

Minutes from the Public Hearing

PAGE LEFT BLANK INTENTIONALLY

San Mateo County Times

c/o Bay Area News Group
477 9th Avenue, #110, San Mateo, CA 94402
Legal Advertising
(800) 595-9595 option 4

Legal No. **818630**

Notification of Public Participation Hearing

Application No. 07-07-001 for a General Rate Increase
California Water Service Company - Mid-Peninsula Service Area

On July 1, 2007 California Water Service Company (Cal Water) filed Application 07-07-001 requesting rate increases in the MID-PENINSULA district of \$5,435,100 or 23.7% in July 2008, \$1,634,200 or 5.8% in July 2009, and \$1,634,200 or 5.5% in July 2010. As part of the hearing, Cal Water is also seeking your comment on its Urban Water Management Plan filed with the Application. Copies of the plan are available from Cal Water's offices and will be provided at the hearings.

Cal Water is proposing this increase due to the following factors:

- Cal Water's capital improvement program will add \$10.5 million in utility plant from July 1, 2005 through June 30, 2010.
- Cal Water's benefits costs for health care, pension, and retiree health care have increased faster than the general rate of inflation.
- Unit costs for purchased water have increased. The Mid-Peninsula District is currently 100% reliant on purchased imported water.
- Cal Water's general operating costs for administrative salaries, insurance and regulatory compliance have increased. These costs are allocated to the operating districts.
- Cal Water's costs for payroll in general operations, including experts in water quality, operations, information systems, accounting and finance, engineering, purchasing, field maintenance, regulatory compliance, and administration are increasing due to additional personnel.

The following table shows Cal Water's forecasted rate changes by connection type:

Monthly Metered Service Charge	Rates Proposed in Cal Water's Application			
	Present	7/1/2008	7/1/2009	7/1/2010
Meter Sizes	Rates	Rates	Rates	Rates
5/8 x 3/4-inch	\$7.55	\$9.00	\$9.52	\$10.04
3/4-inch	\$11.33	\$13.50	\$14.28	\$15.06
1-inch	\$13.25	\$19.54	\$20.67	\$21.79
1 1/2-inch	\$21.21	\$31.28	\$33.08	\$34.88
2-inch	\$43.46	\$64.09	\$67.78	\$71.48
3-inch	\$86.92	\$128.18	\$135.57	\$142.96
4-inch	\$125.21	\$184.64	\$195.29	\$205.94
6-inch	\$191.43	\$282.30	\$298.57	\$314.85
8-inch	\$294.91	\$434.89	\$459.97	\$485.05
10-inch	\$393.21	\$579.85	\$613.29	\$646.73
12-inch	\$565.50	\$833.92	\$882.01	\$930.10
14-inch	\$771.16	\$1,137.20	\$1,202.78	\$1,268.35
Quantity Charges (Per Ccf)				
Potable Water Tier 1	\$2.4565	\$2.9907	\$3.1645	\$3.3383

The California Public Utilities Commission (CPUC) will hold a Public Participation Hearing (PPH) on the above application filing in Woodside CA, on Thursday, November 15, 2007 at 7:00 pm, in the Woodside Elementary School Library, 3195 Woodside Road, Woodside CA. The purpose of the hearing is to allow customers of Cal Water to present their views and comments on the proposed increases and any other aspect of the company's operations.

The rates shown do not include the effect of an increasing block rate structure that is expected to be approved in another proceeding. You will be provided notice of any proposed conservation rate design when that is proposed.

(Continued on back)

Cal Water's Proposal

Under Cal Water's proposal, rates for each year would become effective on July 1. Rate increases for 2009 and 2010 are derived using inflation factors provided by the CPUC. The factors used to calculate rates in these years will be the most recent inflation at that time. In accordance with the CPUC's rate case plan, Cal Water has requested authority from the CPUC to increase its rates for 2009-2010 and 2010-2011 by actual inflation without further notice to customers. This means that if inflation is greater than assumed here, rates for fiscal years 2009-2010 and 2010-2011 may be higher than shown in this notice.

• Almost all residential customers in the Mid-Peninsula District have 5/8" x 3/4" meters. The average customer uses about 12 Ccf of water per month and would see their monthly water bill increase by \$7.86 or 21.2% from \$37.03 at present rates to \$44.89 in mid-2008, of \$2.60 or 5.8% to \$47.49 in mid-2009, and of \$2.61 or 5.5% to \$50.10 in mid-2010.

• The effect on your water bill will vary depending on whether you use more or less water than these averages, or if you have a meter larger than 5/8" x 3/4".

The rates shown on your monthly water bill may vary slightly from the existing rates shown above due to temporary surcredits or surcharges currently in effect in your area.

In addition to the general rate increase, Cal Water's application requests to return to customers a balance in the water supply balancing account of \$160,482. To return this amount Cal Water is proposing surcredits of \$0.3770 per customer for 12 months to amortize the balance. Cal Water's application also requests the recovery of the balance in the general office synergies memorandum account of \$119,433. To recover this amount Cal Water is proposing a surcharge of \$0.28 per customer per month for 12 months to amortize the balance.

CPUC Process

The CPUC's Division of Ratepayer Advocates (DRA) will review the Application and submit its independent analysis and recommendations in written reports for the CPUC's consideration. Once completed, the report is available to the public upon request, or by downloading from DRA's website. DRA consists of engineers, auditors, and other professional staff who represent the long-term interest of all utility ratepayers.

Evidentiary hearings will be held whereby parties of record will present their testimony and will be subject to cross-examination before the assigned Administrative Law Judge (ALJ). These evidentiary hearings are open to the public to attend and listen, but only parties of record participate in the actual evidentiary hearing. Parties at these hearings may offer proposals to the CPUC that differ from those proposed by Cal Water. After considering all proposals and evidence presented during these formal hearings, the ALJ will issue a draft proposed decision. In its final decision on this application the CPUC may adopt all or part of the ALJ's proposed decision.

Public Advisor's Office and Public Comment

If you would like to protest this filing or present your comments on the proposed application filing you may do so by contacting the CPUC's Public Advisor's Office at: CPUC, Public Advisor's Office, 505 Van Ness Avenue, San Francisco, CA 94102, or by email to public.advisor@cpuc.ca.gov. You may also call 866-849-8390 (toll free) or 415-703-2074.

If you are unable to attend the PPH, you may submit written comments to the Public Advisor at the address listed above. Please reference the application (A.07-07-001) when writing to the CPUC. All comments received are circulated to the assigned Commissioner and ALJ in this proceeding for review, and also serve as formal comments.

If you are attending the hearing, and need specialized accommodations please contact the CPUC's Public Advisor's Office at the phone number listed above at least 3-5 working days in advance of the hearing.

A copy of Cal Water's Application and further information may be obtained from the company's local offices by calling (650) 558-7800. You may also contact the company's headquarters at 1720 North First Street, San Jose, CA 95112-4598, or by calling (408) 367-8200.

CALIFORNIA WATER SERVICE COMPANY
San Mateo County Times, #818630
October 20, 2007

PROOF OF PUBLICATION

In the matter of:

Notification of Public Participation Hearing

The undersigned below, deposes and says that he/she was the public Notice Advertising Clerk of the SAN MATEO COUNTY TIMES a newspaper of general circulation as defined by Government Code Section 6000 adjudicated as such by the Superior Court of the State of California, County of San Mateo (Case No. 55795 September 21, 1951) which is published and circulated in said county and state daily (Sunday excepted).

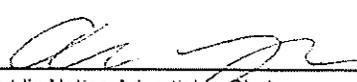
That the

PUBLIC NOTICE

of which the annexed is a printed copy, was published in every issue of the SAN MATEO COUNTY TIMES, on the following dates:

October 20, 2007

I certify (or declare) under the penalty of perjury that the foregoing is true and correct.


Public Notice Advertising Clerk

PAGE LEFT BLANK INTENTIONALLY

1 WOODSIDE, CALIFORNIA, NOVEMBER 15, 2007 - 7:00 P.M.

2 * * * * *

3 ADMINISTRATIVE LAW JUDGE MC VICAR: Please come to
4 order.

5 Good evening. This is the time and place set
6 by the California Public Utilities Commission for the
7 public participation hearing in Application 07-07-001,
8 the application of California Water Service Company for
9 general rate increases in a number of its districts,
10 including the districts that we are in tonight.

11 I am Administrative Law Judge Jim McVicar.
12 The Commission scheduled this hearing here today to
13 receive your comments on the proposed increase.
14 Everybody who would like to make a statement on the
15 record will be able to do so. We have a court reporter
16 here who will be taking a transcript of this evening's
17 hearing, and it will be available to the Commissioners
18 and the Administrative Law Judge in making the decision.

19 Also, the Commission has received many letters
20 and e-mails about this application, and those will also
21 be available in the Commission's correspondence file for
22 perusal when the Commissioners and the Administrative
23 Law Judge are making their decision.

24 Everybody who would like to speak this evening
25 should be signing up with Ms. Rosalina White in the
26 back. I'm sure she chatted with you when you came in.
27 And I will take those speaker names in the list that
28 they've signed up.

1 Also, at any time this evening if you haven't
2 signed up and you decide that you've heard something or
3 you've changed your mind and you would like to speak,
4 just step to the rear, and she will have another sheet
5 there, and you can sign up. And I'll take those in
6 order.

7 We have present tonight, besides Rosalina
8 White with the Commissioners' Advisor's Office and our
9 court reporter, we have a representative from the
10 company, Mr. Smegal, and a representative from the
11 Division of Ratepayer Advocates, arm of the Commission
12 staff. That's Mr. Jose Cabrera back there. And you'll
13 be hearing from both of them in a minute.

14 The first thing I'm going to do is ask
15 Mr. Smegal on behalf of the company to explain what it
16 is the company is asking for and why they feel they need
17 it.

18 Mr. Smegal.

19 MR. SMEGAL: Thank you, your Honor.

20 My name is Tom Smegal. I am manager of rates
21 for California Water Service Company, and I want to
22 start off by indicating that there's quite a few
23 Cal Water district employees here in the building
24 tonight. And so while Judge McVicar is going to advise
25 you that this is a forum to take your public comments,
26 we are also available informally after the hearing to
27 answer any questions that you might have about your
28 local service or anything else of interest to you in

1 both the Mid-Peninsula District and in the Los Altos
2 District. But there's so many Cal Water people here
3 tonight, I will not go about introducing all of them. I
4 think I have seven or eight people.

5 This is a hearing to discuss the rate
6 increases that we proposed in our Mid-Peninsula
7 District, which covers San Carlos and San Mateo, as well
8 as our Los Altos Suburban District, which covers the
9 entirety of the City of Los Altos as well as some of the
10 surrounding communities around Los Altos.

11 I've already received a question or two about
12 why the hearing is in this location. This is a
13 combination hearing for those two locations, and it was
14 deemed to be a central location between the two by the
15 Commission. We had the hearing here three years ago.
16 They elected to have the hearing here again this year.
17 So I do apologize if there's any inconvenience to you to
18 come to this hearing tonight, but it was to be saving
19 resources from the Commission staff and saving their
20 time as well.

21 In our Mid-Peninsula District, Cal Water has
22 requested an increase of 23.7 percent in its overall
23 rate structure that would go into effect in July of 2008
24 and approximately 5.4 percent that would go into effect
25 in July of 2009, followed by 5.4 percent in July of
26 2010.

27 What that means to you as a typical customer,
28 a typical customer on our Mid-Peninsula District uses

1 1200 cubic feet a month on average. And the typical
2 bill for that customer right now would be about \$37.03.
3 We would anticipate that customer -- and again, all
4 customers vary, but that customer would, if our proposal
5 is adopted, get a rate increase of \$7.86 next July,
6 followed by increases of about \$2.60 in each of the
7 following Julys.

8 This increase is partly due to infrastructure
9 upgrades in the system. About -- I would estimate about
10 45 percent of the rate increase that we're requesting is
11 due to infrastructure upgrades, including main
12 replacements in the system. We're expecting to replace
13 over three miles of main in the system over the rate
14 case period, as well as constructing new wells. There
15 are not wells in the Mid-Peninsula District right now.
16 There had been wells in the far distant past.

17 We are entirely reliant upon the wholesaler,
18 San Francisco Public Utilities Commission, which is
19 different from the California Public Utilities
20 Commission. The San Francisco PUC is what you would
21 think of as the Hetch-Hetchy system. We are 100 percent
22 reliant on them for water, and we're concerned about
23 the -- both the overall supply from San Francisco as
24 well as the reliability of supply in the case of a
25 drought or a natural disaster, and we'd like to be able
26 to explore local supplies in that district.

27 And about 30 percent of the rate increase that
28 we've requested is actually due to increases in the cost

1 for our employee benefits. And if you are a Los Altos
2 customer, this is one of the top reasons as well for
3 you. So I'll be -- I won't be repeating myself.

4 But Cal Water is a public utility that has a
5 union work force, and we're in competition with cities
6 and special districts and counties and various other
7 entities for our employees. And water service
8 employees, especially field employees, have to be
9 certified to make certain that your water supply is
10 protected, that you've not got an inexperienced,
11 unqualified person operating the system.

12 It's actually very difficult for us to find
13 these people, certified water operators. And so we
14 maintain a good level of benefits that's comparable --
15 we hope, comparable to those cities and counties and
16 special districts in terms of our benefit packages.

17 And, unfortunately, the cost of those benefits
18 has increased since the last time they were reviewed
19 back in 2004. And so we're talking about four years'
20 worth of increase from 2004 to 2008 in such things as
21 our health care costs and our retiree health care costs,
22 as well as our pension costs and some of the other --
23 some of the other benefits that we have.

24 And so those are the two big reasons for the
25 rate increase that comprise the majority of the rate
26 increase that we're asking for in the Mid-Peninsula
27 District.

28 The Los Altos District, Cal Water has

1 requested a 30.5 percent increase that would go into
2 effect in July of 2008, a 5.4 percent increase that
3 would go into effect in July of 2009, a 5.1 percent
4 increase that would go into effect in July of 2010.

5 And again, what that means for a typical
6 customer, our Los Altos District people use more water
7 typically than the folks in Mid-Peninsula. The average
8 customer uses 2200 cubic feet a month, and that customer
9 right now would typically see a bill of \$57.53. That
10 bill would increase by \$16.07 under our proposal in July
11 of 2008, followed by an increase of \$3.84 in July of
12 2009 and July of 2010.

13 Again, the biggest impact, the biggest reason
14 for a rate increase in the Los Altos District is
15 infrastructure investment, investment in the system.
16 Again, we are constructing and replacing more than
17 three miles of water system mains over that period of
18 time. We are working on improving our booster stations
19 in the Los Altos system, and we are also installing
20 chloramination facilities in the district.

21 So those are some of the major -- the major
22 capital improvements there. There are certainly many
23 other capital improvements that add up to the total.

24 I do want to stress that the numbers that I am
25 stating here are Cal Water's proposal. This is an
26 application we've made to the Commission last July, and
27 we put our best effort into making certain that that
28 proposal reflected our costs to provide service to you

1 in 2008.

2 There is a person here from the Division of
3 Ratepayer Advocates who will talk to you about what they
4 do, but certainly you should not anticipate that the
5 Commission will grant us a rate increase higher than
6 what we've requested, and oftentimes they grant a rate
7 change that is much, much lower than we requested. I
8 can't speak to what that might be in this case, but I
9 do -- I do know that the Ratepayer Advocate group does a
10 good job in protecting your interests and will make
11 certain that the rates are reasonable and fair.

12 The last thing I wanted to mention is that
13 included in your notice was a statement that this was a
14 hearing, a public hearing, on the Urban Water Management
15 Plan. This is a document that the Department of Water
16 Resources requires Cal Water to put together every five
17 years, and I have copies for both the Mid-Peninsula
18 District and also for the Los Altos District. We do
19 those in conjunction with our general rate cases.

20 And I realize that I haven't given anybody an
21 opportunity to read it, so it's very hard for you to
22 comment on it. But I do want to introduce the document
23 to you tonight, and if you'd like to take one home and
24 review it and make comments, there's a place to -- a
25 place to do that. So feel free to take a copy of that.

26 Thank you for your time.

27 ALJ MC VICAR: Thank you, Mr. Smegal.

28 As Mr. Smegal indicated, the Commission has a

1 staff of experts that will be taking a critical look at
2 the company's application and the justification they put
3 forward. That's our Division of Ratepayer Advocates.
4 And Mr. Cabrera is here this evening to explain a little
5 bit about what they do.

6 MR. CABRERA: Thank you, your Honor.

7 My name is Jose Cabrera. I'm on the team --
8 I'm one of the project managers on the team that's
9 working on the rate case. There's about 12 people on
10 the team.

11 How many people have heard of the Division of
12 Ratepayer Advocates, or DRA?

13 It's a separate division within the Public
14 Utilities Commission. We're a quasi -- I always like to
15 say quasi independent unit, almost independent. We're
16 not a hundred percent independent. We have our own
17 budget, our own management and our own legal staff.

18 And the job right now is to look at the
19 forecasts or the estimates included in the rate case and
20 to ask the question are their forecasts, are their
21 estimates, reasonable.

22 As Mr. Smegal suggested, their application, it
23 includes their best estimates of what their business or
24 their costs will be in the year ahead, in the fiscal
25 year. So what we try to do is make an independent
26 assessment about what those costs would be for all the
27 categories in A&G and O&M and including investment in
28 plant or infrastructure.

1 At the end of our review, we do issue a
2 report. It will be out in January. We'll have all our
3 recommendations, the methods that we used to arrive at
4 the recommendations, and at one point we will get
5 together with the company to try to reach some kind of
6 agreement over all the estimates. If we can't reach an
7 agreement, then typically the case does get litigated in
8 hearing.

9 Our job is to make independent forecasts for
10 all the expenses. In a nutshell, I try to say this in a
11 variety of ways, we try to whittle down their request as
12 much as possible, but at the same time maintaining a
13 certain level of reliability and service quality that
14 the customers do expect.

15 So when they're proposing to put in new mains
16 or new facilities, I have to tell this to people, a lot
17 of times people forget that there is an issue of water
18 quality and reliability that's involved that we do have
19 to look at.

20 If anybody has any questions, I'll be
21 available after the hearing.

22 ALJ MC VICAR: Thank you, Mr. Cabrera.

23 As I noted before, we also have a
24 representative here this evening, Rosalina White at the
25 back table, who is with our Public Advisor's Office.
26 The Public Advisor's role is to assist members of the
27 public to understand the Commission's process so that
28 they can participate in the formal proceeding.

1 So if you have any questions about how to get
2 involved or how the process works, she's a good person
3 to talk to during the recess.

4 Please note that tonight's hearing is not a
5 question-and-answer session.

6 The purpose of the hearing this evening is to
7 take your statements for the Commission's formal record.
8 However, I recognize that there are going to be
9 questions, and, if at all possible, we will get you
10 answers to those questions either this evening or later.

11 To do that, I will be taking notes of any
12 questions that you put forth during your statements.
13 And I've asked the company and the staff not to answer
14 questions during the statements, but we will come back
15 to those questions either off the record during the
16 intermission, if they require back-and-forth answer, and
17 so on, or we will do that on the record if it's a short
18 question that could be answered fairly straightforward
19 or an answer that requires being put on the record.

20 I'll note that we have a court reporter here
21 who is preparing a transcript of this evening's session.
22 She has the most difficult job of the evening, and that
23 is getting verbatim everything that we do put on the
24 record, your statements and the current discussion. So
25 please speak clearly and slowly enough so that she can
26 follow and do her job, if you would. I'd appreciate
27 that very much.

28 We have a short list of speakers tonight.

1 Sometimes when we have a large crowd, I sometimes put a
2 limit on the amount of time the speakers can take.
3 That's not going to be necessary this evening, but I
4 just want to note ahead of time that if anybody takes an
5 excessive length of time, I do reserve the right to ask
6 you to wrap up your statements. I don't think that's
7 going to happen. That doesn't happen very often.

8 Again, everybody who would like to speak
9 should sign up. If you decide later you'd like to
10 speak, let Rosalina White in the back know, and she'll
11 get your name down and she'll bring that list up for me.

12 Okay. Let's begin with the speakers. The
13 first speaker I have is Jim Gustafson from the City of
14 Los Altos.

15 Mr. Gustafson.

16 MR. GUSTAFSON: Yes, thank you.

17 Stand here or --

18 ALJ MC VICAR: That's fine. Whatever you would
19 like to do as long as everybody can hear.

20 I'd ask you first to state your name, spell
21 your name for the reporter, and then tell us whom you
22 represent.

23 STATEMENT OF MR. GUSTAFSON

24 MR. GUSTAFSON: I'm Jim Gustafson, assistant
25 public works director for City of Los Altos.

26 I am here at the request of the five-person
27 city council from City of Los Altos that initially
28 expressed concern about the rate increase at its

1 September 11, 2007, meeting. Several council members
2 had received concerns from residents of Los Altos about
3 the magnitude of the rate increase.

4 I can say as someone that serves at the
5 counter sometimes, the public coming in, that the
6 30.5 percent rate increase is a much higher increase
7 than the type of increase that we are normally
8 processing within the city. I understand this is a
9 private or an investor-owned utility, so I would expect
10 some different rate strategy. But our City Council
11 provides considerable scrutiny and resistance to example
12 for -- for example, for rates that the public works
13 staff in the city would approach the council to request
14 an increase. They apply resistance and scrutiny of the
15 details of that increase.

16 So they don't have jurisdiction over this
17 issue. They did request of the Judge and the PUC that
18 the city be designated a party. There was a motion made
19 that we be made a party. So I expect there will be
20 further discussions through that venue from Los Altos.

21 I hope there are some people from Los Altos
22 that will speak up and pass on their concerns that were
23 expressed to the council members.

24 The only question I would have that may be
25 answered at a later time, in discussion of the benefit
26 package that was -- Tom Smegal mentioned as a large
27 component of this rate increase, is a description or
28 definition of how much of that rate increase is due to

1 benefits being added or benefits that are enhanced
2 compared to just the cost of existing benefits that are
3 being increased. I think that's something that our
4 council was concerned about at the last meeting.

5 I will say I've worked personally with several
6 people on Cal Water. I found them to be very
7 professional. I'd encourage all they can do to improve
8 the infrastructure, deliver us great water pressure, as
9 they continue to do. And I have nothing but good things
10 to say about the people we worked with at Cal Water
11 Service. That's all I have.

12 ALJ MC VICAR: Thank you.

13 And we will get -- we will get that discussion
14 here when we've gone through the speakers.

15 The next folks that signed up are Art and
16 Celeste Mangold.

17 Mr. Mangold, did you want to make a statement,
18 or do you both want to make a statement?

19 MR. MANGOLD: Well, I think I'm the only one
20 making a statement. I just put both our names down
21 because --

22 ALJ MC VICAR: Would you please state your name,
23 spell your name, and tell us what area you're from.

24 STATEMENT OF MR. MANGOLD

25 MR. MANGOLD: My name is Art Mangold,
26 M-a-n-g-o-l-d. And I am a customer of Cal Water in the
27 Mid-Peninsula District.

28 Okay. An evening like this would not be

1 complete without somebody making a few complaints. And
2 so I'm going to start by complaining, not about
3 Cal Water, but about the Commission.

4 My first -- the first complaint that I've got
5 on this is the location of the hearing. This hearing is
6 in Woodside. I'm in San Mateo. The other part of the
7 district, the Mid-Peninsula District, is San Carlos.
8 Both are a considerable distance from here, and this is
9 not the easiest place to find, especially in the
10 evening. So I would think that if you are really after
11 local participation, it's a poor location.

12 The second complaint I've got is about the
13 ability of somebody to participate easily in a hearing.
14 When I learned of this rate increase application, I
15 thought, gosh, wow, this is a big rate increase that
16 Cal Water is asking for. And I thought I'd like to look
17 into it a little bit.

18 I think one of the first things I did was to
19 call the advisor's office, the Public Advisor's Office,
20 to say, hey, I'm interested in participating in this
21 proceeding. What do I have to do?

22 That was about two months ago. And I got a
23 recorded message, and I never got a response. So I
24 didn't find out from the Public Advisor's Office what am
25 I supposed to do to be able to participate in the
26 hearing.

27 In the meantime, though, I started to look
28 into things and just do a little bit of my own

1 investigation of what's going on, what is really behind
2 this rate application, and what -- what might I do with
3 regard to it. And I really at that time didn't know. I
4 just started looking into it. The more I got into it, I
5 thought, well, gosh, yes, maybe I would like to
6 participate in this.

7 So by that time I was up to speed again on the
8 Internet. I've been away from work, I'm retired, so
9 I've been away from work for some time. So it took me a
10 while to get up to speed on using the Internet and all
11 that again. I just don't do that every day.

12 When I finally decided, yes, I would like to
13 participate in this and then started looking again at
14 the Commission's Rules of Practice and Procedure, I
15 thought, gosh, wow, they had a -- and even before the
16 Rules of Practice and Procedure, the ALJ ruling at which
17 there was a prehearing conference, I guess it is called,
18 at which issues are discussed or decided what are issues
19 in the proceeding and who is going to participate.
20 That -- that -- that hearing was held, I think, very
21 soon after the application was filed, within a couple of
22 weeks, maybe a month. I'm not sure I even read in my
23 bill that the rate increase application was -- was filed
24 before the public -- before that -- before that
25 inform -- or, no, prehearing -- I don't know what it's
26 called, but, at any rate, that hearing at which the
27 parties are determined.

28 Well, at any rate, more recently I did decide

1 I'll -- I'll make a pleading to participate in the case
2 anyway under one of the Rules of Practice and Procedure.
3 I haven't heard. That's been about two -- I think
4 probably two and a half weeks now that I -- that I --
5 that I made that request.

6 I do see looking at the Web site that it has
7 been received, but whether or not I'll be able to
8 participate in the hearing, I don't know. But -- but
9 whether or not the ALJ or the Commission -- assigned
10 Commissioner or whoever is -- decides what to do with my
11 request to participate in the hearing, to be a party to
12 the hearing, I will in some fashion present the
13 information I have.

14 Now what is the information I have? I'm
15 certainly not going to take the time to go through it
16 all tonight because, frankly, it's not that -- and
17 frankly, I'm not even sure at this point that I will
18 participate. It depends on -- it depends on a lot of
19 things. It depends on what, for instance, I find out
20 that Cal Water and Division of Ratepayer Advocates are
21 doing. It's -- it's very hard for an outside party to
22 tell at this point in the proceedings.

23 But I will say the issues that I am concerned
24 about. First of all, there is an issue of water supply.
25 I'm not convinced that the water supply for the Bay
26 Area, and particularly the customers of Cal Water, is
27 assured, including a really reliable assured supply of
28 water going off into the future.

1 I know that Cal Water is planning to put in
2 four new wells. I know very little about it besides
3 that. So water supply is a question of mine.

4 Conservation. I know that Cal Water is making
5 a big conservation effort now, but I do have questions
6 about how effective will that conservation be and how do
7 you know whether or not it is effective.

8 Another question I've got is just how much are
9 rates going to be going up in the future. Mr. Smegal
10 just told us what the rates -- what rate increases
11 Cal Water has asked for. They are considerable. But
12 I've got a feeling that this is just the beginning, and
13 I think that -- I think that Cal Water should be very
14 upright, and DRA, too, in this matter, in saying, hey,
15 this is what you folks can expect in the future.

16 Now very germane to this is the fact that the
17 City and County of San Francisco, the SF PUC, is
18 building a reliable -- they are upgrading the
19 Hetch-Hetchy system primarily for reliability with a
20 price tag of \$3.1 billion. Now that is going to have a
21 tremendous impact on the customers of the Mid-Peninsula
22 District.

23 This rate increase application is silent on
24 that. And I say, Why? Why -- I think, why should it
25 be? Why should not the customers have some idea of
26 what's going to be happening in the very near future?

27 In that regard, it's -- my -- one of the
28 questions that I have and would be a part of any

1 testimony that I gave or, like I say, however I present
2 whatever I come up with, is -- is the question of
3 whether a three-year GRC cycle is a long enough period
4 to really be able to tell the Commission or customers
5 what's going on, what can we expect in the future.

6 Those are the nature of my concerns. And
7 before the ALJ decides to use his prerogative to shut me
8 up, I'll leave it at that. Thank you.

9 ALJ MC VICAR: Thank you, Mr. Mangold.

10 Next speaker is Keith Matthews.

11 Mr. Matthews, if you'd state your name, spell
12 your name, and tell us what area you live in.

13 STATEMENT OF MR. MATTHEWS

14 MR. MATTHEWS: Name is Keith Matthews,
15 M-a-t-t-h-e-w-s, and I live at San Mateo, the city.

16 I came tonight just to discuss what I saw as
17 being a disparity in the increase in the monthly metered
18 service charge.

19 My family and I, we moved to San Mateo from
20 San Bruno in April of this year. And I understand that
21 it's -- if I understand correctly, that city handles
22 it's own water system.

23 Just looking very quickly at my bills from the
24 time I lived in that city for a number of years until
25 now, the rates seem pretty proportional to the increases
26 that we're looking at here, what they're charging right
27 now. However, when I looked at what the charges would
28 be for the monthly metered service, I didn't quite

1 understand why, based on my -- my math here, there is
2 only a 20 percent increase for a 3/4-inch service as
3 compared to a 48 percent increase for 1-inch service.

4 Now the house that I live in, that I moved
5 into in San Mateo, has that 1-inch service line. And it
6 says on the form that I got with my bill that -- the
7 statement is that most customers only have a 3/4-inch.
8 However, at least in San Mateo, from what I'm told,
9 anyone that has a major remodel done to their house is
10 required to put in a fire sprinkler system. And those
11 fire sprinkler systems require at least a 1-inch service
12 line to be able to power those.

13 My house has one of those service lines. And
14 as I just drove down my street, at least a dozen other
15 neighbors of mine on my street alone, about six blocks
16 that I looked at, have those fire indicator -- fire line
17 indicators of some sort outside their house, which means
18 they have the fire system, which means they must have a
19 1-inch service line as well.

20 Just thinking about that, if the reasons for
21 the rate increase are because of the cost of water and
22 the scarcity of water as it is now and as we expect it
23 to be over the years to come, it would only make sense
24 to make the assumption that a fire system in a house
25 would use less water to fight that fire than if the fire
26 department had to come out and dump thousands of gallons
27 of water on a house that's already burning and fully
28 engulfed, let's say. A fire sprinkler system is

1 supposed to suppress that near the beginning of the
2 fire. So basically, my inference from that is that it's
3 going to take less water. We're going to save water by
4 having a fire sprinkler system.

5 However, what I'm being told is for that
6 conservation system of sorts, I have to pay more because
7 I simply have a 1-inch metered system on my house. Has
8 absolutely nothing to do with the amount of water that I
9 use in that house on a regular basis. In fact, looking
10 at the Ccf, the 12 Ccf of water per month example that
11 is in this letter, I actually -- we actually use less
12 than that. However, I'm going to see a much higher
13 increase in my bill just because of the size of the pipe
14 coming into my house. It makes absolutely no sense to
15 me.

16 If this was an issue that we were trying to
17 pass off the increase more onto businesses, which it
18 looks like because that's where the 48 percent increase
19 starts, on 1-inch and up businesses, large buildings of
20 sorts, but not residential customers, then I would say,
21 well, that's an issue for business, small and large, to
22 fight. But when it comes to straight residential
23 customers, it doesn't make sense to me -- it doesn't
24 seem fair to me -- that just based on the size of pipe
25 coming into my house and the huge cost that was incurred
26 by the previous owner or anybody that goes from this
27 point up, why we have to pay that 28 percent extra
28 increase on the price tag. That's all I have.

1 ALJ MC VICAR: Thank you, Mr. Matthews.

2 The next speaker is Karina Nilsen.

3 STATEMENT OF MS. NILSEN

4 MS. NILSEN: Good evening.

5 ALJ MC VICAR: Would you state your name, spell
6 your name for the reporter, please, and tell us what
7 area.

8 MS. NILSEN: My name is Karina Nilsen.

9 K-a-r-i-n-a, N-i-l-s-e-n. And I live in Los Altos.

10 Somewhere during the summer, I read an article
11 about a town in the Santa Cruz Mountains. I can't
12 remember the name of it. It's a small town, and it's
13 small enough not to attract much media attention. But
14 in this area, the water delivery system had gone
15 private.

16 Does anyone remember, or have you read
17 anything about this?

18 And the result was that the rates skyrocketed
19 to the point where people who had been living there
20 could no longer afford their utility bills, and they
21 were just suffering under this.

22 So I have several questions. One is: Is the
23 California Water Services Company now privately owned?
24 You mentioned that it had some investor interest. If it
25 does, to what extent is it controlled by outside
26 commercial investors? Because if it's no longer a
27 public utility, I think that is going to have a major
28 role in this price hike and other price hikes in the

1 future. So I don't understand exactly how much of it is
2 public, how much of it is private, and I'd like to know
3 that.

4 I also questioned how much of the rate
5 increase is going toward salary increases and pension
6 benefits. I'd like to see a breakdown of what's going
7 into the benefits package and what's actually going into
8 the retrofit.

9 My next question is: When was the last
10 infrastructure overhaul?

11 And if we're looking at a 3 billion --
12 3.1 billion-and-counting overhaul on the Hetch-Hetchy
13 and various other water delivery systems, is it
14 appropriate to pass this charge on to the customers
15 rather than do bond measures or do other public means of
16 financing through taxation, because I think that that
17 could be very onerous to many people, especially people
18 who have retired and live on fixed incomes. Small
19 amounts can really upset them.

20 And then of course I, too, am concerned about
21 the future increases post 2010. What do we have to look
22 forward to there?

23 I understand as well as anyone who listens to
24 and reads the media that we are facing a crisis in the
25 water supply. I don't hear from this exactly what is
26 going to be done in the future. And I also don't
27 understand if this benefit increase is the thing that
28 we're going to -- that's going to satisfy our need to

1 rejuvenate the water delivery system, the
2 infrastructure, and so forth. So these are the
3 questions that are on my mind.

4 ALJ MC VICAR: Thank you.

5 MS. NILSEN: You're welcome.

6 ALJ MC VICAR: Is there anybody else here who
7 would like to make a statement on the record at this
8 time?

9 Mr. Mangold?

10 MR. MANGOLD: Is this a time to just add
11 something?

12 ALJ MC VICAR: If you'd like to.

13 MR. MANGOLD: I would like to add something else.

14 I'd like to dovetail with what my colleague
15 from San Mateo just talked about, the service charge for
16 a 1-inch meter.

17 I am one of those customers who has a 1-inch
18 meter. I am one of those who did a big enough change in
19 our housing -- actually, we built a new house on the
20 same site we've been at -- but for that reason, we had
21 to put in a 1-inch meter, the fire service that
22 Mr. Matthews talks about.

23 Now once upon a time when I worked for the
24 PUC, that issue came up for San Jose Water Works --
25 Water Company, it's called now. And I remember doing a
26 study myself, bringing up the very thing that
27 Mr. Matthews brought up, and a lot of other things. And
28 in the end it was decided that for San Jose Water

1 Company that if a customer put in a 1-inch meter for
2 fire protection only that the service charge would be
3 not that of a 1-inch meter but that of a 3/4 or a 5/8 by
4 3/4-inch meter.

5 When I put in my -- and I saw that didn't
6 happen. I wondered, well, you know, I guess -- I
7 thought, I guess, that's one of the things that just
8 went by the wayside. But I did notice in Cal Water's
9 application that there is still such a clause for the
10 Livermore District. And it seems to me if it's
11 appropriate for Livermore, it's appropriate for the
12 Mid-Peninsula also.

13 Thank you.

14 ALJ MC VICAR: Thank you, Mr. Mangold.

15 What I'm going to do next is I'm going to go
16 through some of the questions that I've heard. I'm sure
17 that I'm not going to catch everything, but I'm going to
18 ask Mr. Smegal to comment briefly -- and I'm going to
19 emphasize "briefly" -- on each of these. And at each --
20 at each comment by Mr. Smegal or response by Mr. Smegal,
21 I'm going to invite Mr. Cabrera, if he wants to add
22 anything on behalf of the staff, to do that.

23 And then I'm going to go off the record and
24 invite you folks to have an informal discussion in depth
25 with the company and/or the staff or me, if you have any
26 questions of me on those topics.

27 What I don't need to do is develop an
28 evidentiary record tonight. This is not an evidentiary

1 hearing, so I don't need all the details of this on the
2 record. But I recognize that these are questions that
3 you folks would like to get answers to. So let's
4 briefly do that while we're on the record here just to
5 catch a flavor of it. And if I miss some question that
6 you believe you made in your statement, why don't you
7 just catch that of the company and staff while we go off
8 the record later.

9 So first I'm going to ask Mr. Smegal, in
10 response to Mr. Gustafson's question, to briefly discuss
11 the benefit package and what part of the increase that's
12 proposed is new benefits versus continuation of the
13 existing benefits.

14 MR. SMEGAL: Thank you.

15 That's an easy one. It's no new benefits.
16 It's all -- it's all increased costs for existing
17 benefits. And -- however, if you do read the
18 application, as I'm certain that someone from the City
19 of Los Altos will do, and perhaps Mr. Mangold as well
20 will do, in their roles in the proceeding, you will find
21 that Cal Water has asked to incorporate costs to
22 transition some of its employee benefits from a -- what
23 you would call a pay-as-you-go type of a payment to an
24 accrual type of a payment where, for instance, in
25 workers' compensation insurance, the company has been
26 paying costs as those costs are incurred. So if someone
27 gets injured on the job, we will pay -- we'll take the
28 medical bill that happens at that time, but it hasn't

1 considered the fact that a person that's injured on the
2 job might have medical bills some years into the future
3 that are associated with an injury that occurred in this
4 particular year. And so the idea of that method of
5 accounting, what's called an accrual method of
6 accounting, is to incorporate projected future costs of
7 injuries from the date they incur.

8 We do that also with our pension costs
9 typically and our retiree health care costs.

10 So some of the reason that the costs are
11 increasing right now is a change in the accounting for
12 those things to change when the costs will be incurred.
13 So that is one of the reasons for such a great magnitude
14 of those cost increases right now. But there's no
15 change in the levels of benefits for our employees at
16 this time or really any time in the last few years.

17 ALJ MC VICAR: Thank you.

18 And anything to add, Mr. Cabrera?

19 MR. CABRERA: The wage increase is one of the
20 areas we are looking at. Just to let everybody know
21 that it's definitely an issue that we're looking at.

22 Right now, as far as I know, there is no union
23 contract. So we don't have a specific increase in mind
24 yet or a specific increase per union contract to gage a
25 forecast on. It'll depend on some other escalation
26 factor.

27 ALJ MC VICAR: Thank you.

28 MR. CABRERA: Other than that, no, nothing to add.

1 ALJ MC VICAR: Then the next thing I would like to
2 have Mr. Smegal respond to is the public hearing notice,
3 excuse me, the prehearing conference notice, what form
4 was that. Could you tell us anything about that?

5 MR. SMEGAL: The prehearing conference is not
6 noticed on customers. That is a notice that is issued
7 by the Commission and is available on their -- on the
8 Commission's Web site but is not typically noticed to
9 customers.

10 And I don't recall when the prehearing
11 conference -- it seemed to me to be late, but just
12 because I'd hoped that they would have it the day after
13 we filed the application, but I suspect that Mr. Mangold
14 was correct. It was probably about a month after we
15 filed.

16 And our mailing of the customer notices occurs
17 between 15 and 45 days after the filing of the
18 application by Commission's rule. And so it is quite
19 likely that many customers wouldn't have known about the
20 application before the prehearing conference.

21 I should add as a trailer on that, we all
22 received -- or all the parties received Mr. Mangold's
23 request to intervene. It was served on all of us. And
24 I know the regular Administrative Law Judge is on
25 vacation at this point, but no one has protested your
26 proposal. So I would anticipate you would be allowed to
27 intervene.

28 MR. MANGOLD: Thank you.

1 ALJ MC VICAR: And I was going to mention that the
2 assigned Administrative Law Judge, Sarah Thomas, is
3 actually out of the country on Commission business right
4 now, so --

5 MR. SMEGAL: Sorry if I said --

6 ALJ MC VICAR: -- combination Commission business
7 and vacation.

8 Hetch-Hetchy and 3.1 billion in upgrades was
9 mentioned. And I think it was Mr. Mangold who said that
10 the application is silent on that. I don't know about
11 that one way or the other, but is there mention of it in
12 there and is there any effect in this three-year cycle?

13 MR. SMEGAL: The Commission's ratemaking practice
14 is that purchased water cost -- and we purchase water
15 from the Hetch-Hetchy water system, the San Francisco
16 Public Utility Commission -- is what's known as a
17 passthrough. We receive an automatic increase at the
18 time that San Francisco or, in the case of Los Altos,
19 the Santa Clara Valley Water District in the case that
20 they increase their rate, we're able to pass those rates
21 along to our customers directly.

22 We didn't make mention of it in our
23 application. It's not a component of the rate increase
24 proposal. I do have other information that is a bit
25 speculative at this point, and it probably would be a
26 reasonable thing for the customers to be aware of, and
27 we should talk to the Commission about how we might be
28 publicizing that to people. But, for example, the

1 wholesale cost of water in the San Mateo District right
2 now is \$1.22. That's the cost that we pay per unit
3 directly to the city of -- the San Francisco water
4 system. That cost is expected to increase to over \$3
5 for that same unit of water over a ten-year period,
6 about 2015 or 2016. They haven't worked out the exact
7 details of what that cost will be, but that is a very
8 substantial increase, I agree. And that's going to be
9 passed on not just to Cal Water's customers, but to all
10 of the urban -- all of the San Francisco and suburban
11 customers of the San Francisco Public Utilities
12 Commission. So I don't know that people are aware of
13 that, but that is a -- that is a very drastic increase.

14 I don't know of anything similar for Los Altos
15 for the Santa Clara Valley Water District. I know that
16 they do annually raise their rates. I don't -- maybe
17 one of our district people would know if they have any
18 major capital improvements planned, nothing on the
19 order, I think, of the San Francisco plan.

20 Ron, do you have anything more on that or --

21 MR. RICHARDSON: No.

22 ALJ MC VICAR: Would you identify yourself for
23 reporter.

24 MR. RICHARDSON: Ron Richardson. I'm district
25 manager of the Los Altos District.

26 And they do have some plans for infrastructure
27 upgrades of treatment plants, but nothing in the order
28 of the scope of upgrade that Hetch-Hetchy is going to be

1 undertaking in the next decade.

2 ALJ MC VICAR: Thank you.

3 The next question or topic was brought up by
4 Mr. Matthews and then seconded by Mr. Mangold. And that
5 is -- Mr. Smegal, would you say something about the
6 increase by service size and also whether you have any
7 proposals for special treatment of meters that are
8 required to be 1 inch for fire flow.

9 MR. SMEGAL: I will happily do that.

10 There is a number of things going on here, and
11 certainly Mr. Mangold and Mr. Cabrera or even the City
12 of Los Altos could address this in their action in the
13 proceeding. We did not make a recommendation in either
14 of these districts to have a special rate for a 1-inch
15 service that is solely for fire protection. However, we
16 do have that rate or that rate in principle in several
17 of our districts, including, as Mr. Mangold pointed out,
18 the Livermore District, as well as the Hermosa-Redondo
19 District. We have a separate rate for those that are
20 required to have a 1-inch service solely for the purpose
21 of fire protection.

22 I believe that if somebody made that
23 recommendation, it could probably proceed through the
24 Commission.

25 The only difficulty is identifying those
26 customers who are a 1-inch customer solely on a basis of
27 the fire protection or those that actually would have
28 the beneficial use of a 1-inch service connection due to

1 landscaping or actual water use. That may be difficult.

2 In the particular Livermore instance, the
3 customers have a special service that is ordered by the
4 City of Livermore that only provides them with a limited
5 amount of water to the household. And the 1-inch
6 service goes directly into the fire suppression system.
7 So I certainly think that's a possibility.

8 As far as the request to increase rates for
9 those classes of service for the service charges in
10 greater proportion than others, the reason for that is
11 that in 1990, I believe, the Commission passed a
12 standard practice of setting water meter rates, the
13 service charge ratios. And Cal Water has been
14 attempting to implement those service charge ratios now
15 for really the last 17 years. We have been trying to
16 phase in every time there's a rate increase to get those
17 closer to the Commission's service size ratios.

18 What tends to happen is that the rate
19 increases that we end up getting are not very large, and
20 the Commission dictates that the company shouldn't raise
21 the rate for any particular customer more than twice the
22 percentage of the system average.

23 So if we got a 10 percent increase, then we
24 couldn't increase that service charge more than
25 20 percent, for instance, for the 1-inch service. And
26 so we haven't ever gotten to where the Commission wants
27 those rates to be.

28 And so you're correct -- Mr. Matthews is

1 correct that the idea of that is that a 1-inch service
2 should be for someone who uses a lot of water. And the
3 intent is to get that person to pay for the cost of the
4 facilities that serve that 1-inch service. But in the
5 special case where the service is for fire suppression
6 system only, I certainly don't have a problem with
7 special rates for that.

8 And again, we proposed a change to our special
9 rate in Livermore. We have them in a couple other
10 places. I don't see why that wouldn't be able to occur.

11 The last thing I wanted to mention,
12 independent of this proceeding, and I don't know if in
13 your memory you have seen this notice from Cal Water,
14 but there's another proceeding going on at the
15 Commission with all the water companies that is intended
16 to increase the conservation efforts, water conservation
17 efforts, of all of the utilities. And the goal of that
18 proceeding right now is to set up a -- what's called an
19 increasing-block-rate structure and to move more of the
20 cost of providing water service into the quantity rates
21 for service.

22 It's sort of -- it's a proceeding that's going
23 along. It's not a rate increase proceeding. It's
24 changing the way that we set our rates. And so what
25 you'd see is instead of a single unit cost for all of
26 your water, you'd have a lower cost for the first
27 certain number of units of water and then about the same
28 cost now, and then a higher cost for a third tier of

1 water. And one of the goals is to reduce that service
2 charge overall so that -- the meter charge that
3 Mr. Matthews and Mr. Mangold spoke of.

4 So it's possible that the direction the
5 Commission is going now would be to move those service
6 charges down and really charge for people who use a lot
7 of water, because that's where the -- that's where the
8 resource is.

9 ALJ MC VICAR: Thank you.

10 The next point brought up was by Karina Nilsen
11 about the ownership structure of California Water
12 Service.

13 Could you say something about that,
14 Mr. Smegal.

15 MR. SMEGAL: Sure. Cal Water is an investor-owned
16 utility, much like PG&E is -- your electric utility is
17 an investor-owned utility. We are traded on the New
18 York Stock Exchange. We're an independent company, and
19 we have been the water service provider in Los Altos
20 since 1931. So we are not new to the scene in
21 Los Altos.

22 And I could talk to you afterwards about some
23 of the -- a little bit more explanation of what's going
24 on in the Santa Cruz Mountains. That's a totally
25 different situation, but we could -- again, we could
26 talk about that.

27 But Cal Water is independent, and we have been
28 here for the last 80 years, and we intend to be in

1 business for the next 80 years. So there is no -- there
2 is no foreign ownership unless some individual owns
3 stock that happen to be foreign. There is no -- the
4 biggest shareholder is the San Jose Water Company, which
5 owns about 5 percent of our --

6 MS. NILSEN: Just don't privatize.

7 MR. SMEGAL: Well, again, "privatize" is a
8 difficult term. We are private already in the sense
9 that we are not a government agency, but we are an
10 investor-owned utility that's regulated under the
11 framework of the Public Utilities Commission where we
12 don't get to set our rates. The Commission sets our
13 rates.

14 ALJ MC VICAR: Thank you.

15 There was also a question that I should have
16 referred to earlier probably as part of the salary and
17 benefits question, and that was how much of the increase
18 in this case is due to salary and benefits.

19 Is that quantified.

20 MR. SMEGAL: I don't know that that's specifically
21 quantified. We could certainly look at that and get a
22 line item if anybody was interested in that for each of
23 the districts.

24 I do know that I think the number we put in
25 was about a -- I want to say about a 5 percent increase
26 for individual payroll, you know, the overall payroll
27 based upon the existing staff. But Cal Water is almost
28 entirely made up of a union workforce, and so our

1 salaries are fairly well dependent upon what a union
2 contract would be. And there is a union contract that's
3 currently being negotiated for the 2008 period, and we
4 should know what that increase is by the end of the
5 year, I would hope.

6 MR. CABRERA: And if I could add, again,
7 throughout all the eight districts in this rate case,
8 the average increase is between 5-1/2 and 6 percent for
9 wages in the absence of a specific union contract. So
10 the issue is which escalation or which inflation factor
11 to use. That increase is based upon an estimate of
12 future wage increases based on historical increases in
13 the Consumer Price Index and there's wage-specific
14 increases. So it is just a forecast, and we are looking
15 at that.

16 ALJ MC VICAR: Thank you.

17 The next point brought up by Karina Nilsen was
18 related to infrastructure overhauls and how they are
19 financed. She asked the question should it be by bond
20 measure instead of whatever method is being proposed
21 now.

22 I guess I'd ask Mr. Smegal to explain a little
23 bit about how these infrastructure upgrades are flowed
24 into rates.

25 MR. SMEGAL: Okay. Great.

26 Let me first key in on something you said
27 talking about major overhauls. One of the things that
28 Cal Water as a company tries to do is make certain that

1 we're continually replacing facilities so that we don't
2 get into a position where, all of sudden, we need to
3 replace half of our facilities because they've worn out
4 and are not providing a level of service to you.

5 So we are continually investing in the systems
6 that we serve, continually replacing mains on a regular
7 basis in an effort to make certain that we don't end up
8 way behind, like some of the cities have. Like the
9 Hetch-Hetchy system, for example, didn't really do any
10 maintenance for 75 years in terms of replacing their
11 major facilities. And now, all of a sudden, they're
12 asking for several billion dollars to fix that.

13 So, on the one hand, I want you to be
14 reassured that we're continually investing in facilities
15 over time.

16 Now the way that the Public Utilities
17 Commission system works, we're actually getting capital
18 investment from bondholders. So the company sells bonds
19 and also has stockholders that invest what's called
20 shareholder capital. And you are paying a return on
21 those bonds and a return on that investment. And it's
22 very similar to financing it -- you know, with a public
23 bond measure it's a little bit different in that we have
24 bondholders and shareholders, but it is financed over a
25 long period of time. So what you are paying is what we
26 would call the carrying cost of making that investment
27 rather than paying for that investment all up front.

28 And that is fairer to all the customers, I

1 might add, just because the facilities last for a very
2 long time. So if I came to you and said that I want you
3 to pay for this main that we're putting in that's going
4 to last 50 years, you'd say, well, wait a minute. I
5 want some of that cost to be paid by somebody 48 years
6 from now who's still going to be using that main. And
7 that's the objective of the system that -- spread the
8 cost over the life of the facility that -- so that the
9 people are paying in the right time frame. So just to
10 give you an idea of that.

11 MR. CABRERA: I just wanted to add something. Not
12 to get too complicated, but in addition to the carrying
13 cost of the investment the ratepayers pay, being the
14 rate of return, ratepayers also pay the depreciation or
15 the prorated cost of the plant over the life of the
16 plant. So the spread -- the cost is spread out over a
17 period of years. Every year a portion of that cost is
18 part of the cost of doing business that is included in
19 the rates. So it's not only the carrying costs, it's
20 the depreciation.

21 ALJ MC VICAR: Thank you.

22 MR. CABRERA: If I didn't confuse you -- you can
23 ask questions later.

24 ALJ MC VICAR: I'm trying to avoid the really
25 technical responses and invite you folks to chat off the
26 record when we are finished here.

27 I have just one more point to cover. Both
28 Mr. Mangold and Karina Nilsen referred to the long-range

1 increases that might be possible. I think Mr. Mangold
2 put it: Is a three-year cycle sufficient to inform the
3 Commission.

4 And Karina Nilsen asked the question generally
5 about what do we know about post-2010 increases.

6 And I guess I would say -- I would answer part
7 of that and then ask Mr. Smegal to respond, and also
8 Mr. Cabrera -- that the three-year rate case cycle is
9 established by the Legislature and implemented by the
10 Commission. That does not mean that the Commission
11 can't go out farther than that, but it does mean that
12 the Commission is required to look at the company's
13 rates every three years.

14 And would you like to add to that, Mr. Smegal?

15 MR. SMEGAL: I could add one thing, and that is,
16 the Commission in its most recent decision on what's
17 called the Rate Case Plan, which is the overall rules
18 for the water companies' filing their rate cases,
19 established that the companies must have a 25-year water
20 supply integrated -- or comprehensive, rather, water
21 supply master plan that looks at the infrastructure of
22 the system and evaluates what needs to be done during
23 that period to maintain the infrastructure of the water
24 system.

25 Now Cal Water has developed those plans in
26 these districts, and we are required to provide those to
27 the Commission in the 2009 -- starting with the 2009
28 rate case filing, and we will do that.

1 The difficulty is that the Department of
2 Homeland Security has declared that those plans -- I
3 mean that anything that we produce that indicates the
4 location and importance of our facilities cannot be a
5 public document.

6 And so what we've provided in this instance is
7 a summary, an executive summary, of those documents to
8 the Commission in this proceeding for these districts.
9 And that's available -- it's available to the Commission
10 staff and to the parties in the proceeding to take a
11 look at.

12 I don't know if there's been any evaluation of
13 the costs associated with those in any particulars. And
14 one of the difficulties is inflation. You don't know
15 what the costs are going to be in the future. But it
16 does express the magnitude of the certain types of
17 replacements that need to be accomplished over that time
18 span.

19 Certainly I don't want to be in the business
20 of predicting what the costs will be for steel and
21 concrete in ten or twelve or even three years perhaps.

22 So I don't know if Mr. Cabrera wants to add
23 anything to that.

24 MR. CABRERA: No, nothing for the record. Maybe
25 later.

26 ALJ MC VICAR: Thank you.

27 Is there anybody else who would like to make a
28 statement at this time?

1 If not, what I'm going to do is take a recess.
2 It's now approximately 8:00 o'clock. I'm going to take
3 a recess while we see whether anybody else comes in and
4 invite you folks during the off hour here to chat with
5 the company and the staff and me, if you'd like, to ask
6 any questions about the increases, what the staff does,
7 how the Commission functions, and so on.

8 And if anybody comes in in the next little
9 while, we'll go ahead and come back into session and
10 take their statement. Otherwise, we'll be in recess for
11 at least the next 15 minutes or so.

12 So we are in recess.

13 (Recess taken)

14 ALJ MC VICAR: Please come to order.

15 It's now 20 minutes after 8:00. I have polled
16 the audience. There is nobody who has not made a
17 statement who would like to do so.

18 I want to thank you very much for attending
19 this evening. And the transcript of this public
20 participation hearing will be available to the
21 Commissioners and the Administrative Law Judge when they
22 make their decision.

23 My understanding informally is that that
24 decision is due to be voted out probably in July of next
25 year with the rates to be effective most likely on the
26 1st of July of 2008.

27 There being nothing further to come before the
28 Commission this evening, we are adjourned.

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

(Whereupon, at the hour of 8:21 p.m.,
the Public Participation Hearing was
adjourned.)

* * * * *