BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Approval of the Monterey Peninsula Water Supply Project and Authorization to Recover All Present and Future Costs in Rates.	A.12-04-019 (Filed April 23, 2012)

REBUTTAL TESTIMONY OF JEFFREY LINAM

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REBUTTAL TESTIMONY OF JEFFREY LINAM

I. INTRODUCTION

Q1. Please state your name, title, and business address.

A1. My name is Jeffrey T. Linam. I am the Director of Finance for California American Water. My business address is 1033 B Avenue, Suite 200, Coronado, CA 92118.

Q2. Have you previously provided testimony in this proceeding?

A2. Yes. I provided direct testimony on April 23, 2012, which was served with the application. I also provided supplemental testimony on January 11, 2013 and an errata to my supplemental testimony on February 15, 2013.

Q3. Did you previously provide your qualifications in this proceeding?

A3. Yes. I provided my qualifications in my direct testimony. There have been no changes to that information.

Q4. What is the purpose of your testimony?

A4. The purpose of my testimony is to: (1) provide a summary of the financial and rates witnesses for California American Water, (2) discuss the public financing proposals set forth by the Monterey Peninsula Water Management District ("MPWMD") and

MPWMD's comments on the financing model, (3) evaluate MPWMD's financing proposals within the context of the Monterey Peninsula Regional Water Authority's (MPRWA) adopted principles for a contribution of public funds, as articulated in the testimony of Mr. Jason Burnett, (4) address the financial recommendations made by the Division of Ratepayer Advocates ("DRA"), and (5) clarify other related issues.

II. SUMMARY OF FINANCING RECOMMENDATIONS

Q5. Please provide a summary and discuss the role of each of the financial and rates witnesses for California American Water?

A5. California American Water has six witnesses providing rebuttal testimony in the area of financing and ratemaking issues. My testimony presents a set of principles, in response to those adopted by MPRWA, under which California American Water would consider a public contribution. My testimony also addresses the financial and revenue requirement impacts to California American Water and its customers of the financing proposals made by DRA, MPWMD and others. Dave Stephenson, Director of Rates for California American Water, addresses in his testimony the various ratemaking implications of parties' proposals. Michael Barrett, a Partner with the international accounting firm of Ernst & Young, addresses the financial statement and accounting implications of the financing proposals made by DRA and MPWMD. Michael Reno, Executive Director of National Tax at Ernst & Young, addresses the tax implications of the financing proposals made by DRA and MPWMD. William J. Chambers, Ph.D. addresses the financial markets and rating agency perspectives of the financing proposals made by DRA and MPWMD. Lastly, American Water Treasurer, Bill Rogers will discuss the current and future financing that is provided to California American Water by the American Water Capital Corporation (AWCC) and why the Commission needs to ensure that the financing proposals do not negatively impact the financial position of California American Water.

III. MPWMD/MPRWA

Q6. Did you review MPWMD's February 5, 2013 Proposal for Public Contribution of Funds?

A6. Yes. California American Water appreciates MPWMD's efforts in developing its proposals and its intention to lower costs to customers. MPWMD describes its proposals in very general terms, however, and California American Water cannot determine at this point whether the proposals would indeed result in lower costs.

Q7. Under what circumstances would California American Water support a public contribution option?

A7. California American Water is aware of the rate impact of the Monterey Peninsula Water Supply Project ("MPWSP"), and will strive to obtain the most effective financing, including pursuit of a State Revolving Fund ("SRF") loan. In evaluating the best methods for financing the MPWSP, California American Water must be mindful of the time constraints it faces and the potential for increased cost or delay due to more complex financing methods. To this end, California American Water has developed a set of principles necessary for it to determine that pursuit of a public contribution is in the best interests of the customers, the Company, and the project.

Q8. The direct testimony of Mr. Jason Burnett sets forth seven principles, adopted by MPRWA, which should be met in order for California American Water to accept a contribution of public funds. How do California American Water's set of principles align with MPRWA's?

A8. In general, California American Water is supportive of the 7 principles articulated by MPRWA, but would recommend the inclusion of some additional conditions to each of the principles. California American Water has prepared a more complete response to each of MPRWA's principles, which is included as <u>Attachment 1</u>. Below is a summary of the key conditions in response to the order of MPRWA's principles:

1) *MPRWA Principle #1 – The public contribution lowers costs to ratepayers*: California American Water is open to the consideration of a public contribution as part of the method for financing the desalination facility[1] but would add the following conditions. First, the annual customer benefits should at a minimum exceed 1.0% of the total annual revenue requirement of the desalination facility. This would provide a reasonable benchmark to ensure sufficient benefits accrue to customers. Second, a decision would need to consider the likelihood that the transaction could be accomplished. There appear to be some significant hurdles to overcome, based on my review of the testimony of other California American Water witnesses. For example, Michael Reno discusses the tax implications of the proposed transactions, while Dave Stephenson addresses the same issue from a regulatory perspective. California American Water is open to considering the public contribution but believes it would be prudent to assess the likelihood of success, thus limiting the risk of stranded costs. Third, California American Water is concerned that many of the costs are unknown or may be unforeseen and the company would likely need to request a balancing account or similar mechanism to ensure recovery. The testimony of Dave Stephenson addresses issues related to regulatory accounts.

2) *MPRWA Principle #2 – The public contribution does not adversely affect other (non-Monterey area) Cal-Am ratepayers:* California American Water strongly supports this principle and would add that there should be: (1) no balance sheet impacts to the company from the municipal entities' debt, water rights or other attributes, as discussed in the testimony of Michael Barrett from Ernst & Young, (2) that it would not increase the riskiness of California American Water's financial position, and (3) there are no

[1] California American Water has proposed that the Cal-Am Only Facilities, its common description for the $106 million pipeline facilities, be addressed separately from a financing perspective, as previously approved by the Commission and discussed in the rebuttal testimony of David Stephenson. Therefore, references to the desalination facility in this testimony exclude any capital associated with the Cal-Am Only Facilities.

adverse impacts to the company from a rating agency perspective. Items (2) and (3) are discussed in more detail in the testimony of Dr. William Chambers.

3) *<u>MPRWA Principle #3 – The public contribution need not require a Cal-Am specific credit rating</u>*: The company does not think that obtaining a separate credit rating is needed at this time, given California American Water's financial size and credit metrics. Notwithstanding, until the public contribution proposals are fully vetted and worked through, it is unclear as to whether a separate credit rating will be needed. Bill Rogers discusses the potential risks to California American Water customers if the public contribution proposal were to trigger a separate credit rating.

4) *<u>MPRWA Principle #4 – The public contribution should not change Cal-Am's authorized debt-to-equity ratio</u>*: California American Water agrees with this principle. However, if the public contribution results in additional debt on California American Water balance sheet, it would not allow the company to stay at its current authorized ratio unless additional equity investments were allowed. Because of the size of the capital investment in the desalination project, which ranges between 1.5 to 2.5 times current Monterey District rate base, it is unclear how California American Water could get back to an authorized structure without involving investment in other districts in California.

5) *<u>MPRWA Principle #5 – The public contribution should not change Cal-Am's authorized equity rate of return</u>*: California American Water agrees with this principle but clarify that the current authorized return on equity is 9.99%. Again, based on the testimony of Michael Barrett and Dr. William Chambers, the current structure might require California American Water to seek a higher return on equity in order to address the higher leverage and financial risk.

6) *<u>MPRWA Principle #6 – Cal-Am should be afforded the opportunity to invest some equity to garner its authorized rate of return to account for risk Cal-Am is taking</u>:* As MPRWA acknowledges, California American Water will be taking on risk with this project. California American Water still believes that its financing plan strikes an equitable balance between providing significant benefits to customers through the use of short term debt, surcharge 2, SRF funds, and property tax offsets, while preserving the financial position of the company. At the same time, the company recognizes the importance of public agency support and the urgent need to deliver the project to meet the State Water Resource Control Board (SWRCB) deadline. If the public contribution proposals can be accomplished to meet MPRWA and California American Water principles and allow for a reasonable level of equity investment by the company, the management of California American Water might consider supporting it. With respect to the desalination plant, California American Water would consider a public contribution that would still allow an equity investment equal to 25% of the value of the plant investment. Example calculations are provided in <u>Attachment 2</u>. As stated previously, based on the positions articulated by David Stephenson, California American Water would not consider a public contribution related to the Cal-Am Only Facilities.

7) *<u>MPWRA Principle #7 – The public contribution cannot cause a material delay to the project</u>:* California American Water is willing to work with MPRWA and other agencies to define how we can achieve the public contribution without a material delay to the project. California American Water would not be willing to accept a public contribution if the funds are not available by the time needed for construction. In other words, the public contribution needs to be available when the amount remaining for construction equals the amount of the public contribution. Also to the issue of project completion, California American Water would add that the public contribution should not impact the California Environmental Quality Act (CEQA) status of the project.

California American Water would add one additional principle to the MPRWA list. The company would want to protect against any adverse tax implications that might accrue to the Monterey District or other customers in California. Based on a review of the testimony of Michael Reno, there appear to be significant tax challenges with the public contribution proposals.

Q9. If these conditions are met, should the Commission require California American Water to pursue public contribution?

A9. Conditions for financing are difficult to predict. California American Water cautions against locking into a particular financing method at this stage. Even if a public contribution proposal meets these criteria, if it ends up costing more than the projected savings, or is not feasible for other reasons, California American Water should be able to revert to its original financing proposals.

Q10. In his testimony, Robert Larkins provides an analysis of the public contribution option. Do you agree with his conclusions?

A10. I will leave the assessment of the public contribution options from an accounting, tax, rating agency and risk perspective to other California American Water witnesses, namely Michael Barrett, Michael Reno, Dr. William Chambers and Bill Rogers, respectively. However, to the extent that these proposals raise the long-term debt ratios, result in imputed debt by the rating agencies and/or increase the level of financial risk to California American Water, the Commission has an established practice that an appropriate amount of equity and a greater return on common equity would be required to provide reasonable confidence in the utility's financial soundness, to maintain and support investment-grade credit ratings, and provide the utility the ability to raise money necessary for the proper discharge of its public duty. The other concern is that an increase in California American Water's cost of equity or equity ratio, would directly impact customers in all districts in California, a result that the company cannot support and also is in conflict with one of

MPRWA's 7 principles. An assessment of the capital structure for California American Water and a Monterey District pro-forma show large increases in the debt ratio under Mr. Larkins and DRA's proposals. These are included in Attachment 3. The debt ratios for the Company and the Monterey District pro-forma under the MPWMD and DRA proposals range from 53% to 74%, versus an authorized of 47%. Finally, Mr. Larkin has assumed a taxable rate for long-term debt provided by American Water Capital Corporation (AWCC) at 5.0%. My supplemental testimony of January 11, 2013 updated this assumption to 4.3%, which is based on recent debt issued by AWCC.

Q11. Under MPWMD's Certificates of Participation (COP) and Securitization options, what would be the impact if the contribution is significantly lower than estimated?

A11. The testimony of Dr. William Chambers and Bill Rogers discusses the high level of fixed costs that would be necessary to transact the COP and securitization structures. These costs would likely remain regardless of the size of the public contribution. Mr. Larkins has assumed a $100 million contribution, which he describes as the maximum public contribution. However, based on California American Water's required equity investment, as explained in its response to question 8 above, the Company would agree to consider a public contribution of up to $43 million under the 9.6 MGD, high capital scenario case. Additionally, if capital costs come in lower than the high end case and/or the appropriate discount rate is higher, it could significantly lower the customer benefits assumed.

Q12. In his testimony, Mr. Larkins states that the MPWMD public contribution proposals would not have an adverse effect on non-Monterey County District customers. Do you agree?

A12. As discussed in response to question 10 above, to the extent that these proposals raise the long-term debt ratios, result in imputed debt by the rating agencies and/or increase the level of financial risk to California American Water, there is likely to be an impact on customers in other districts outside of Monterey. This would result from an increase to California American Water's cost of equity or the equity ratio that would be required to compensate for the additional leverage or risk created by the public contribution.

Q13. In his testimony, Mr. Larkins states that there is no reason to expect a delay with either of its public contribution proposals. Do you agree?

A13. It is unclear to me and better answered by other California American Water witnesses. As Bill Rogers and Dr. William Chambers discuss, these are complex transactions and Mr. Larkins appears to have minimized the challenges involved in transacting, implementing and complying with the aspects of these financing proposals.

Q14. The testimony of Jason Burnett discusses the possibility of grant funding for the project. What are your thoughts on that and if such grants materialized would California American Water accept them and how would they be treated?

A14. California American Water would gladly accept any available grants and treat them as a contribution. Any grants received would lower the debt and equity required for the project assuming the Commission decided to maintain Surcharge 2 at the level the Company proposed in its application and not require grants to reduce the amount of surcharge 2.

Q15. Does California American Water have any recent experience on accepting grants in its Monterey District?

A15. Yes, on the San Clemente Dam Reroute and Removal Project approved in D.12-06-040, California American Water expects to receive up to $34 million in grants to lower the cost of the project to its Monterey District customers.

Q16. In the testimony of Mr. Jason Burnett, he also discusses the possibility of funding the MPWSP through the upcoming and repackaged California State Water Bond. What are your thoughts on that approach?

A16. Assuming there are no restrictions on timing or availability of funds, California American Water would seek debt financing at the lowest interest rate and select the appropriate debt accordingly, whether SRF, water bond, tax exempt or taxable. If bonds were made available, the Company would evaluate them and utilize them in the way that it has incorporated SRF funds in its revenue requirement calculations.

IV. DRA

Q17. How would you describe DRA's financing proposal?

A17. Based on my review of DRA's testimony, the primary DRA proposal for financing appears to recommend the following:

- "Pursue all reasonable efforts to include the GWR Project in the MPWSP and construct a 6.4 MGD plant. For the desalination portion of the project, DRA recommends capital costs be capped at $146 million."

- Reinstate Surcharge #2, as California American Water proposes, but shift the collection period out and permit customers to earn an equity return on the funds collected

- Equity financing should not be used to balance the capital structure when SRF loans are used

- The financing plan for the "Cal-Am Only Facilities" should be the same as that used for the desalination plant. DRA recommends that these costs be capped at $58.8 million.

This scenario would equate to the proposed 6.4 MGD plant using DRA's recommended capital cost assumptions with SRF and Surcharge 2 financing, which is presented as Appendix C-5. This example is instructive in what it would mean for California American Water. Not only would California American Water be precluded from investing a dollar of equity, but because of DRA's novel concept of having California American Water shareholders pay Monterey customers for implementation of the surcharge 2, total California American Water rate base is actually negative. The total CAW rate base as reported is negative $28.6 million. Said another way, California American Water is provided the opportunity, under DRA's proposal, to pay its customers in Monterey for the privilege of building a desalination plant and taking on all construction, ownership and operating risks associated with the project.

Q18. Please explain what DRA's proposal is for the pipeline investment or "Cal-Am Only Facilities"?

A18. Here there appears to be some confusion. DRA's written testimony states that the financing plan for the Cal-Am Only Facilities should be the same as that used for the desalination plant. However, the calculated revenue requirement on Appendix C-9 is based on an authorized return on rate base.

Q19. What would be the financial impact of DRA's proposal?

A19. DRA's proposal would negatively impact California American Water's capital structure, cash flow, credit metrics and other financial measures. The investment is very large relative to California American Water's balance sheet. To put this in perspective, the total authorized rate base for California American Water from its 2012 general rate case is $374 million, $126 million for the Monterey District. To recommend the project be funded with surcharge 2 and SRF debt only, would significantly increase the leverage and financial risk to the Company.

Q20. Are there any other customer impacts that may result if the DRA proposals are adopted?

A20. Yes. DRA's proposals would have a very negative impact on California American Water's financial position. As such, California American Water and its parent company would need to re-examine the offer of the $20 million of short term debt to be used during construction. That offer would likely be rescinded, increasing the interest during construction (AFUDC).

Q21. DRA claims that adding equity to offset the SRF debt would create a windfall. Do you agree?

A21. No. If California American Water were to use long-term debt, it would be permitted under normal ratemaking practices to invest equity to maintain an authorized capital structure. Mr. Barrett concludes that for accounting and GAAP purposes, the SRF is debt. Dr. Chambers concludes that for rating purposes, it is debt. Mr. Stephenson cites to Commission decisions where it has been considered debt and offset with equity. Mr. Rogers discusses how commissions in other states have treated SRF for capital structure purposes as debt. The size of the SRF is also important. It appears that DRA's primary proposal is to fund $100 million of the desalination plant with SRF debt. They also state that the Cal-Am Only Facilities should be treated the same way.

Q22. Did you discover any incorrect assumptions or calculation errors in the testimony filed by DRA?

A22. Yes. These issues are presented in Attachment 4.

V. OTHER ISSUES

Q23. Debt equivalence was addressed in the Regional Desalination Project decision, D.10-12-016. Is this an issue with the MPWSP?

A23. Debt equivalence does not appear to be an issue in this proceeding. As I understand it, debt equivalence refers to debt that is imputed by rating agencies based on the nature of the underlying transaction. The debt may not appear on the balance sheet of the utility but there may still be a financial or risk impact based on the rating agency determination. If there would be an imputation of debt by the rating agencies from the public contribution proposals, then debt equivalency may be relevant and the Commission has addressed this issue in several decisions on the energy side in California.

Q24. Does this complete your testimony?

A24. Yes.

ATTACHMENT 1

Attachment 1
Rebuttal Testimony of Jeffrey T. Linam
Monterey Peninsula Water Supply Project (A.12-04-019)

California American Water's Principles	MPRWA's Adopted Principles
The ratepayer impact of a public contribution should reflect all direct and indirect costs. Cal-Am would consider a public contribution if the benefits that accrue to ratepayers are significant enough to warrant the complexities inherent in such a transaction. Cal-Am would consider a public contribution with the following added conditions: First, the annual ratepayer benefits would need to at least exceed 1.0% of the total annual revenue requirement of the project. Second, a decision would need to consider the likelihood that the transaction could be accomplished and that the risk of stranded costs is low. Third, due to the complexity inherent in the proposed transaction alternatives, Cal-Am is concerned about the recovery of costs that may be unforeseen at this time. The unforeseen nature of these costs and the need to protect customers in other districts may necessitate Cal-Am requesting a balancing account.	1. The public contribution lowers cost to ratepayers. The MPRWA recognizes that interest rates will change between now and the issuance of the CPCN and will change further between the CPCN and the need to issue debt or other financing. The MPRWA encourages the CPUC to require Cal-Am to accept a public contribution if and only if doing so lowers the net present value costs to ratepayers at the time of financing.
Cal-Am agrees that any acceptance of a public contribution cannot adversely impact Cal-Am ratepayers in other districts. Cal-Am is willing to consider a public contribution if there are: (1) no direct balance sheet impacts to the company from the municipal entities' debt or from the Water Rights or from any other attribute, (2) that it would not increase the riskiness of Cal-Am's financial position, and (3) in the case where there are no balance sheet implications, debt would not be imputed by rating agencies.	2. The public contribution does not adversely affect other (non-Monterey area) Cal-Am ratepayers. The MPRWA recognizes it would not be fair policy if the structure of the public contribution benefited Monterey-area ratepayers but in some way had an adverse effect on other Cal-Am ratepayers (e.g., resulting in higher cost of capital for Cal-Am projects funded for other service areas). The MPRWA does not intend to structure a public contribution that would have this unintended effect and we encourage

	the CPUC to stipulate this also.
The company does not think that obtaining a separate credit rating is needed at this time, given Cal-Am's financial size and credit metrics. Notwithstanding, until proposals are fully vetted and worked through, it is unclear as to whether a separate credit rating will be needed. If a separate credit rating is required, it may have potential implication to future debt and equity costs for customers in all districts in California. Cal-Am currently accesses financing at cost through American Water Capital Corp. ('AWCC"), an affiliate of Cal-Am. If AWCC is unable or unwilling to provide the lowest cost debt financing, Cal-Am must independently access the capital markets as AWCC has no obligation to permanently provide short-term and long-term financing at cost to Cal-Am.	3. The public contribution need not require a Cal-Am specific credit rating. American Water has a credit rating but it is our understanding that Cal-Am does not currently have a separate credit rating and they do not want to go through the process of getting one. The MPWRA does not object to this position and encourages the CPUC to stipulate that any public contribution be structured without needing a Cal-Am-specific credit rating.
Agreed.	4. The public contribution should not change Cal-Am's authorized debt-to-equity ratio. MPWRA understands that Cal-Am is authorized a debt-to-equity ratio of 47% to 53%, as set in a separate PUC proceeding and, while we reserve the right to weigh in on that issue at a future point in the relevant venue/proceeding, we accept the ratio of 47% to 53% as given for the purposes of the current application
Agreed. However, Cal-Am's authorized rate of return on equity is 9.99%.	5. The public contribution should not change Cal-Am's authorized equity rate of return. MPRWA understands that Cal-Am's authorized rate of return of

	up to 9.9% is set in a separate CPUC proceeding and , while we reserve the right to weigh in on that issue at a future point in the relevant venue/proceeding, we accept the rate of 9.9% as given for the purposes of the current application.
As MPRWA acknowledges, California American Water will be taking on risk with this project. California American Water still believes that its' financing plan strikes an equitable balance between providing significant benefits to customers through the use of short term debt, surcharge 2, SRF funds and property tax offsets, while preserving the financial position of the company. At the same time, the company recognizes the importance of public agency support and the urgent need to deliver the project to meet the State Water Resource Control Board (SWRCB) deadline. If the public contribution proposals can be accomplished to meet MPRWA and California American Water principles and allow for a reasonable level of equity investment by the company, the management of California American Water might consider supporting it. With respect to the desalination plant, California American Water would consider a public contribution that would still allow an equity investment equal to 25% of the value of the plant investment. California American Water would not consider a public contribution related to the Cal-Am Only Facilities.	6. Cal-Am should be afforded the opportunity to invest some equity to garner its authorized rate of return to account for risk Cal-Am is taking. The MPRWA is not seeking to completely replace all Cal-Am equity with a public contribution because we recognize the CPUC's need to establish a stable, fair investment climate for companies making investments in infrastructure in the state. The MPRWA accepts that Cal-Am will be taking on some risk with this project and that some equity investment is likely in the CPUC's policy interest, Cal-Am's interest, and in the interest of Cal-Am's ratepayers to make sure Cal-Am has a financial stake in the successful completion and operation of the Cal-Am project.
Agreed. California American Water is willing to work with MPRWA and other	7. The public contribution cannot cause a material delay to the project. Given

agencies to define how we can achieve the public contribution without a material delay to the project. California American Water would not be willing to accept a public contribution if the funds are not available by the time needed for construction. In other words, the public contribution needs to be available when the amount remaining for construction equals the amount of the public contribution. Also to the issue of project completion, California American Water would add that the public contribution should not impact the California Environmental Quality Act (CEQA) status of the project	the CDO, we recognize the overarching need to avoid any project delay. Therefore, MPRWA's believes the CPUC should only require Cal-Am to accept a public contribution if doing so does not delay the construction of the Cal-Am Project.
Cal-Am is willing to consider a public contribution if the tax impacts are considered as part of the ratepayer benefit determination and recoverable in rates. Cal-am wants to protect against any adverse tax implications that might accrue to Cal-Am customers.	

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ATTACHMENT 2

Attachment 2
Rebuttal Testimony of Jeffrey T. Linam
Monterey Peninsula Water Supply Project (A.12-04-019)
Comparison of Equity Investments

	9.6 MGD Plant				6.4 MGD Plant			
	CAW	Potential Public Contribution			CAW	Potential Public Contribution		
	Filed [1]	High	Probable	Low	Filed [1]	High	Probable	Low
Total Project Capital [2]	276.3	276.3	220.1	186.4	221.4	221.4	176.2	149.2
Surcharge 2	(103.0)	(103.0)	(103.0)	(103.0)	(103.0)	(103.0)	(103.0)	(103.0)
Remaining Funding	**173.3**	**173.3**	**117.1**	**83.4**	**118.4**	**118.4**	**73.2**	**46.2**
California American Equity [3]	91.8	69.1	55.0	44.2	62.8	55.4	38.8	24.5
SRF Debt	81.5	61.3	48.8	39.2	55.6	49.1	34.4	21.7
Public Agency Contribution	0.0	43.0	13.3	0.0	0.0	14.0	0.0	0.0
Remaining Funding	**173.3**	**173.3**	**117.1**	**83.4**	**118.4**	**118.4**	**73.2**	**46.2**

Note: (1) CAW Filed are the scenarios CAW is proposing with Surcharge 2, 53% CAW Equity and 47% SRF Debt
(2) All project capital numbers include AFUDC and exclude the test well
(3) Minimum CAW equity amount is 25% when a Public Agency Contribution is made, if no Public Agency Contribution, then balance funded 53% with CAW equity and 47% with SRF Debt

ATTACHMENT 3

Attachment 3
Rebuttal Testimony of Jeffrey T. Linam
Monterey Peninsula Water Supply Project (A.12-04-019)
Comparison of California American Water Capital Structure

	2012 Authorized	9.6 MGD		6.4 MGD	
($ millions)	**Cap Structure [(1)]**	**CAW [(2)]**	**Larkins [(3)]**	**CAW [(2)]**	**DRA [(4)]**
Long Term Debt		$142	$191	$114	$148
Stockholder's Equity		160	102	129	(18)
Total Capitalization		**$301**	**$293**	**$242**	**$130**
Cal-Am Pro-Forma with MPWSP					
Long Term Debt	$278	$420	$469	$392	$426
Stockholder's Equity	313	473	415	442	295
Total Pro-Forma Capitalization	**$591**	**$892**	**$884**	**$833**	**$721**
Cal-Am Pro-Forma Debt %		*47.0%*	*53.0%*	*47.0%*	*59.0%*
Cal-Am Pro-Forma Equity %		*53.0%*	*47.0%*	*53.0%*	*41.0%*
Monterey Disctrict Pro-Forma [(5)]					
Long Term Debt	$92	$233	$282	$206	$239
Stockholder's Equity	103	263	206	232	86
Total Pro-Forma Capitalization	**$195**	**$496**	**$488**	**$437**	**$325**
Monterey District Pro-Forma Debt %		*47.0%*	*57.9%*	*47.0%*	*73.7%*
Monterey District Pro-Forma Equity %		*53.0%*	*42.1%*	*53.0%*	*26.3%*

Notes:
(1) Based on current authorized per D.12-07-009
(2) AW Scenarios assume High-end capital scenario, include Cal-Am Only Facilities and use 47% SRF debt
(3) Larkins Exhibit WD-3 (E) plus Cal-Am Only Facilities using 47% SRF debt, public contribution is debt on balance sheet
(4) DRA Scenario C-5 - added Cal-Am Only Facilties funded with 100% SRF debt (original C-5 proposal showed negative rate base)
(5) Pro-forma results for Monterey are assumed to be 33% Cal-Am capital structure

ATTACHMENT 4

Rebuttal Testimony of Jeffrey T. Linam
Attachment 4

Page Reference	DRA Number	Issue
5	DRA Table	1. DRA plant capital numbers include the test well, CAW does not. 2. O&M costs are 2012 numbers included in a year 1 (2017/2018) revenue requirement. Amounts should be inflated. 3. O&M costs include 100% of membrane costs and repair & maintenance costs in year 1. Due to warranties, CAW includes 0% and 20% respectively of the estimate in year 1. 4. O&M costs ignore the $2M of avoided costs. 5. 6.4MGD revenue requirement of $37.94 is incorrect. O&M cost should be $4.23M, not $7.19M. GWR cost is OK. Subtracting $0.7M for the test well and $10.1M for CAW-only facilities, gets back to the revenue requirement in Appendix C-7 of $24.2M ($37.94 – $7.19 + $4.23 -$0 .7 -$10.1). 6. 9.6MGD revenue requirement of $35.02 is incorrect. O&M cost should be $5.66M, not $8.82M. Subtracting $0.7M for the test well and $10.1M for CAW-only facilities, gets back to the revenue requirement in Appendix C-3 of $21.1M ($35.02 – $8.82 + $5.66 -$0 .7 -$10.1).
6	CAW Table	1. DRA plant capital numbers include the test well, CAW does not 2. O&M costs are 2012 numbers included in a year 1 (2017/2018) revenue requirement. Amounts should be inflated. 3. O&M costs ignore the $2M of avoided costs 4. O&M costs include 100% of membrane costs and repair & maintenance costs in year 1. Due to warranties, CAW includes 0% and 20% respectively of the estimate in year 1. 5. Total revenue requirement appears to double count O&M costs by including in both the "Desal Plant" number and on its own line item.
6-3 L14	$99.1 million	This is the previous surcharge amount. The current amount is $103 million
6-6 L8-9	Table	Table shows results for 5.4MGD plant, which is not the plant size proposed.
6-11	Table 6-3	DRA's recommended surcharge 2 collection schedule results in only $70M of surcharge vs. $103M of surcharge as proposed by CAW.
6-12	CAW Table	The surcharge 2 numbers are from a prior version of the model (v5.6) and don't reflect the changes implemented after the cost workshop (different plant sizes, change in timing, etc.) Unclear where the short-term debt numbers come from. The model calculates the cash needs after receiving Surcharge 2. The first $20M of those cash needs are funded with Short Term debt.
6-16 L13	5.0%	The current assumption for CAW cost of debt is 4.3%.

6-16	Table	Table shows results for 5.4MGD plant, which is not the plant size proposed.
134, 138, 150, 154	May-16, 4.0% and 20 years	Are these actual market terms and planned date of SRF proceeds (using public contribution inputs to capture SRF to remove from CAW capital structure)? SRF rate used in model is 2.5% and the SRF funds are drawn as needed. A bullet contribution would potentially require additional short term financing, depending on the timing of the proceeds. The date, rate and term were default placeholders in the model when it was sent out by CAW.
163	Calculation of Cal-Am Only Rev Requirement	1. Currently authorized ROR is 8.41% - 8.04% was from CAW's previous GRC. 2. DRA reduced the depreciable life to 40 years from CAW's estimate of 75 years. This increases revenue requirement. 3. DRA ignores property taxes of $0.7M (assuming DRA's lower capital amount). 4. DRA calculation multiplies rate base by the authorized cost of capital and then grosses up the entire amount by 1.7 rather than just the equity piece. This overstates the revenue requirement. 5. CAW calculates the correct revenue requirement to be $9.2M rather than $10.2M (using DRA's assumptions).
166	$146,985,786	Does not agree to total of Base Construction Costs, Implementation Costs & Row/Easement Costs. DRA number is too low by $300,000
166	$24,592,832	DRA is using a contingency of 20% of most probable capital costs without contingency. Their most probable capital costs are $146,985,786, and 20% of that would be $29,397,157. Their contingency amount of $24,592,832 is only 16.7%, not 20%
169	$20,210,747.61	DRA is using a contingency of 20% of most probable capital costs without contingency. Their most probable capital costs are $124,495,362, and 20% of that would be $24,899,072. Their contingency amount of $20,210,747.61 is only 16.2%, not 20%
184	$5,235,000 $6,630,000	Show 2,210 acre feet of GWR needed, but use 3,500 acre feet throughout the model at the $2,500 per AF price.

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