

**NOTICE OF CALIFORNIA AMERICAN WATER'S
APPLICATION NO. 04-09-019
FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO
CONSTRUCT AND OPERATE ITS COASTAL WATER PROJECT
AND APPLICATION AMENDMENT**

The California Public Utilities Commission (CPUC) seeks public comment on California American Water's (CAW) Application 04-09-019 for a Certificate of Convenience and Necessity (CPCN), filed September 20, 2004 and the Amendment to the Application, filed July 14, 2005. In the Application, CAW seeks authorization to construct and operate the Coastal Water Project (CWP) including a desalination plant and to recover in rates all costs associated with the CWP. The Application Amendment includes a detailed environmental review of the CWP and an update of information provided in the Application. As part of its decision-making process, the CPUC is interested in your comments on any aspect of the CWP including the necessity for the CWP, its costs, the proposed rates related to the CWP, or any other related issue of concern.

CAW proposes the CWP as a viable water supply alternative to the formerly proposed Carmel River Dam and Reservoir. The CWP will enable CAW to provide Monterey District customers with a reliable and legal water supply and comply with State Water Resources Board (SWRCB) Order 95-10, which directs CAW to find an alternative source for 10,730 acre feet per year of water historically taken from the Carmel River Basin (approximately 69% of the current water supply for CAW's Monterey District). The CWP would use both existing and proposed new company facilities. The major new facilities proposed are (1) a desalination plant at Moss Landing and associated, desalinated water conveyance facilities, and (2) aquifer storage and recovery ("ASR") facilities in Seaside. Total production will be 11,730 acre feet annually, which would allow CAW to fulfill its obligations with regard to SWRCB Order 95-10, reduce the overdraft of the Seaside Basin, and address Endangered Species Act-related issues in the Carmel River Basin. The new supplies will be operated in conjunction with existing supplies, with the desalination plant and the Carmel River being used to meet winter demand and the desalination plant, Seaside wells and new ASR wells being used to meet peak summer demands.

CAW estimates that the total capital cost for the CWP will be \$191 million. Pre-construction and construction costs will be financed on an annual basis by short-term borrowings. CAW includes four rate-related special requests in its Application Amendment. CAW is seeking: (1) a six-year \$5.25 per month per 5/8" meter equivalent surcharge to recover pre-construction costs, (2) a \$2.00 per unit surcharge on the highest block rate for each Monterey District customer rate class from January 1, 2007 to December 31, 2008 to offset construction costs, (3) a prorated new service connection fee of \$12,000 per acre foot of water necessary for each new connection to

offset construction costs, and (4) a \$2.20 per Ccf surcharge in 2007 and a \$3.83 per Ccf surcharge in 2008 to offset the ongoing carrying costs of the CWP. CAW is requesting that the CPUC issue an interim decision on these rate requests. Once the CWP is complete, CAW will seek recovery of its CWP-related investments and annual operations and maintenance expense through a rate design that recovers 50% of the fixed costs of the project in a meter surcharge and the remaining 50% and all variable costs in a usage surcharge. CAW estimates that the annual net increase to its operations and maintenance expenses arising out of the CWP will be \$7,171,232.

California American Water used two different methodologies for its calculations: a **standard recovery method** and a **mortgage style recovery method**. The only difference between these two methods is that in the standard recovery technique, depreciation is recovered in equal annual amounts over the expected life of the facilities. With mortgage style recovery, depreciation is recovered in much the same method as used by most individuals to amortize their home mortgage. The depreciation starts out small and increases annually. The mortgage style method of recovery is intended to even out the return on and of the plant facilities thereby reducing the early year revenue requirements and increasing the latter year annual requirements. The purpose of mortgage style recovery is to normalize the total revenue requirement at approximately the same amount annually. This will reduce the rate impact on current customers, which is important because of the magnitude of the dollars involved in the construction of this project and the impact it has on water rates.

CAW estimates the rate impact of the Coastal Water Project as follows (per meter):

Year	Standard Depreciation Style:				Mortgage Depreciation Style			
	Pre-construction meter surcharge per 5/8" meter	CWP Meter Surcharge to cover 50% of fixed costs	Total Meter Surcharge for CWP	Percent Increase over present meter charge	Pre-constructi on meter surcharge per 5/8" meter	CWP Meter Surchar ge to cover 50% of fixed costs	Total Meter Surchar ge for CWP	Percent Increase over present meter charge
2006	\$5.25	\$0.00	\$5.25	79.43%	\$5.25	\$0.00	\$5.25	79.43%
2007	\$5.25	\$0.00	\$5.25	79.43%	\$5.25	\$0.00	\$5.25	79.43%
2008	\$5.25	\$0.00	\$5.25	79.43%	\$5.25	\$0.00	\$5.25	79.43%
2009	\$5.25	\$22.38	\$27.63	418.00%	\$5.25	\$18.94	\$24.19	365.96%
2010	\$5.25	\$21.62	\$26.87	406.51%	\$5.25	\$18.55	\$23.80	360.06%
2011	\$5.25	\$20.87	\$26.12	395.16%	\$5.25	\$18.17	\$23.42	354.31%

The following table shows the proposed revenue and rate impacts on the average residential customer. Because the new rates have not yet been decided in CAW's pending Monterey District rate case (A.05-

02-012), the calculations below are based on present Monterey District rates. Numerous factors will affect the costs to customers, including each customer's usage and allocation. Column (a) includes the most common meter size, usage of the average metered residential customer, average number of people in the household and the average size residential lot. Column (b) identifies the rate cycle years. Column (c) shows the overall proposed increase in revenue for the rate cycle years related to the CWP. Column (d) shows the resulting percentage increase. Columns (e) – (g) show the impact on the average residential customer's monthly bill.

Customer (a)	Year (b)	Annual Revenues without CWP (c)	Revenue Increase (d)	Percent Increase (e)	Standard Depreciation Style		
					Monthly Bill		
					Present Rates w/o CWP (f)	Present Rates With CWP (g)	Percent Increase (h)
Meter Size: 5/8"x3/4" Average Usage: 7 Ccf 3 person family 1/4 acre lot, summer rates	2005	\$28,705,988	\$0	0.00%	\$29.58	\$29.58	0.00%
	2006	\$37,500,000	\$0	0.00%	\$29.58	\$29.58	0.00%
	2007	\$39,375,000	\$12,648,005	32.12%	\$29.58	\$50.23	69.81%
	2008	\$41,343,750	\$21,902,150	52.98%	\$29.58	\$61.57	108.15%
	2009	\$43,410,938	\$36,531,862	84.15%	\$29.58	\$70.98	139.96%
	2010	\$45,581,485	\$36,039,255	79.07%	\$29.58	\$69.85	136.14%
	2011	\$47,860,559	\$35,553,270	74.29%	\$29.58	\$68.75	132.42%

Customer (a)	Year (b)	Annual Revenues without CWP (c)	Revenue Increase (d)	Percent Increase (e)	Mortgage Style Depreciation		
					Monthly Bill		
					Present Rates w/o CWP (f)	Present Rates With CWP (g)	Percent Increase (h)
Meter Size: 5/8"x3/4" Average Usage: 7 Ccf 3 person family 1/4 acre lot, summer rates	2005	\$28,705,988	\$0	0.00%	\$29.58	\$29.58	0.00%
	2006	\$37,500,000	\$0	0.00%	\$29.58	\$29.58	0.00%
	2007	\$39,375,000	\$12,648,005	32.12%	\$29.58	\$50.23	69.81%
	2008	\$41,343,750	\$21,958,042	53.11%	\$29.58	\$61.64	108.38%
	2009	\$43,410,938	\$32,023,737	73.77%	\$29.58	\$66.16	123.66%
	2010	\$45,581,485	\$31,978,247	70.16%	\$29.58	\$65.56	121.64%
	2011	\$47,860,559	\$31,941,641	66.74%	\$29.58	\$64.99	119.71%

The above rates do not include the PUC reimbursement surcharge of 1.4%, or any applicable taxes or surcharges. The revenue increases do not include the high block surcharge in 2007 and 2008 or the connection fee.

The CPUC Process

This application will be subject to the Commission's environmental review process under the provisions of the California Environmental Quality Act (CEQA). The CPUC's CEQA staff will manage the environmental review process. The public and interested parties will receive notices of all CEQA public meetings – including scoping and public comment meetings – as well as the issuance of draft and final Environmental Impact Reports, if it is determined that they will be required. The CPUC's Office of Ratepayer Advocates (ORA) will also

be reviewing CAW's proposal and will issue a report on possible rate impacts which will be available to the public by request.

The CPUC may schedule Public Participation Hearings (PPHs) in Monterey where customers may express their views regarding CAW's application. Each customer will be notified of the specific dates, times, and locations of those PPHs. You are also encouraged to write or email your comments to the CPUC Public Advisor's Office at the address below. Those comments will be circulated to the Commissioners, the assigned Administrative Law Judge (ALJ) and appropriate CPUC staff and will become part of the formal correspondence record for this proceeding.

The Commission will likely hold Evidentiary Hearings where parties will present their testimony and evidence. Evidentiary Hearings are open to the public, but only those wishing to present evidence or cross-examine witnesses may directly participate in the hearing process. If you wish to become a party and participate in the Evidentiary Hearings, please contact the Public Advisor at the address shown below.

As part of this proceeding, parties may offer proposals to the CPUC that differ from CAW's proposal. After considering all proposals and evidence presented during the formal hearing process as well as the CEQA process, the assigned ALJ will issue a Proposed Decision. When the CPUC issues a final decision on the Coastal Water Project, it may adopt all or part of the ALJ's proposed decision as written, amend or modify it or deny the Application. The CPUC's final decision may be different from CAW's proposal.

If you want to participate in this proceeding, or if you would like to send written comments to the CPUC, please contact the PAO at the address shown below. The PAO was established to help you to participate in CPUC proceedings. Persons with disabilities who need reasonable accommodations, for example sign language interpretation, in order to participate in this proceeding or any hearing should contact the PAO at (415) 703-2074 or toll free at 1-866-849-8390, TTY tel. # (415) 703-5282 or toll free TTY at 1-866-836-7825. Requests for foreign language interpreters should also be directed to the PAO at these numbers. Such requests must be received at least three business days prior to the hearing.

CPUC Public Advisor's Office
505 Van Ness Avenue, Room 2103
San Francisco, CA 94102
1-866-849-8390 or 1-415-703-2074
or by e-mail to public.advisor @cpuc.ca.gov.

Please refer to **Application Number A.04-09-019**.

A copy of the Application and Application Amendment may be inspected at: California American Water's local business offices at 50 Ragsdale Drive, Monterey, CA 93940; California American Water's General Office at 303 H Street, Suite 250, Chula Vista, CA 91910; or at the CPUC's San Francisco Office at 505 Van Ness Avenue, San Francisco, CA 94102.