

Preliminary Statement
(continued)

S. Water Cost of Capital Adjustment Mechanism (WCCM)

1. **Purpose:** The purpose of the Water Cost of Capital Adjustment Mechanism is to provide an automatic adjustment, up or down, to Cal Water's adopted return on equity for 2009 (and thus its overall rate of return on rate base for 2009) for calendar years 2010 and 2011 only if there is a positive or negative difference of more than 100 basis points between the then current 12-month October 1 through September 30 average of Moody's utility bond rates and a benchmark.
2. **Applicability:** The Water Cost of Capital Adjustment Mechanism does not have a rate component and is applicable to all customer service areas.
3. Cal Water shall maintain the Water Cost of Capital Adjustment Mechanism as follows:
 - a. For 2010, Cal Water's initial benchmark is equal to the average interest rate of Moody's Aa utility bonds if it has an AA or A credit-rating or higher, or Moody's Baa utility bonds if Cal Water has a BBB+ credit-rating or lower for the period October 1, 2007 to September 30, 2008. The subsequent October 1 through September 30 average shall be based on the foregoing parameters.
 - b. If the 100 basis point "deadband" (a range of change in interest rates that may occur without automatically triggering a change in return on equities) is exceeded, Cal Water's return on equity will be adjusted by one-half of the difference between the benchmark and the October 1 to September 30 average.
 - c. In any year where the 12-month October through September average of Moody's utility bond rates triggers an automatic return on equity adjustment, that average becomes the new benchmark .
 - d. If the 100 basis point "deadband" is exceeded, Cal Water will file a Tier 2 advice letter by October 15 that updates return on equity and related rate adjustments to become effective on January 1 of the following year. The advice letter would also update long-term debt and preferred stock costs to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and stock scheduled to be issued.
 - e. In the event the Commission approves an adjustment pursuant to section 3.d. of this preliminary statement, Cal Water should modify the recording of its TIRBA (Preliminary Statement R) to reflect any change to long-term debt and stock costs.
 - f. Cal Water's capital structure, as adopted for base year 2009, shall not be adjusted.
 - g. Workpapers outlining the calculations relating to the change in return on equity, long-term debt costs, preferred stock costs and resulting changes in rates to become effective on the following January 1 are required to accompany the advice letter .
4. **Effective Date:** The Water Cost of Capital Adjustment Mechanism shall be effective for the 2010 and 2011 adjustment years unless modified by order of the Commission.

(To be inserted by utility)

Advice Letter No. 1962
Decision No. 09-07-051

Issued by

THOMAS F. SMEGAL
NAME
Vice President
TITLE

(To be inserted by Cal. P.U.C.)

Date Filed _____
Effective _____
Resolution No. _____