



CALIFORNIA
AMERICAN WATER

511 Forest Lodge Road, Suite 100
Pacific Grove, CA 93950

**IMPORTANT: NEW SECOND NOTICE OF INFORMATION
REGARDING PROPOSED RATE INCREASE**

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For a Spanish version of this notice, you may visit our website at www.californiaamwater.com.

Para una version en Español de este aviso usted puede visitar nuestro sitio web en www.californiaamwater.com.

**NOTICE OF APPLICATION FILING BY CALIFORNIA-AMERICAN WATER
COMPANY FOR AN AUTHORIZED COST OF CAPITAL INCREASE FOR UTILITY
OPERATIONS FOR 2012-2014 IN ALL DISTRICTS**

**RATE INCREASE REQUEST
MONTEREY WASTEWATER DISTRICT**

Application No. 11-05-003

On May 2, 2011, California American Water filed proposed Application 11-05-003 (A.11-05-003) with the California Public Utilities Commission (CPUC) seeking authority to increase its Cost of Capital (COC) for the period 2012 – 2014 for all districts. The districts affected by the COC proposed increase are Larkfield, Los Angeles, Monterey, Monterey (Toro), Monterey Wastewater, Sacramento, San Diego and Ventura.

The CPUC sets the schedule for cost of capital applications and requires California American Water to file a cost of capital application every three years. Wastewater utilities such as California American Water have a constitutional right to the opportunity to earn a return on their utility capital investments. While the CPUC must set rates that allow wastewater utilities this opportunity, these rates do not guarantee that the utility will earn this return. The CPUC bases the rate of return on the COC needed to fund the investments. This CPUC proceeding will analyze California American Water's cost of capital and set the proper rate of return.

The requested increase to California American Water's COC will allow California American Water to continue to ensure the integrity of the wastewater system and the provision of safe and reliable service. California American Water's request in A.11-05-003 is dependent on the outcome of two special requests in the company's current General Rate Case (GRC) application (A.10-07-007), which address the interest rate on authorized costs that have not yet been recovered through rates.

Under California American Water's preferred proposal, which assumes the CPUC grants California American Water's special requests in the GRC, California American Water requests that the CPUC find reasonable and authorize:

- a capital structure of 50.31% debt and 49.69% equity
- a cost of debt of 6.70%
- a return on common equity of 11.50%
- a weighted average return on rate base of 9.08%

Under California American Water's alternative proposal, which assumes the CPUC does not grant California American Water's special requests in the GRC, California American Water requests that the CPUC find reasonable and authorize:

- a capital structure of 37.84% debt and 62.16% equity
- a cost of debt of 6.70%
- a return on common equity of 11.50%
- a weighted average return on rate base of 9.68%

Summary
The major change to this second notice is in the monthly rate for two systems: Oak Hills and Spreckles. The first table below shows the current, proposed GRC and proposed GRC and COC rate impacts on the average **Monterey Wastewater District** residential customer as well as the proposed increase in revenues per customer classification under the preferred proposal. The second table below shows the current, proposed GRC and proposed GRC and COC rate impacts on the average **Monterey Wastewater District** residential customer as well as the proposed increase in revenues per customer classification under the alternative proposal. The figures in the tables do not include applicable taxes and surcharges. The figures in the tables are assuming the CPUC approves in its entirety the preferred or alternative proposed COC requested by California American Water. The final CPUC decision may differ from California American Water's request.

MONTEREY WASTEWATER ACTIVE/PASSIVE (preferred proposal):

| Average Residential Monthly Bill PASSIVE | | | | | |
|---|--------------|-------------------|---|---------------------------------------|--------------|
| Service Areas | Current Bill | Proposed GRC Bill | Proposed COC Bill (Including Proposed GRC Increase) | Proposed Increase (\$) Related to COC | Increase (%) |
| White Oaks | \$51.74 | \$58.30 | \$58.85 | \$0.55 | 0.94% |
| Oak Hills | \$51.74 | \$58.30 | \$58.85 | \$0.55 | 0.94% |
| Spreckels | \$51.74 | \$58.30 | \$58.85 | \$0.55 | 0.94% |
| Village Green | \$51.74 | \$58.30 | \$58.85 | \$0.55 | 0.94% |

| Average Residential Monthly Bill ACTIVE | | | | | |
|--|--------------|-------------------|---|---------------------------------------|--------------|
| Service Areas | Current Bill | Proposed GRC Bill | Proposed COC Bill (Including Proposed GRC Increase) | Proposed Increase (\$) Related to COC | Increase (%) |
| Las Palmas | \$115.74 | \$129.85 | \$131.38 | \$1.53 | 1.18% |
| Pasadera | \$115.74 | \$129.85 | \$131.38 | \$1.53 | 1.18% |
| Carmel Valley Ranch | \$115.74 | \$129.85 | \$131.38 | \$1.53 | 1.18% |
| Indian Springs | \$115.74 | \$129.85 | \$131.38 | \$1.53 | 1.18% |

| Revenue Increase (Thousands of Dollars) | | | | | |
|---|---|----------------------|---------------------------------------|---------------------------------------|--------------|
| District | Service Areas | Proposed GRC Revenue | Proposed Revenue with COC Increase | Proposed Increase (\$) related to COC | Increase (%) |
| PASSIVE | White Oaks, Village Green | \$80,220 | \$80,977 | \$757 | 0.94% |
| | Oak Hills | \$321,820 | \$324,858 | \$3,038 | 0.94% |
| | Spreckles | \$214,431 | \$216,455 | \$2,024 | 0.94% |
| ACTIVE | Las Palmas, Pasadera, Carmel Valley Ranch | \$2,781,354 | \$2,814,102 | \$32,748 | 1.18% |
| | Indian Springs | \$280,487 | \$283,789 | \$3,302 | 1.18% |
| | TOTAL | \$3,678,312 | \$3,720,181 | \$41,869 | |

MONTEREY WASTEWATER ACTIVE/PASSIVE (alternate proposal):

| Average Residential Monthly Bill PASSIVE | | | | | |
|---|--------------|-------------------|---|---------------------------------------|--------------|
| Service Areas | Current Bill | Proposed GRC Bill | Proposed COC Bill (Including Proposed GRC Increase) | Proposed Increase (\$) Related to COC | Increase (%) |
| White Oaks | \$51.74 | \$58.30 | \$59.31 | \$1.01 | 1.73% |
| Oak Hills | \$51.74 | \$58.30 | \$59.31 | \$1.01 | 1.73% |
| Spreckels | \$51.74 | \$58.30 | \$59.31 | \$1.01 | 1.73% |
| Village Green | \$51.74 | \$58.30 | \$59.31 | \$1.01 | 1.73% |

| Average Residential Monthly Bill ACTIVE | | | | | |
|--|--------------|-------------------|---|---------------------------------------|--------------|
| Service Areas | Current Bill | Proposed GRC Bill | Proposed COC Bill (Including Proposed GRC Increase) | Proposed Increase (\$) Related to COC | Increase (%) |
| Las Palmas | \$115.74 | \$129.85 | \$132.76 | \$2.91 | 2.24% |
| Pasadera | \$115.74 | \$129.85 | \$132.76 | \$2.91 | 2.24% |
| Carmel Valley Ranch | \$115.74 | \$129.85 | \$132.76 | \$2.91 | 2.24% |
| Indian Springs | \$115.74 | \$129.85 | \$132.76 | \$2.91 | 2.24% |

| Revenue Increase (Thousands of Dollars) | | | | | |
|---|---|----------------------|---------------------------------------|---------------------------------------|--------------|
| District | Service Areas | Proposed GRC Revenue | Proposed Revenue with COC Increase | Proposed Increase (\$) related to COC | Increase (%) |
| PASSIVE | White Oaks, Village Green | \$80,220 | \$81,611 | \$1,392 | 1.73% |
| | Oak Hills | \$321,820 | \$327,403 | \$5,583 | 1.73% |
| | Spreckles | \$214,431 | \$218,151 | \$3,720 | 1.73% |
| ACTIVE | Las Palmas, Pasadera, Carmel Valley Ranch | \$2,781,354 | \$2,843,671 | \$62,317 | 2.24% |
| | Indian Springs | \$280,487 | \$286,771 | \$6,284 | 2.24% |
| | TOTAL | \$3,678,312 | \$3,757,607 | \$79,295 | |

Further Information

To obtain a copy of the Application or for further information regarding the application you may contact the local field office. The Application and related exhibits may also be inspected. Your local California American Office is located at 511 Forest Lodge Road #100, Pacific Grove CA 93950. The application may also be inspected at the CPUC's Central Files Office in San Francisco at 505 Van Ness Avenue, San Francisco, CA 94102 between the hours of 8:00 a.m. and noon daily. If you need additional information, you may call California American Water at (888) 237-1333.

Evidentiary Hearings

The CPUC may schedule formal Evidentiary Hearings (EH's) whereby formal parties of record provide testimony and are subject to cross examination before the CPUC's Administrative Law Judge (ALJ). These hearings are open to the public to listen, but only those who are formal parties of record are allowed to participate. The CPUC has their own court reporters who will take the comment of those formal parties of record participating in the EH's. The four (California-American Water Company, California Water Service Company, San Jose Water Company and Golden State Water Company) water companies that submitted proposed Applications will provide testimony at the hearings. The Division of Ratepayer Advocates (DRA) consists of engineers, accountants, economists and attorneys who independently evaluate the proposals of utilities and present their analyses and recommendations for the CPUC at EH's. Once hearings are completed, the ALJ will consider all of the evidence presented and release the proposed draft decision. When the CPUC issues a final decision, it may adopt, amend, or modify all or part of the ALJ's draft decision. The final decision may differ from the requests in the proposed applications filed by each water utility.

Public Comments

If you wish to comment on this proposed application filing or informally protest this filing as a customer of California American Water, you may do so by contacting the CPUC's Public Advisor's Office (PAO). Written public comment by California American Water customers is very much desired by the CPUC and may be sent to the Public Advisor's Office at 505 Van Ness Avenue, San Francisco, CA 94102, or via e-mail to public.advisor@cpuc.ca.gov. Please state that you are writing about California American Water's Application A.11-05-003 when sending your written correspondence or e-mail. All public comments become part of the formal public comment file. These public comments will be circulated to the assigned Administrative Law Judge (ALJ), the assigned Commissioner and appropriate line Division CPUC staff for review.

Public Advisor's Phone number: 415-703-2074

Printing and mailing of notice not funded by California American Water customers.