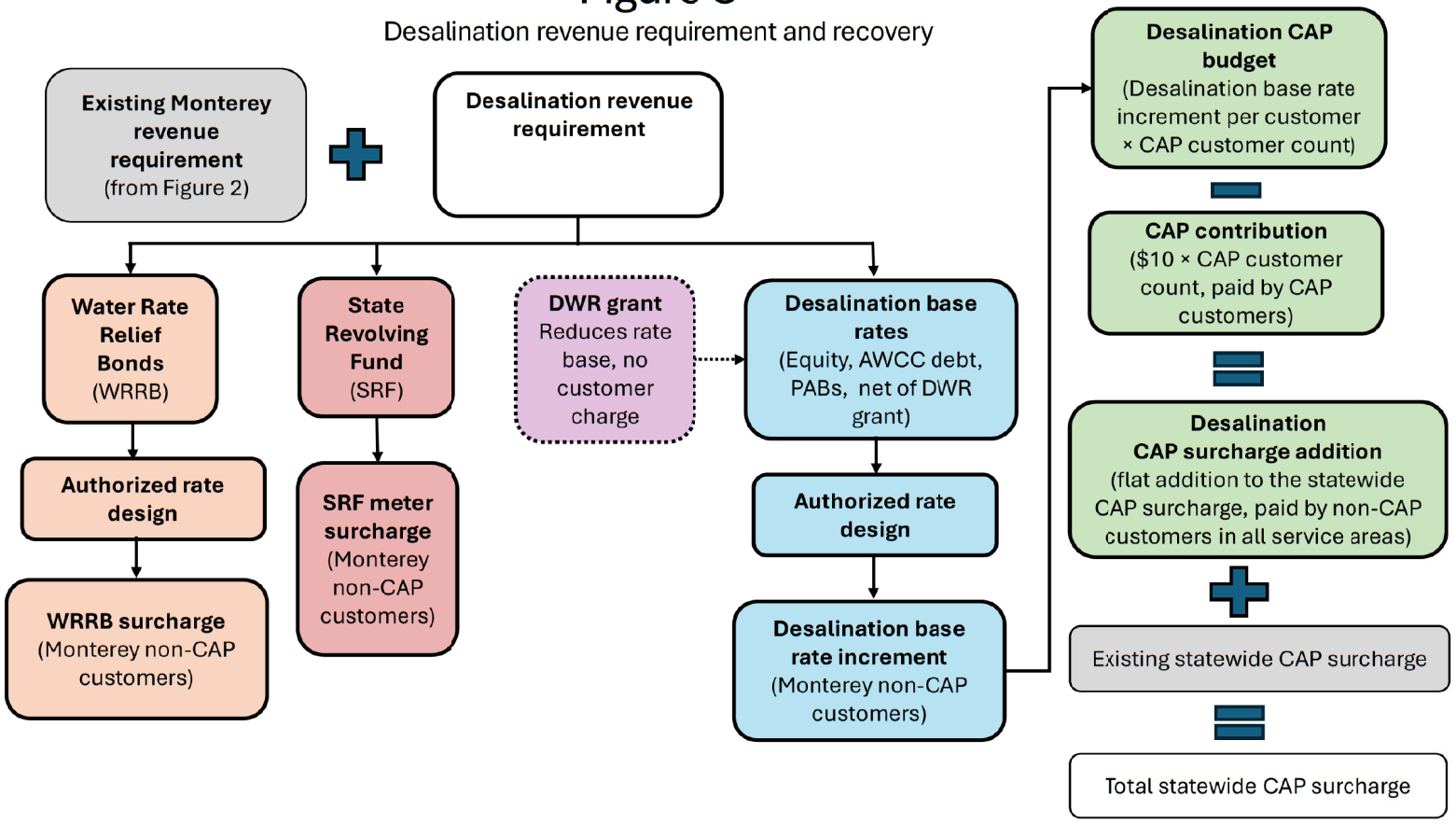
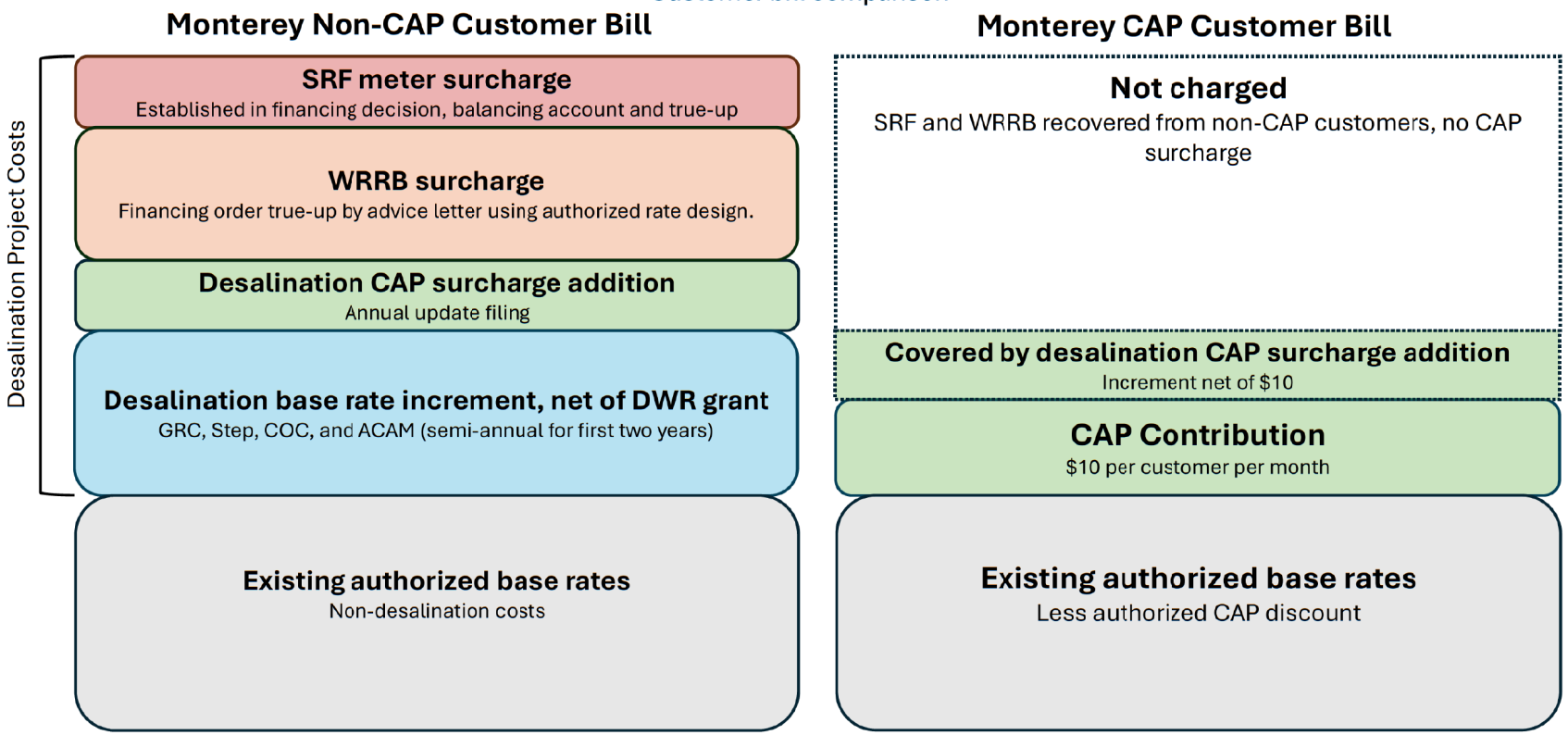


Figure 4

Customer bill comparison



*Proportions are not to scale. Excludes MPWMD user fee, Pure Water Monterey surcharge, other surcharges, and taxes and fees.

ATTACHMENT 3

CALIFORNIA COASTAL COMMISSION
455 MARKET STREET, SUITE 228
SAN FRANCISCO, CA 94105-2219
VOICE (415) 904- 5200
FAX (415) 904-5400
TDD (415) 597-5885
WWW.COASTAL.CA.GOV

Appeal Filed:	May 22, 2019
49th Day:	Waived
Permit Filed:	September 1, 2022
180th Day:	February 28, 2023
Staff:	T. Luster-SF
Staff Report:	November 4, 2022
Hearing Date:	November 17, 2022 (Th7a &Th8a)

Commission Vote on De Novo Appeal: 7-3
Commission Vote on CDP: 8-2

FINAL ADOPTED FINDINGS
DE NOVO APPEAL HEARING
and
CONSOLIDATED COASTAL DEVELOPMENT PERMIT

Appeal No:	**A-3-MRA-19-0034**
Local Government:	City of Marina
Decision:	Approval with Conditions
Application No.:	**9-20-0603**
Applicant:	**California American Water Company**
Appellants:	**California American Water Company, Brian LeNeve, Castroville Community Services District, and Commissioners Howell and Uranga**
Project Location:	Wellfield at the site of the CEMEX, Incorporated sand mining facility in the City of Marina, Monterey County, and pipelines and associated infrastructure within the Cities of Marina and Seaside, the County of Monterey, and the Commission's retained jurisdiction.
Project Description:	Construct and operate a slant well field, associated water transmission pipelines and related infrastructure within the coastal zone to support a proposed desalination facility located inland of the coastal zone.
Commission Action:	Approval with Conditions of De Novo Permit and Approval with Conditions of Regular Permit

unconditionally waive any claim of damage or liability against the Commission, its officers, agents, and employees for injury or damage from such hazards; and (iv) to indemnify and hold harmless the Commission, its officers, agents, and employees with respect to the Commission's approval of the project against any and all liability, claims, demands, damages, costs (including costs and fees incurred in defense of such claims), expenses, and amounts paid in settlement arising from any injury or damage due to such hazards.

16. Low-income ratepayer relief. The Applicant shall prepare and implement a low-income ratepayer relief program, inclusive of the following components, to offset the costs of the Project construction and operations on low-income customers in the service area:

a) PRIOR TO ISSUANCE OF THE PERMIT, the Applicant shall submit a low-income ratepayer relief program plan and implementation strategy that includes baseline information on the number of low-income ratepayers in the district, both in single-residential and multifamily units, that qualify as low-income according to the definition in AB 1550 and those who are eligible for the Applicant's Customer Assistance Program. The plan shall include current enrollment rates for the Applicant's existing income relief programs and the number that do not currently receive assistance. The plan will also include an outreach strategy including a timeline to enroll qualified ratepayers in its Customer Assistance Program. The plan shall explore options to offset the increased costs of desalinated water on low-income ratepayers identified through AB 1550 that are not currently eligible for rate assistance. This may include the Applicant working with the CPUC or independent of its approval to create new programs or expand income eligibility of existing programs, as detailed in subsection (b) and (c). The Plan shall also provide for annual reporting on the status and success of these programs, consistent with Special Condition 16.

b) PRIOR TO ANY INCREASE IN RATES RELATED TO THE DESALINATION FACILITY TAKING EFFECT, the Applicant shall implement the following:
   i. A $500,000 grant to the United Way Hardship fund and proposal to continue funding the United Way Hardship fund in perpetuity.
   ii. A $10 cap on rate increases per month for ratepayers enrolled in its Customer Assistance Program. The cap shall be in place for the duration of the Project. Annual reporting required here and under Special Condition 16 must demonstrate how the $10 cap is being met.

c) The Applicant shall submit an annual report to the Executive Director that describes and provides the status of all Project-related measures meant to reduce Project costs to low-income ratepayers. These shall include, but are not limited to:
   - All measures taken to enroll additional ratepayers into the Applicant's Customer Assistance and Low-Income Ratepayer Assistance programs, including the number and percentage of customers enrolled.

- All measures implemented to provide low- or no-cost purchase and installation of low-flow water fixtures (e.g., sink and bath faucets, showerheads, toilets, etc.), including the number of each type of fixture installed.
- The status of all requested or required CPUC proceedings meant to reduce costs to low-income ratepayers.
- All measures implemented to ensure that once deliveries of desalinated water from the Project start, ratepayers enrolled in these programs are subject to a rate increase of no more than $10.00 per month for any costs associated with the delivery of desalinated water from the Project after start of those water deliveries until Cal-Am implements any CPUC-approved rate relief programs that effectively cap rate increases to no more than $10 per month for such customers.
- A description of outreach activities to low-income ratepayers to inform them of the cost-saving measures.

17. **Community Engagement and Public Access Plans and Implementation**. PRIOR TO ISSUANCE OF THE COASTAL DEVELOPMENT PERMIT, the Applicant shall submit, for review and approval by the Executive Director, a Community Engagement Plan that ensures residents and representatives of the City of Marina will be equitably engaged in development of a revised Public Access and Amenities Plan.

    The Community Engagement Plan shall be developed by a neutral third party selected and approved by the Executive Director in consultation with the City of Marina. The Plan shall describe how the Applicant will provide opportunities for Marina community members to identify public access priorities and projects for the benefit of Marina residents. It shall:

    a) Describe a community engagement strategy using community-centered and culturally relevant engagement and outreach methods (e.g., communication with multiple forms of media and in relevant languages, various methods to participate, such as in person meetings, online options, mail-in surveys, etc.) Materials developed to implement the Plan shall be provided in plain language to prevent cultural or educational barriers from preventing or reducing public participation.

    b) Includes a schedule and agendas for at least five community workshops within the City to allow community input on preferred public access opportunities and improvements. Workshops shall be noticed at least one month in advance and shall include benefits to ensure maximum participation, such as free parking, childcare options, refreshments, translation services, and others.

    c) Provide for neutral third-party facilitation of the workshops described in (b).

ATTACHMENT 4

Desalination Project — Estimated Financial Impact of the $10 Per Month CAP Cost Limitation

Monterey service area —Proposed Financing Plan — First Full Year of Project Rates (Estimated)

Item	Estimated Amount
Monterey service area total customer accounts	38,924
Monterey service area CAP-enrolled customer accounts	3,394
Monterey service area non-CAP customer accounts	35,530
Estimated single-family bill increase attributable to Desalination base rate increment (before CAP limitation), and excluding WRRB surcharge and SRF surcharge.	$69.27 / month
CAP contributions ($10.00 × 3,394 CAP accounts)	$33,940 / month
Desalination CAP budget (Desalination base rate increment per customer × CAP customer count) (uncapped: approximately $69.27 × 3,394)	$235,102 / month
Desalination CAP surcharge addition (flat addition to the statewide CAP surcharge, paid by non-CAP customers in all service areas)	$201,162 / month
Statewide CAP-enrolled accounts / total statewide non-CAP accounts (for allocation)	24,400 / 158,912
Resulting incremental statewide CAP surcharge per non-CAP customer	$1.27 / month

Notes: Amounts are preliminary estimates and are subject to change based on the revenue requirement, rate design, and CAP enrollment approved in this and California American Water's other pending proceedings, and as of the date Project rates are implemented. Calculations use the unrounded desalination base rate increment; amounts shown are rounded and may not recompute from the figures displayed.

ATTACHMENT 5

Attachment 5

Average Residential Monthly Bills, Monterey service area, 2027–2030

Single-family residential customer, 5/8-inch meter, 34.93 CGL per month

A. Non-CAP customer	TY2027 GRC forecast			Project in rates
Bill component	**2027**	**2028**	**2029**	**2030**
Existing charges				
Base bill (non-desalination)	$ 87.74	$ 90.84	$ 94.12	$ 94.12
MPWMD user fee	$ 7.30	$ 7.56	$ 7.84	$ 7.84
Pure Water Monterey purchased water surcharge	$ 23.54	$ 23.54	$ 23.54	$ 23.54
Statewide CAP surcharge (existing)	$ 3.25	$ 3.25	$ 3.25	$ 3.25
Subtotal: existing charges	**$ 121.83**	**$ 125.19**	**$ 128.75**	**$ 128.75**
Project charges				
Desalination base rate increment	$ –	$ –	$ –	$ 69.27
WRRB surcharge	$ –	$ –	$ –	$ 39.99
SRF surcharge	$ –	$ –	$ –	$ 2.70
Desalination CAP surcharge addition	$ –	$ –	$ –	$ 1.27
Subtotal: project charges	**$ –**	**$ –**	**$ –**	**$ 113.22**
Taxes and fees	$ 6.27	$ 6.44	$ 6.63	$ 12.32
Total monthly bill	**$ 128.10**	**$ 131.64**	**$ 135.38**	**$ 254.29**

Change in total bill	**$**	**%**
2029 to 2030 (Project charges begin)	$ 118.91	87.8%
Project charges in 2030	$ 113.22	

B. CAP customer	TY2027 GRC forecast			Project in rates
Bill component	**2027**	**2028**	**2029**	**2030**
Existing charges				
Base bill (non-desalination)	$ 87.74	$ 90.84	$ 94.12	$ 94.12
CAP discount (50%, per A.25-07-003 settlement)	$ (39.79)	$ (41.20)	$ (42.69)	$ (42.69)
MPWMD user fee	$ 7.30	$ 7.56	$ 7.84	$ 7.84
Pure Water Monterey purchased water surcharge	$ 23.54	$ 23.54	$ 23.54	$ 23.54
Subtotal: existing charges	**$ 78.79**	**$ 80.74**	**$ 82.81**	**$ 82.81**
Project charges				
CAP contribution to Project ($10 per month)	$ –	$ –	$ –	$ 10.00
WRRB surcharge (not charged to CAP customers)	$ –	$ –	$ –	$ –
SRF surcharge (not charged to CAP customers)	$ –	$ –	$ –	$ –
Subtotal: project charges	**$ –**	**$ –**	**$ –**	**$ 10.00**
Taxes and fees	$ 4.06	$ 4.16	$ 4.26	$ 4.78
Total monthly bill	**$ 82.85**	**$ 84.90**	**$ 87.07**	**$ 97.59**

Change in total bill	**$**	**%**
2029 to 2030 (Project charges begin)	$ 10.51	12.1%
Project charges in 2030	$ 10.00	

C. Summary: 2029 vs. 2030

	2029	2030	Change ($)	Change (%)
Non-CAP customer	$ 135.38	$ 254.29	$ 118.91	87.8%
CAP customer	$ 87.07	$ 97.59	$ 10.51	12.1%

Notes:

1. 2027–2029 reflect forecast rates from the pending TY2027 general rate case (A.25-07-003). 2030 non-desalination rates are held at 2029 levels.
2. CAP bills reflect the 50% Monterey CAP discount proposed in the A.25-07-003 settlement, which applies to the service charge and Tier 1 usage (up to 30 CGL) only, and to existing (non-desalination) rates only.
3. CAP customers are not billed the WRRB surcharge, the SRF surcharge, or the desalination base rate increment; they pay a $10 per month CAP contribution (Special Condition 16).
4. The Desalination CAP surcharge addition is a flat addition to the statewide CAP surcharge paid by non-CAP customers in all California American Water service areas (Attachment 4).
5. The MPWMD user fee is not applied to Project charges.
6. Amounts are calcluated from unrounded values and may not sum due to rounding.

ATTACHMENT 6

Attachment 6

Estimated Impact of the Desalination CAP Surcharge Addition on Average Residential Base Bills, by Service Area

Single-family residential customer, 5/8-inch meter, average monthly usage for each service area

Desalination CAP surcharge addition, $/month per non-CAP account (Attachment 4) $1.27

Service area	Average usage (CGL/month)	Current base bill ($/month)	$ increase ($/month)	Proposed base bill ($/month)	% increase
NORTHERN DIVISION					
Sacramento	73.89	$71.54	$1.27	$72.81	1.78%
Larkfield	64.06	$81.50	$1.27	$82.77	1.56%
Meadowbrook	116.68	$64.59	$1.27	$65.86	1.97%
Bass Lake	99.50	$127.23	$1.27	$128.50	1.00%
Dunnigan Wastewater	N/A	$54.74	$1.27	$56.01	2.32%
CENTRAL DIVISION					
Central Satellites	75.35	$114.24	$1.27	$115.51	1.11%
Monterey service area	34.93	$83.72	$1.27	$84.99	1.52%
West San Martin	192.67	$108.14	$1.27	$109.41	1.17%
MONTEREY WASTEWATER					
Active Wastewater	N/A	$158.33	$1.27	$159.60	0.80%
Passive Wastewater	N/A	$101.32	$1.27	$102.59	1.25%
SOUTHERN DIVISION					
Baldwin Hills	87.66	$90.90	$1.27	$92.17	1.40%
Bellflower	84.94	$63.60	$1.27	$64.87	2.00%
Duarte	104.67	$101.07	$1.27	$102.34	1.26%
East Pasadena	67.00	$54.68	$1.27	$55.95	2.32%
Piru	75.62	$63.46	$1.27	$64.73	2.00%
San Diego County	58.47	$84.79	$1.27	$86.06	1.50%
San Marino	126.79	$118.24	$1.27	$119.51	1.07%
Ventura County	103.40	$115.11	$1.27	$116.38	1.10%
Yerba Buena	82.70	$121.87	$1.27	$123.14	1.04%

Notes:

1. The Desalination CAP surcharge addition is a flat monthly amount added to the statewide CAP surcharge and paid by non-CAP customers in all California American Water service areas. It does not vary with usage.
2. The Desalination CAP surcharge addition is calculated in Attachment 4 and will be recalculated in the annual update filing.
3. Current base bills reflect base rates in effect as of October 2026 for a single-family residential customer with a 5/8-inch meter at the average usage shown. Base bills include meter and volumetric charges and exclude taxes, fees, and surcharges.
4. CAP customers do not pay the CAP surcharge and are not affected by the addition.
5. Amounts are preliminary estimates and will change with the revenue requirement, rate design and CAP enrollment approved in this and other pending proceedings.

ATTACHMENT 7

Schedule No. MO-1C Sheet 1
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
NON-RESIDENTIAL CUSTOMERS

APPLICABILITY

Applicable to all water furnished on a metered basis to non-residential customers in the service areas defined below.

CENTRAL DIVISION TARIFF AREA RATES

Monterey Service Area – Non-Residential

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, Hidden Hills and Ryan Ranch subdivisions, Bishop subdivision including the area known as Laguna Seca Ranch Estates and vicinity and certain unincorporated areas in the County of Monterey.

RATES

Quantity Rates:

Non-Residential Customers:	Base Rate Per 100 gal (CGL)	Desalination Base Rate per 100 gal (CGL)	Total Base Rate Per 100 gal (CGL)	
Division 1	$2.2634	$1.7065	$3.9699	(C)
Division 2	$2.5493	$1.9198	$4.4691	|
Division 3	$2.8352	$2.1331	$4.9683	|
Division 4	$5.6941	$4.2663	$9.9604	(C)

Service charge: General Metered:

	Per Meter Per Month	Desalination Base Rate Per Meter Per Month	Total Per Meter Per Month	
For 5/8 x 3/4-inch meter	$88.70	$65.27	$153.97	(C)
For 3/4-inch meter	$138.81	$102.15	$240.96	
For 1-inch meter	$243.92	$179.50	$423.42	|
For 1-1/2-inch meter	$576.08	$423.95	$1,000.03	|
For 2-inch meter	$947.28	$697.12	$1,644.40	|
For 3-inch meter	$1,776.15	$1,307.10	$3,083.25	|
For 4-inch meter	$3,025.44	$2,226.47	$5,251.91	|
For 6-inch meter	$6,245.12	$4,595.89	$10,841.01	|
For 8-inch meter	$9,992.11	$7,353.36	$17,345.47	(C)

The Meter Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

(Continued)

CENTRAL DIVISION TARIFF AREA (Continued)

SPECIAL CONDITIONS:
Fees and Surcharges:

Monterey Service Area

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

2. A surcharge is included on each bill to collect franchise fees and/or business license fees paid to various municipalities. The amount collected is based on a percentage of the gross revenues of each bill. The percentages are as follows:
Franchise Fees: City of Pacific Grove 1.218%, City of Carmel-by-the-Sea 1.218%, City of Seaside 1.176%, City of Monterey 1.218%, City of Sand City 1.085%, and unincorporated areas of Monterey County 1.00%.
Business Fees: City of Del Rey Oaks 0.11% and City of Sand City 0.12%.

3. A surcharge for the Customer Assistance Program (CAP) is applied to each California American Water customer bill. Please refer to tariff CA-FEES for charges and details.

4. Per Advice Letter 1152, a fee of 8.325%, imposed by the Monterey Peninsula Water Management District (MPWMD), will be assessed against the customer's monthly base bill to fund MPWMD's environmental mitigation, water supply, and conservation programs, as well as other activities. The fee will remain in effect until otherwise directed by the Commission. This fee is applicable to customers in the Monterey Main, Bishop, Hidden Hills and Ryan Ranch areas. The MPWMD user fee does not apply to the desalination base rate or other associated desalination project costs. (N)

5. Per Advice Letter 1485, a surcharge is included in each bill to recover the net under-collection in the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA). The net under collection totals $232,729 including interest. The surcharge of $0.0078 per 100 gallons is set to recover the remaining under-collected WRAM/MCBA balance accrued through December 31, 2023 as approved by D.24-12-025 and will be collected over 36 months beginning August 1, 2025.

Non-Residential		
Monterey Main, Hidden Hills, Ryan Ranch, & Bishop Systems:	Surcharge per 100 gal	Months
Division 1	$0.0078	36
Division 2	$0.0078	36
Division 3	$0.0078	36
Division 4	$0.0078	36

(Continued)

Schedule No. MO-1-MF Sheet 1
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
MULTI-FAMILY RESIDENTIAL CUSTOMERS

APPLICABILITY
Applicable to all water furnished on a metered basis.

CENTRAL DIVISION TARIFF AREA RATES

Monterey Service Area – Multi-Family Residential

TERRITORY
The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, Hidden Hills and Ryan Ranch subdivisions, Bishop subdivision including the area known as Laguna Seca Ranch Estates, and vicinity and certain unincorporated areas in the County of Monterey.

RATES:
Quantity Rates:

Residential Customers:	Base Rate Per 100 gal (CGL)	Desalination Base Rate Per 100 gal (CGL)	Total Base Rate Per 100 gal (CGL)	
For the first 19 CGL	$1.1088	$0.8503	$1.9592	(C)
For next 19 CGL	$2.2415	$1.7007	$3.9422	|
For next 13 CGL	$5.0731	$3.8265	$8.8996	|
For all water delivered over 51 CGL	$7.0552	$5.3146	$12.3698	(C)

Service Charge: General Metered

Residential Customers:	**Per Meter Per Month**	**Desalination Base Rate Per Meter Per Month**	**Total Per Meter Per Month**	
For 5/8 x 3/4-inch meter	$59.13	$43.52	$102.65	(C)
For 3/4-inch meter	$92.54	$68.10	$160.64	|
For 1-inch meter	$162.61	$119.67	$282.28	|
For 1-1/2-inch meter	$384.06	$282.63	$666.69	|
For 2-inch meter	$631.52	$464.75	$1,096.27	|
For 3-inch meter	$1,184.10	$871.40	$2,055.50	|
For 4-inch meter	$2,016.96	$1,484.31	$3,501.27	|
For 6-inch meter	$4,163.41	$3,063.93	$7,227.34	|
For 8-inch meter	$6,661.40	$4,902.24	$11,563.65	(C)

The Meter Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

(Continued)

Schedule No. MO-1-MF Sheet 4
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
MULTI-FAMILY RESIDENTIAL CUSTOMERS

CENTRAL DIVISION TARIFF AREA (Continued)

SPECIAL CONDITIONS:
Fees and Surcharges:

Monterey Service Area

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

2. A surcharge is included on each bill to collect franchise fees and/or business license fees paid to various municipalities. The amount collected is based on a percentage of the gross revenues of each bill. The percentages are as follows:
Franchise Fees: City of Pacific Grove 1.218%, City of Carmel-by-the-Sea 1.218%, City of Seaside 1.176%, City of Monterey 1.218%, City of Sand City 1.085%, and unincorporated areas of Monterey County 1.000%.
Business Fees: City of Del Rey Oaks 0.11% and City of Sand City 0.12%.

3. A surcharge for the Customer Assistance Program (CAP) is applied to each California American Water customer bill. Please refer to tariff CA-FEES for charges and details.

4. Per Advice Letter 1152, a fee of 8.325%, imposed by the Monterey Peninsula Water Management District (MPWMD), will be assessed against the customer's monthly base bill to fund MPWMD's environmental mitigation, water supply, and conservation programs, as well as other activities. The fee will remain in effect until otherwise directed by the Commission. This fee is applicable to customers in the Monterey Main, Bishop, Hidden Hills and Ryan Ranch areas. The MPWMD user fee does not apply to the desalination base rate or other associated desalination project costs. (N)

5. Per Advice Letter 1485 and D.24-12-025, Central Division residential customers will receive a one-time surcredit for WRAM/MCBA overcollection.

Meter Size	Surcredit
5/8 x ¾"	$24.70
¾"	$37.05
1"	$61.75
1 ½"	$123.50
2"	$197.60
3"	$370.49
4"	$617.48
6"	$1,234.97
8"	$1,975.95
10"	$2,840.43
12"	$4,075.40

(Continued)

Schedule No. MO-1O Sheet 1
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
OTHER CUSTOMERS

APPLICABILITY

Applicable to all water furnished on a metered basis to miscellaneous, construction, and other water utility customers in the service areas defined below.

CENTRAL DIVISION TARIFF AREA RATES

Monterey Service Area – Other Customers

TERRITORY

The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, Hidden Hills and Ryan Ranch subdivisions, Bishop subdivision including the area known as Laguna Seca Ranch Estates and vicinity and certain unincorporated areas in the County of Monterey.

RATES

Quantity Rates:

	Base Rate Per 100 gal (CGL)	Desalination Base Rate Per 100 gal (CGL)	Total Base Rate Per 100 gal (CGL)	
Misc. and Construction ……	$2.6531	$1.5285	$4.1816	(C)

Misc. and Construction Meter Rates:

	Per Meter Per Month	Desalination Rate Base Per Meter Per Month	Total Per Meter Per Month	
For 5/8 x ¾-inch meter……	$70.62	$47.25	$117.87	(C)
For ¾-inch meter……..	$105.93	$70.88	$176.81	
For 1-inch meter……..	$176.55	$118.13	$294.68	
For 1-1/2-inch meter……	$353.10	$236.25	$589.35	
For 2-inch meter……..	$564.96	$378.01	$942.97	
For 3-inch meter……..	$1,059.30	$708.76	$1,768.06	
For 4-inch meter……..	$1,765.50	$1,181.27	$2,946.77	
For 6-inch meter……..	$3,531.00	$2,362.54	$5,893.54	
For 8-inch meter……..	$5,649.60	$3,780.07	$9,429.67	(C)

The Meter Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

(Continued)

Schedule No. MO-1O Sheet 2
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
OTHER CUSTOMERS

RATES (continued):

Monterey Service Area – Other Customers

Other Water Utility (Permanent Service)
Quantity Rates:

	Base Rate Per 100 gal (CGL)	Desalination Base Rate Per 100 gal (CGL)	Total Base Rate Per 100 gal (CGL)	
Block 1.....	$0.6921	$0.5493	$1.2414	(C)
Block 2.....	$1.4080	$1.0985	$2.5065	
Block 3.....	$5.7032	$4.3942	$10.0974	(C)

Other Water Utility (Temporary Service)
Quantity Rates:

	Base Rate Per 100 gal (CGL)	Desalination Base Rate Per 100 gal (CGL)	Total Base Rate Per 100 gal (CGL)	
Other Water Utility (Temporary Service)	$0.6921	$0.5493	$1.2414	(C)

Other Water Utility (Permanent & Temporary)
Meter Rates:

	Per Meter Per Month	Desalination Base Rate Per Meter Per Month	Total Per Meter Per Month	
For 5/8 x 3/4-inch meter.....	$88.70	$65.27	$153.97	(C)
For 3/4-inch meter.....	$138.81	$102.15	$240.96	
For 1-inch meter.....	$243.92	$179.50	$423.42	
For 1-1/2-inch meter.....	$576.08	$423.95	$1,000.03	
For 2-inch meter.....	$947.28	$697.12	$1,644.40	
For 3-inch meter.....	$1,776.15	$1,307.10	$3,083.25	
For 4-inch meter.....	$3,025.44	$2,226.47	$5,251.91	
For 6-inch meter.....	$6,245.12	$4,595.89	$10,841.01	
For 8-inch meter.....	$9,992.11	$7,353.36	$17,345.47	(C)

The Meter Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

(Continued)

Schedule No. MO-1O Sheet 5
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
OTHER CUSTOMERS

CENTRAL DIVISION TARIFF AREA

SPECIAL CONDITIONS:
Fees and Surcharges:

Monterey Service Area

1. All bills are subject to the reimbursement fee set forth in Schedule No.UF.

2. A surcharge is included on each bill to collect franchise fees and/or business license fees paid to various municipalities. The amount collected is based on a percentage of the gross revenues of each bill. The percentages are as follows:
Franchise Fees: City of Pacific Grove 1.218%, City of Carmel-by-the-Sea 1.218%, City of Seaside 1.176%, City of Monterey 1.218%, City of Sand City 1.085%, and unincorporated areas of Monterey County 1.000%.
Business Fees: City of Del Rey Oaks 0.11% and City of Sand City 0.12%.

3. A surcharge for the Customer Assistance Program (CAP) is applied to each California American Water customer bill. Please refer to tariff CA-FEES for charges and details.

4. Per Advice Letter 1152, a fee of 8.325%, imposed by the Monterey Peninsula Water Management District (MPWMD), will be assessed against the customer's monthly base bill to fund MPWMD's environmental mitigation, water supply, and conservation programs, as well as other activities. The fee will remain in effect until otherwise directed by the Commission. This fee is applicable to customers in the Monterey Main, Bishop, Hidden Hills and Ryan Ranch areas. The MPWMD user fee does not apply to the desalination base rate or other associated desalination project costs. (N)

5. Per Advice Letter 1485, a surcharge is included in each bill to recover the net under-collection in the Water Revenue Adjustment Mechanism (WRAM) and Modified Cost Balancing Account (MCBA). The net under collection totals $232,729 including interest. The surcharge of $0.0078 per 100 gallons is set to recover the remaining under-collected WRAM/MCBA balance accrued through December 31, 2023, as approved by D.24-12-025 and will be collected over 36 months beginning August 1, 2025.

	Surcharge per 100 gal	Months
OWU-Permanent		
Block 1	$0.0078	36
Block 2	$0.0078	36
Block 3	$0.0078	36
OWU-Temporary	$0.0078	36

(Continued)

Schedule No. MO-1-SF Sheet 1
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
SINGLE FAMILY RESIDENTIAL CUSTOMERS

APPLICABILITY
Applicable to all water furnished on a metered basis.

CENTRAL DIVISION TARIFF AREA RATES

Monterey Service Area – Single Family Residential

TERRITORY
The incorporated cities of Monterey, Pacific Grove, Carmel-by-the-Sea, Del Rey Oaks, Sand City, a portion of Seaside, Hidden Hills and Ryan Ranch subdivisions, Bishop subdivision including the area known as Laguna Seca Ranch Estates, and vicinity and certain unincorporated areas in the County of Monterey.

RATES:
Quantity Rates:

Residential Customers:	**Base Rate Per 100 gal (CGL)**	**Desalination Base Rate Per 100 gal (CGL)**	**Total Base Rate Per 100 gal (CGL)**	
For the first 30 CGL.....	$0.8748	$0.6462	$1.5210	(C)
For the next 30 CGL.....	$1.7734	$1.2924	$3.0658	|
For the next 54 CGL.....	$2.6720	$1.9386	$4.6106	|
For all water over 114 CGL.....	$3.7204	$2.6925	$6.4129	(C)

Service Charge: General Metered	**Per Meter Per Month**	**Desalination Base Rate Per Meter Per Month**	**Total Per Meter Per Month**	
For 5/8 x ¾-inch meter.....	$59.13	$43.52	$102.65	(C)
For ¾-inch meter.....	$92.54	$68.10	$160.64	
For 1-inch meter.....	$162.61	$119.67	$282.28	|
For 1-1/2-inch meter.....	$384.06	$282.63	$666.69	|
For 2-inch meter.....	$631.52	$464.75	$1,096.27	|
For 3-inch meter.....	$1,184.10	$871.40	$2,055.50	|
For 4-inch meter.....	$2,016.96	$1,484.31	$3,501.27	|
For 6-inch meter.....	$4,163.41	$3,063.93	$7,227.34	|
For 8-inch meter.....	$6,661.40	$4,902.24	$11,563.65	(C)

The Meter Charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rates.

(Continued)

Schedule No. MO-1-SF Sheet 4
GENERAL METERED SERVICE in the Monterey Service Area Tariff Area
SINGLE FAMILY RESIDENTIAL CUSTOMERS

CENTRAL DIVISION TARIFF AREA

SPECIAL CONDITIONS (Continued):
Fees and Surcharges:

Monterey Service Area

1. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

2. A surcharge is included on each bill to collect franchise fees and/or business license fees paid to various municipalities. The amount collected is based on a percentage of the gross revenues of each bill. The percentages are as follows:
Franchise Fees: City of Pacific Grove 1.218%, City of Carmel-by-the-Sea 1.218%, City of Seaside 1.176%, City of Monterey 1.218%, City of Sand City 1.085%, and unincorporated areas of Monterey County 1.000%.
Business Fees: City of Del Rey Oaks 0.11% and City of Sand City 0.12%.

3. A surcharge for the Customer Assistance Program (CAP) is applied to each California American Water customer bill. Please refer to tariff CA-FEES for charges and details.

4. Per Advice Letter 1152, a fee of 8.325%, imposed by the Monterey Peninsula Water Management District (MPWMD), will be assessed against the customer's monthly base bill to fund MPWMD's environmental mitigation, water supply, and conservation programs, as well as other activities. The fee will remain in effect until otherwise directed by the Commission. This fee is applicable to customers in the Monterey Main, Bishop, Hidden Hills and Ryan Ranch areas. The MPWMD user fee does not apply to the desalination base rate or other associated desalination project costs. (N)

5. Per Advice Letter 1485 and D.24-12-025, Central Division residential customers will receive a one-time surcredit for WRAM/MCBA overcollection.

Meter Size	Surcredit
5/8 x ¾"	$24.70
¾"	$37.05
1"	$61.75
1 ½"	$123.50
2"	$197.60
3"	$370.49
4"	$617.48
6"	$1,234.97
8"	$1,975.95
10"	$2,840.43
12"	$4,075.40

(Continued)

PRELIMINARY STATEMENT
Summary Table

Reference	Account	Tariff
AK	Special Facilities Fee Memorandum Account	11104-W, 11105-W
AN	Public Safety Power Shut-Off Memorandum Account (PSPSMA)	11106-W, 11107-W
AO	2019 General Rate Case Interim Rate True-up Memorandum	11108-W
AQ	Two-Way Tax Memorandum Account	11109-W
AR	Sustainable Groundwater Management Act Memorandum Account (SGMA)	11110-W
AS	Group Insurance Balancing Account (GIBA)	11111-W
AT	Rio Plaza Groundwater Management Memorandum Account	11112-W
AV	MPWSP Project Cost Memorandum Account (PCMA)	XXXXX-W (T,C)
AW	MPWSP Operations and Maintenance Memorandum Account (MOMMA)	11114-W
AX	Meadowbrook CIAC Regulatory Asset	11115-W
AZ	Monterey Wastewater Purchased Power Balancing Account	11116-W
BF	Hillview Grant Tax Balancing Account	11117-W
BG	Hillview Memorandum Account for Deferred Income Taxes (HMADIT)	11118-W
BH	Central Basin Contamination Memorandum Account	11119-W
BI	Drought Memorandum Account (DRMA)	11120-W
BO	Drinking Water Fees Balancing Account (DWFBA)	11121-W
BP	TCP Litigation Proceeds Memorandum Account	11122-W
BQ	Central Satellite Service Area - Cost Allocation Tariff	11123-W, 11124-W
BR	Central Division – Chualar System – Tariff Rate Design	11125-W
BS	Larkfield Consolidation Tariff	11126-W, 11127-W
BT	Annual Consumption Adjustment Mechanism	11497-W
BU	Warring Transaction Memorandum Account (WTMA)	11129-W
BW	Hillview State Revolving Fund (HSRF) Balancing Account	11131-W
BX	Bass Lake Transaction Memorandum Account (BLTMA)	11051-W
BY	Conservation Adjustment for Rate Tier Designs Mechanism (CART) Balancing Account	11132-W, 11570-W, 11606-W
BZ	Purchased Power Incremental Cost Balancing Account (PP ICBA)	11135-W, 11136-W
CA	Purchased Water Incremental Cost Balancing Account (PW ICBA)	11137-W, 11138-W, 11139-W
CB	Conservation Regulation Memorandum Account (CORMA)	11378-W
CC	Infrastructure Act Memorandum Account (IAMA)	11398-W, 11399-W

(Continued)

R. Customer Assistance Program ("CAP") Balancing Account

1. PURPOSE:

The purpose of the CAP Balancing Account is to track the CAP discounts provided, the CAP surcharges collected, and to adjust the CAP surcharges on January 1 of each year. The surcharge will be applicable to all non-customer assistance program water and wastewater customers.

California American Water was granted authority to continue this account in Decision (D.) 21-11-018. Decision (D.) 20-08-047 ordered California American Water to implement a pilot program providing low-income customer discounts for water users in master metered multi-family housing. Per Resolution W-5241 and Advice Letter 1320-A this balancing account contains a sub-account which records low-income discounts and incremental costs associated with the: 1) San Diego Service Area Multifamily Housing in Disadvantaged Communities Program, 2) Low-Income Joint Water and Energy Install Program in Recently Acquired Systems. Specifics of the pilot program are included in California American Water Customer Assistance Program tariff. The project duration is estimated to be approximately one year after project facilities have been selected and contractors identified or until funds are exhausted. California American Water will report on the pilot program in its 2025 General Rate Case filing. However, the component costs and low-income discounts will continue to be tracked in this account until such time as the Commission approves the component to become a permanent part of the low income program, or rejects the particular component and all customers currently receiving discounts from the program are notified 3-months in advance of the termination of the program component. Costs accumulated in this subaccount will be recovered as part of the annual CAP surcharge in the California American Water's General Rate Case expected to be filed in July 2025.

Assembly Bill No. 1058 approved on September 24, 2021, allows water utilities with 10,000 or more service connections to recover expenses incurred by credit and debit bank cards (including prepaid cards) without imposing a transaction fee on its customers. The bill also states that the expense cannot be recovered by utility customers participating in CAP. Per D.24-12-025, California American Water will add the credit/debit card expense to the CAP Balancing Account to recover these costs from non-CAP participating customers through the CAP surcharge.

In addition, per D.24-12025 California American Water will add cost recovery of the Low-Income Joint Water and Energy Direct Install program to the CAP Balancing Account to be recovered via the CAP surcharge from non-CAP customers. This conservation program offers free water and energy fit installations to low-income customers combining Pacific gas and Electric Savings assistance program and California American Water conservation program funding.

Pursuant to Special Condition 16 in Application 9-20-0603 of the California Coastal Commission's Coastal Development Permit, Monterey Service Area CAP customers are subject to a rate increase of no more than $10.00 per month for any costs associated with the delivery of desalinated water from the Desalination Project. Per Decision XX-XX-XXX, the Commission authorized a desalination CAP surcharge addition for the project. The surcharge addition budget equals the desalination base rate increment per customer multiplied by the number of CAP customers. The total $10 per month contribution from CAP customers is subtracted from that budget. The remainder is the desalination CAP surcharge addition and is recovered through a flat addition to the existing statewide CAP surcharge, paid by non-CAP customers in all of California American Water's service areas. (N)

(N)

(Continued)

R. Customer Assistance Program ("CAP") Balancing Account (continued):

2. APPLICABILITY: (L)

All areas served by California American Water. (L)

3. ANNUAL SURCHARGE ADJUSTMENT:

The surcharge will be evaluated and adjusted annually and will reflect:

a. A forecast of the December 31st balance in the CAP Balancing account for the current year that reflects.

i. The most recent recorded balance;

ii. Add the Credit Card expense; and

iii. Add Low-Income Water/Energy Direct Install program cost; and

iv. Add the variance between the Desalination CAP budget and the CAP contribution received, with the difference being the Desalination CAP surcharge addition; and (N) (N)

v. The assumption that the proportion of CAP to non-customer assistance program residential enrollment in September will remain constant as a proportion of adopted numbers for October through December; and

vi. The assumption that current CAP surcharges will be applied to the estimated non-CAP portion of adopted sales (adopted sales minus estimated CAP sales based on the proportion of CAP to non-customer assistance program residential customers in September), plus interest;

b. A forecast of the December 31 balance in the CAP for the following year that reflects:

i. The assumption that the proportion of CAP to non-customer assistance program residential enrollment in September of the previous year will remain constant as a proportion of adopted numbers; and

ii. The assumption that the new surcharges will be applied to the estimated non-customer assistance program portion of adopted sales (adopted sales minus estimated CAP sales based on the proportion of CAP to non-customer assistance program residential customers in September of the previous year), plus interest.

(Continued)

R. Customer Assistance Program ("CAP") Balancing Account (continued):

4. ACCOUNTING PROCEDURE: (L)

The following entries will be recorded:

a. A debit entry equal to the recorded customer discounts.

b. A credit entry equal to the surcharges collected from the customers not qualified to participate in the CAP. (L)

c. A debit or credit entry equal to interest on the balance in the account at the beginning of the month and half the balance after the above entries, at a rate equal to one-twelfth of the rate on 90-day non-financial Commercial Paper, as reported in the Federal Reserve Statistical Release, H.15 or its successor.

5. RATEMAKING PROCEDURE:

Customer assistance discount of 25%, for all districts except for the Monterey Service Area within Central Division, shall be applied to all monthly service fees, the tier one billed usage amount and the tier two usage amount. A customer assistance discount of 35% for Monterey Service Area shall be applied to all monthly service fees, and the first three tiers billed usage. A customer assistance discount of 35% for the Active Monterey Wastewater Area shall be applied to all monthly service fees. Pursuant to Decision XX-XX-XXX, the Commission authorized the (N)
desalination CAP surcharge addition which is recovered through a flat addition to the existing statewide CAP surcharge and paid by non-CAP customers in all of California American Water's service areas. Surcharges, including the desalination CAP surcharge addition, will be evaluated and adjusted annually in a General Rate Case implementation filing, the annual Step Rate filings, or a separate advice letter filing to ensure appropriate collection. (N)

AV. MPWSP Project Cost Memorandum Account ("PCMA") (T)

1. **PURPOSE**:
The purpose of the Project Cost Memorandum Account is to record and track the capital cost associated with the desalination plant and the Remaining Pure Water Monterey Facilities as approved in D.18-09-017. The PCMA will track capital costs and the allocated portion of the (T)
Construction Funding Charge in separate subaccounts for the desalination plant and remaining Pure Water Monterey facilities, in order to calculate the Allowance for Funds Used During (T)
Construction (AFUDC). AFUDC will be calculated monthly based on the capital costs net of the construction funding charge collections. The PCMA will also track and record the revenue requirement and related financing costs for any portion of the Desalination Project Costs placed (T)
in service prior to the Commission approving the costs to be included in plant in service and recovered in base rates. Per D.22-12-001, the CPUC authorized establishment of a subaccount for the purposes of tracking Pure Water Monterey ("PWM") Expansion Project costs within this memorandum account.

2. **APPLICABILITY:**
The Monterey Service Area, which includes Monterey Main, Hidden Hills, Bishop and Ryan Ranch.

3. **ACCOUNTING PROCEDURE:**
California-American Water Company shall maintain the PCMA by making entries at the end of each month as follows:

   a. A debit entry shall be made to the PCMA at the end of each month to record the incremental project/capital cost. Separate subaccounts will record costs for the desalination plant and remaining Pure Water Monterey facilities. (T)
   b. A credit entry shall be made to the PCMA at the end of each month to record collections of the Construction Funding Charge allocated by subaccount to the desalination plant and remaining Pure Water Monterey facilities. (T)
   c. A credit/debit entry shall be made to the PCMA for AFUDC based on the net balance.
   d. A debit entry shall be made to the PCMA at the end of each month to record any revenue requirement including financing costs that may occur in between the time the cost are placed In-Service and prior to the Commission approval of base rates.
   e. Interest shall accrue monthly to the PCMA on any recorded revenue requirement from item 3.d. above on a monthly basis by applying a rate equal to one-twelfth of the 3-month non-financial Commercial Paper Rate, as reported in the Federal Reserve Statistical Release, to the average of the beginning-of-month and the end-of-month balances.

4. **EFFECTIVE DATE**:
The PCMA shall go into effect on December 31, 2018, per D.18-09-017.

5. **RATEMAKING PROCEDURE**:
In accordance with D.18-09-017 a tier 2 Advice Letter will be filed that will reflect Revenue Requirement to put into rates associated with the PCMA.

Schedule No. CA-CAP
California American Water
CUSTOMER ASSISTANCE PROGRAM

SPECIAL CONDITIONS APPLICABLE TO CUSTOMER ASSISTANCE PROGRAM (Continued):
General Items

4. **Customer Assistance Program (CAP) for Multi-Family Units:** Per Ordering Paragraph 5 of D.20-08-047 and Resolution W-5241, California American Water will offer discounts on water usage for low-income multifamily buildings under a pilot program as defined in the Preliminary Statement authorizing such program. The pilot program will consist of two program components:

   a. **Multi-Family Housing in Disadvantaged Communities:** This Program component would be applicable only to master metered buildings in a disadvantaged or severely disadvantaged community ("DAC/SDAC") in the San Diego Service Area.

      1. Eligible master metered account holders would receive the Low-Income Ratepayer Assistance Discount in the applicable service area which includes a meter-based discount and a discount on volumetric charges, based on the percentage of eligible residents as compared to the total residents.

      2. This program will require building partnerships with local community-based organizations in our San Diego Service Area.

   b. **Low-Income Joint Water and Energy Install Program**: This program component would expand existing water energy retrofit programs that are currently conducted jointly with energy providers to currently un-served multifamily buildings and mobile home parks. The program that currently extends hot and cold-water measures including appliances, fixtures, and weatherization to low-income housing is funded jointly by California American Water and the energy utility.

Fees and Surcharges

1. Please reference each district's Tariff Schedule 1 for a list of applicable fees and surcharges. Low-Income Ratepayer Assistance Program customers are exempt from the Low-Income Ratepayer Assistance Balancing Account surcharge.

2. Pursuant to Special Condition 16 in Application No. 9-20-0603 of the California Coastal Commission's Coastal Development Permit, Monterey Service Area CAP customers are subject to a rate increase of no more than $10.00 per month for any costs associated with the delivery of desalinated water from the Desalination Project. As authorized by Decision XX-XX-XXX, a $10.00 per month CAP contribution will be collected from Monterey CAP customers. (N) | (N)

Schedule No. CA-FEES
California American Water

Sheet 1

APPLICABILITY

Applicable to all service areas.

TERRITORY

All territories served by California American Water.

RATES

1. Late Payment Fee: A late charge of 1.5% on unpaid balance will be assessed to Non-Residential Customers and customers will be notified on the monthly issued bill that the 1.5% late fee will be applied to any account that is not paid before the past due date shown on the bill. The fee shall be applied at the time a late payment notice is issued. If the customer pays the balance on the date the late payment notice is mailed, then that assessed fee will be forgiven. The fee shall be assessed on all open balances regardless of whether it is an initial or subsequent bill when a total balance has not been paid or there should have been a shut off for non-payment agreement. All bills shall be subject to the PUC reimbursement fee as set forth in Schedule No. UF.

2. Reconnection Fee: Where service has been discontinued for violation of these rules or nonpayment of bills, the utility may charge $10.00 for reconnection of service during regular work hours or $150.00 for reconnection of service at other than regular working hours when the customer has requested that the reconnection be made at other than regular working hours. If payment is received after 3:00PM, service will not be restored until the next business day. All bills shall be subject to the PUC reimbursement fee as set forth in Schedule No. UF.

3. Untested Backflow Fees: Where the utility elects to have an untested backflow assembly tested and, if needed, repaired or replaced, all charges incurred by the utility from third party service providers will be added to the customer bill of the account of record, and shall become due and payable as any other charge, including being part of any unpaid balance subject to late fees and discontinuance of service for non-payment.

4. Per Advice Letter 15XX, a surcharge of $4.52 for the Customer Assistance Program (“CAP”) Balancing Account will be collected from all non-low-income water and wastewater customers. (C)

(Continued)