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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

Application of California Water Service Company (U60W) for Authority to Establish its Authorized Cost of Capital for the period from January 1, 2012 through December 31, 2014.	A.11-05-001 (Filed May 2, 2011)
In the Matter of San Jose Water Company (U168W) for Authority to Adjust its Cost of Capital and to Reflect that Cost of Capital in Its Rates for the Period from January 1, 2012 thru December 31, 2014.	A.11-05-002 (Filed May 2, 2011)
Application of California-American Water Company (U210W) for an Authorized Cost of Capital for Utility Operations for 2012-2014.	A.11-05-003 (Filed May 2, 2011)
Application of Golden State Water Company (U133W) for Authority to Establish Its Authorized Cost of Capital and Rate of Return for Utility Operations for 2012 – 2014.	A.11-05-004 (Filed May 2, 2011)

REBUTTAL TESTIMONY OF DAVID P. STEPHENSON

ERRATA

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Originally Served: September 21, 2011
Revised Served: October 17, 2011

1 also true in the case where higher issuance costs could lead to lower interest rates. Mr.
2 Kotyrlo also has stated that all issuances that have been or will be made at any time before
3 the end of 2011 should be included as part of the TIRBA balance determination. I agree
4 with this conclusion.

5 However, I disagree with Mr. Kotyrlo's interest calculation applicable to the balances.
6 While appropriately suggesting use of the 90-day commercial paper rate as the correct
7 interest rate, Mr. Kotyrlo has misapplied the rate and used a rate 100 times higher than the
8 actual rate. The rate is a percentage and not a simple decimal representation, and as such
9 should be either divided by 100 or multiplied by .01 to calculate the appropriate interest
10 applicable to the outstanding balance. I also disagree that all calculations should be the
11 simple calculation as proposed by DRA. But, the key difference is due to the tax-exempt
12 issuance of \$35 million, dated August 18, 2010. I will explain this further below in my
13 comments specifically related to the California American Water proposed balance.

14
15 Q32. Do you agree with Mr. Kotyrlo's calculation of the balance for the TIRBA balance for the
16 California American Water \$35 million debt issuance made on November 26, 2008?

17 A32. No. I have one issue with this calculation as noted above, and that relates to the
18 miscalculated interest component. The year end 2011 balance should be \$2,378,405
19 \$2,327,685, not \$2,906,214 as presented by Mr. Kotyrlo. A copy of my calculation is
20 included in Attachment 6.

21
22 Q33. Please elaborate on the tax-exempt issuance and how it is different from the other
23 issuances.

24 A33. As explained in my direct testimony, the tax exempt issuance was obtained solely to
25 finance specific projects. The interest cost differential for this tax-exempt issuance is very
26 different from all the other issuances that may have been made in this period and for
27 which an interest differential was needed to be tracked in the TIRBA. The tax-exempt
28 issuance should be treated differently for the following reasons: (1) the receipt of funds

1 2010. Finally, the result of the last calculation was multiplied against the effective period
2 of the debt issuance which is 36.99% since the debt was issued on August 18, 2010.

3
4 Q39. The calculation as you prepared for inclusion in your direct testimony seems to be
5 complex and based on a determination of the revenue requirement allowance. Is there a
6 simpler method to calculate the amount to be included in the TIRBA?

7 A39. Yes, you can calculate the amount that should be in the TIRBA in a manner similar to that
8 calculated by Mr. Kotyrlo, but use the actual amount of funds received from the CPCFA
9 received to fund the Sacramento projects that are included in rate base. I have included
10 such a calculation as Attachment 8. My calculation in Attachment 8 shows that the
11 TIRBA balance for this issuance as of the end of 2011 should be ~~\$249,703~~ **\$245,820**. The
12 Commission should adopt this amount as I have calculated, not the \$1,568,652 as
13 calculated by DRA.

14
15 Q40. Please explain why you have included the monthly cash funding provided by this tax-
16 exempt CPCFA ?

17 A40. As I explained above, the terms of the tax-exempt CPCFA bond require actual
18 expenditures to be made on the projects designated in the terms of the agreement as those
19 to be funded by the bond. Therefore, California American Water believes that the only
20 interest differential that needs to be tracked in the TIRBA is that related to a difference in
21 the interest rates applicable to the funds actually received, and in this case, those receipts
22 are made over time as construction is paid for by the company.

23
24 Q41. Since the last cost of capital decision authorized a rate of return that included a \$35
25 million financing at an 8.22% interest rate, why shouldn't you include the full amount of
26 the loan, whether or not it has actually been funded? Isn't that more equitable
27 methodology and more in alignment with the decision in A.08-05-002, et.al?

28

ATTACHMENT 6

			Actual Interest Plus Debt Expense	Adopted Interest Expense Per D.09-11-019	Difference	90-Day Commercial Paper Rate	Balance With Interest
Debt Issued November 23, 2008	\$ 35,000,000	Oct-09				0.19%	
Issuance Costs	\$ 1,415,996	Nov-09	\$ 98,533.33	\$ 68,736.11	\$ 29,797.22	0.15%	\$ 29,819.57
Net Proceeds	\$ 33,584,004	Dec-09	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.16%	\$ 121,666.31
Monthly Interest Expense	\$ 291,666.67	Jan-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.13%	\$ 213,609.76
Monthly Debt Expense	\$ 3,933.32	Feb-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.15%	\$ 305,724.62
Coupon Rate	10.00%	Mar-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.20%	\$ 398,153.45
Effective Cost of Debt	10.56%	Apr-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 490,900.35
Adopted Cost of Debt	6.95%	May-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.28%	\$ 584,128.94
		Jun-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.32%	\$ 677,870.57
Difference in Actual and Adopted	3.61%	Jul-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.27%	\$ 771,550.30
		Aug-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.25%	\$ 865,319.49
		Sep-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.24%	\$ 959,231.98
		Oct-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,053,269.36
		Nov-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,147,523.02
		Dec-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,241,993.46
		Jan-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.24%	\$ 1,336,809.97
		Feb-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,431,715.77
		Mar-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,526,839.86
		Apr-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.20%	\$ 1,621,710.92
		May-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.16%	\$ 1,716,104.69
		Jun-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.15%	\$ 1,810,473.30
		Jul-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 1,904,797.83
		Aug-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 1,999,254.41
		Sep-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,093,843.23
		Oct-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,188,564.47
		Nov-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,283,418.33
		Dec-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,378,404.97
		TOTAL	\$ 7,488,533.05	\$ 5,165,594.44	\$ 2,322,938.61		

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			Actual Interest Plus Debt Expense	Adopted Interest Expense Per D.09-11-019	Difference	90-Day Commercial Paper Rate	Balance With Interest
Debt Issued November 23, 2008	\$ 35,000,000	Oct-09				0.19%	
Issuance Costs	\$ 1,415,996	Nov-09	\$ 98,533.33	\$ 68,736.11	\$ 29,797.22	0.15%	\$ 29,800.94
Net Proceeds	\$ 33,584,004	Dec-09	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.16%	\$ 121,542.80
Monthly Interest Expense	\$ 291,666.67	Jan-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.13%	\$ 213,291.56
Monthly Debt Expense	\$ 3,933.32	Feb-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.15%	\$ 305,055.34
Coupon Rate	10.00%	Mar-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.20%	\$ 396,847.13
Effective Cost of Debt	10.56%	Apr-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 488,666.43
Adopted Cost of Debt	6.95%	May-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.28%	\$ 580,527.51
		Jun-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.32%	\$ 672,432.43
Difference in Actual and Adopted	3.61%	Jul-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.27%	\$ 764,330.02
		Aug-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.25%	\$ 856,234.02
		Sep-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.24%	\$ 948,149.27
		Oct-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,040,074.24
		Nov-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,132,016.82
		Dec-10	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,223,977.03
		Jan-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.24%	\$ 1,315,965.82
		Feb-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,407,961.29
		Mar-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.23%	\$ 1,499,974.38
		Apr-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.20%	\$ 1,591,965.32
		May-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.16%	\$ 1,683,915.47
		Jun-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.15%	\$ 1,775,863.08
		Jul-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 1,867,806.62
		Aug-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 1,959,760.89
		Sep-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,051,725.88
		Oct-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,143,701.61
		Nov-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,235,688.06
		Dec-11	\$ 295,599.99	\$ 203,874.33	\$ 91,725.66	0.14%	\$ 2,327,685.25
		TOTAL	\$ 7,488,533.05	\$ 5,165,594.44	\$ 2,322,938.61		
							\$2,378,404.97
							\$ 50,719.72

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ATTACHMENT 8

			Monthly Debt Amortization Actual	Monthly Debt Amortization Actual	Actual Total Debt Issuances Related to the Sacramento Projects		Actual Interest Plus Debt Expense	Adopted Interest Expense Per D.09-11-019	Difference	90-Day Commercial Paper Rate	Balance With Interest
					Monthly	Cumulative					
Debt Issued November 23, 2008	\$ 35,000,000	Jul-10								0.19%	
Issuance Costs	<u>\$ 756,808</u>	Aug-10	\$ 2,102.24	\$ 1,550.00	\$ 2,138,243	\$ 2,138,243	\$ 11,457.06	\$ 16,196.96	\$ (4,739.91)	0.15%	\$ (4,743.46)
Net Proceeds	\$ 34,243,192	Sep-10	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 2,138,243	\$ 11,457.06	\$ 16,196.96	\$ (4,739.91)	0.16%	\$ (9,494.75)
Monthly Interest Expense	\$ 153,125.00	Oct-10	\$ 2,102.24	\$ 1,550.00	\$ 2,138,454	\$ 4,276,697	\$ 20,812.80	\$ 30,845.38	\$ (10,032.58)	0.13%	\$ (19,546.20)
Monthly Debt Expense	\$ 2,102.24	Nov-10	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 4,276,697	\$ 20,812.80	\$ 30,845.38	\$ (10,032.58)	0.15%	\$ (29,615.62)
Coupon Rate	5.25%	Dec-10	\$ 2,102.24	\$ 1,550.00	\$ 1,052,762	\$ 5,329,459	\$ 25,418.63	\$ 38,056.79	\$ (12,638.17)	0.20%	\$ (42,325.66)
Effective Cost of Debt	5.44%	Jan-11	\$ 2,102.24	\$ 1,550.00	\$ 558,781	\$ 5,888,240	\$ 27,863.29	\$ 41,884.44	\$ (14,021.15)	0.23%	\$ (56,460.28)
Adopted Cost of Debt	8.22%	Feb-11	\$ 2,102.24	\$ 1,550.00	\$ 864,953	\$ 6,753,193	\$ 31,647.46	\$ 47,809.37	\$ (16,161.91)	0.28%	\$ (72,802.90)
Adopted Cost of Debt With Debt Cost Amortization	8.29%	Mar-11	\$ 2,102.24	\$ 1,550.00	\$ 63,585	\$ 6,816,778	\$ 31,925.65	\$ 48,244.93	\$ (16,319.28)	0.32%	\$ (89,381.26)
Difference in Actual and Adopted	-2.78%	Apr-11	\$ 2,102.24	\$ 1,550.00	\$ 172,526	\$ 6,989,304	\$ 32,680.45	\$ 49,426.73	\$ (16,746.28)	0.27%	\$ (106,391.48)
		May-11	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 6,989,304	\$ 32,680.45	\$ 49,426.73	\$ (16,746.28)	0.25%	\$ (123,424.68)
		Jun-11	\$ 2,102.24	\$ 1,550.00	\$ 23,693	\$ 7,012,997	\$ 32,784.11	\$ 49,589.03	\$ (16,804.92)	0.24%	\$ (140,545.99)
Authorized Annual Debt Expense	18600	Jul-11	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 7,012,997	\$ 32,784.11	\$ 49,589.03	\$ (16,804.92)	0.23%	\$ (157,693.49)
Monthly Debt Expense Amortization	1550	Aug-11	\$ 2,102.24	\$ 1,550.00	\$ 230,116	\$ 7,243,114	\$ 33,790.87	\$ 51,165.33	\$ (17,374.46)	0.23%	\$ (175,450.63)
		Sep-11	\$ 2,102.24	\$ 1,550.00	\$ 16,937	\$ 7,260,051	\$ 33,864.97	\$ 51,281.35	\$ (17,416.38)	0.23%	\$ (193,290.58)
		Oct-11	\$ 2,102.24	\$ 1,550.00	\$ 300,090	\$ 7,560,141	\$ 35,177.86	\$ 53,336.97	\$ (18,159.10)	0.24%	\$ (211,935.37)
		Nov-11	\$ 2,102.24	\$ 1,550.00	\$ 56,150	\$ 7,616,291	\$ 35,423.52	\$ 53,721.59	\$ (18,298.08)	0.23%	\$ (230,741.94)
		Dec-11	\$ 2,102.24	\$ 1,550.00	\$ 44,920	\$ 7,661,211	\$ 35,620.04	\$ 54,029.29	\$ (18,409.25)	0.23%	\$ (249,703.07)
		TOTAL	\$ 35,738.16	\$ 26,350.00	\$ 7,661,210.94	\$ 7,661,211	\$ 486,201.11	\$ 731,646.28	\$ (245,445.17)		\$ (249,703.07)

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			Monthly Debt Amortization Actual	Monthly Debt Amortization Actual	Actual Total Debt Issuances Related to the Sacramento Projects		Actual Interest Plus Debt Expense	Adopted Interest Expense Per D.09-11-019	Difference	90-Day Commercial Paper Rate	Balance With Interest
					Monthly	Cumulative					
Debt Issued November 23, 2008	\$ 35,000,000										0.19%
Issuance Costs	\$ 756,808	Aug-10	\$ 2,102.24	\$ 1,550.00	\$ 2,138,243	\$ 2,138,243	\$ 11,457.06	\$ 16,196.96	\$ (4,739.91)		0.15% \$ (4,740.50)
Net Proceeds	\$ 34,243,192	Sep-10	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 2,138,243	\$ 11,457.06	\$ 16,196.96	\$ (4,739.91)		0.16% \$ (9,481.67)
Monthly Interest Expense	\$ 153,125.00	Oct-10	\$ 2,102.24	\$ 1,550.00	\$ 2,138,454	\$ 4,276,697	\$ 20,812.80	\$ 30,845.38	\$ (10,032.58)		0.13% \$ (19,516.37)
Monthly Debt Expense	\$ 2,102.24	Nov-10	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 4,276,697	\$ 20,812.80	\$ 30,845.38	\$ (10,032.58)		0.15% \$ (29,552.64)
Coupon Rate	5.25%	Dec-10	\$ 2,102.24	\$ 1,550.00	\$ 1,052,762	\$ 5,329,459	\$ 25,418.63	\$ 38,056.79	\$ (12,638.17)		0.20% \$ (42,197.84)
Effective Cost of Debt	5.44%	Jan-11	\$ 2,102.24	\$ 1,550.00	\$ 558,781	\$ 5,888,240	\$ 27,863.29	\$ 41,884.44	\$ (14,021.15)		0.23% \$ (56,229.76)
Adopted Cost of Debt	8.22%	Feb-11	\$ 2,102.24	\$ 1,550.00	\$ 864,953	\$ 6,753,193	\$ 31,647.46	\$ 47,809.37	\$ (16,161.91)		0.28% \$ (72,408.56)
Adopted Cost of Debt With Debt Cost Amortization	8.29%	Mar-11	\$ 2,102.24	\$ 1,550.00	\$ 63,585	\$ 6,816,778	\$ 31,925.65	\$ 48,244.93	\$ (16,319.28)		0.32% \$ (88,751.51)
Difference in Actual and Adopted	-2.78%	Apr-11	\$ 2,102.24	\$ 1,550.00	\$ 172,526	\$ 6,989,304	\$ 32,680.45	\$ 49,426.73	\$ (16,746.28)		0.27% \$ (105,521.53)
		May-11	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 6,989,304	\$ 32,680.45	\$ 49,426.73	\$ (16,746.28)		0.25% \$ (122,293.28)
		Jun-11	\$ 2,102.24	\$ 1,550.00	\$ 23,693	\$ 7,012,997	\$ 32,784.11	\$ 49,589.03	\$ (16,804.92)		0.24% \$ (139,126.02)
Authorized Annual Debt Expense	18600	Jul-11	\$ 2,102.24	\$ 1,550.00	\$ -	\$ 7,012,997	\$ 32,784.11	\$ 49,589.03	\$ (16,804.92)		0.23% \$ (155,960.83)
Monthly Debt Expense Amortization	1550	Aug-11	\$ 2,102.24	\$ 1,550.00	\$ 230,116	\$ 7,243,114	\$ 33,790.87	\$ 51,165.33	\$ (17,374.46)		0.23% \$ (173,368.52)
		Sep-11	\$ 2,102.24	\$ 1,550.00	\$ 16,937	\$ 7,260,051	\$ 33,864.97	\$ 51,281.35	\$ (17,416.38)		0.23% \$ (190,821.47)
		Oct-11	\$ 2,102.24	\$ 1,550.00	\$ 300,090	\$ 7,560,141	\$ 35,177.86	\$ 53,336.97	\$ (18,159.10)		0.24% \$ (209,022.37)
		Nov-11	\$ 2,102.24	\$ 1,550.00	\$ 56,150	\$ 7,616,291	\$ 35,423.52	\$ 53,721.59	\$ (18,298.08)		0.23% \$ (227,364.01)
		Dec-11	\$ 2,102.24	\$ 1,550.00	\$ 44,920	\$ 7,661,211	\$ 35,620.04	\$ 54,029.29	\$ (18,409.25)		0.23% \$ (245,820.37)
		TOTAL	\$ 35,738.16	\$ 26,350.00	\$ 7,661,210.94	\$ 7,661,211	\$ 486,201.11	\$ 731,646.28	\$ (245,445.17)		
											\$ 2,081,864.88

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