

Exhibit CAW-031

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8 BEFORE THE CALIFORNIA
9 STATE WATER RESOURCES CONTROL BOARD

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11 In the Matter of Draft Cease and Desist Order
No. 2008-00XX-DWR Against California
12 American Water Company
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TESTIMONY OF DAVID P. STEPHENSON

14 My name is David P. Stephenson, and I have been employed by California-American Water
15 Company ("CAW") since 1978. Currently, I am responsible for preparing, filing and processing all
16 requests for rate adjustment, financing, acquisition or any other application before the California
17 Public Utilities Commission. My Statement of Qualifications is marked as Exhibit CAW-031A.

18 My testimony covers CAW's past efforts to develop dam and reservoir projects as a method
19 of obtaining an alternate water supply, and the recovery of costs for both the dam project and the
20 Coastal Water Project. In the early to mid 1990s, significant focus was placed on the New Los
21 Padres Dam project ("NLP Dam project"). The State Water Resources Control Board ("State Water
22 Board"), thoroughly reviewed the environmental impacts of the proposed NLP Dam and certified an
23 environmental impact report for the NLP Dam Project. However, in November 1995, the
24 constituents of the Monterey Peninsula Water Management District ("MPWMD") defeated the NLP
25 Dam project when they voted to deny funding. CAW considered resurrecting the NLP Dam project,
26 and in 1996, CAW met with the State Water Board, the MPWMD and the public to discuss that
27 possibility. As a result of those efforts, CAW decided it would move forward with what was called
28 the Carmel River Dam and Reservoir project ("CR Dam project").

1 In late 1998 or early 1999, the California Legislature passed Assembly Bill 1182 and the
2 CPUC issued Decision 98-08-036. Each action required consideration of a long-term water supply
3 contingency plan that would be performed in the event the CR Dam project was not implemented.
4 This contingency plan came to be known as "Plan B." In 1999, local public and political interest in
5 Plan B intensified. From 1999 into 2000, CAW attempted to move forward with the CR Dam
6 project while also developing Plan B. However, the MPWMD slowed down the environmental
7 process for the CR Dam process to consider Plan B options. From late 2001 to 2003, the focus
8 continually shifted to projects proposed in the Plan B contingency plan. In mid-2003, the MPWMD
9 Board voted to deny CAW's application for the CR Dam project.

10 On February 16, 2005 CAW filed a General Rate Case application to increase the water rates
11 for the Monterey service area. That application included a special request to allow CAW to recover
12 \$3,646,452 in historic and stranded costs for the construction of the CR Dam project. That amount
13 represented the costs CAW had incurred over a six year period between 1997 and 2003. These
14 costs were "stranded" because the CR Dam project was abandoned.

15 In that case, I testified that the environmental studies for the CR Dam project revealed
16 potentially unacceptable impacts, including impacts to threatened species. I also testified that the
17 local community was politically opposed to the CR Dam project. In that case, the CPUC found it
18 appropriate to grant CAW an exception to the typical "used and useful" standard for recovering
19 costs, in part due to Order 95-10's directive to pursue an alternative water supply, which the CR
20 Dam project represented. Thus, the CPUC allowed CAW to recover the \$3,646,452 in costs spent
21 on the CR Dam project. (Exhibit CAW-031B.)

22 Out of Plan B, CAW developed the Coastal Water Project ("CWP"). For this project, CAW
23 submitted an application for a Certificate of Public Convenience and Necessity ("CPCN") and a
24 Proponent's Environmental Assessment ("PEA") to the CPUC. The CPUC is the lead agency for
25 CEQA for the CWP. To date, total expenditures by CAW for development of the CWP have been
26 \$3,059,145.89 in 2004, \$5,400,782.80 in 2005, \$3,415,497.25 in 2006, \$4,057,260.28 in 2007, and
27 \$1,135,023.10 so far in 2008. (Exhibit CAW-031C) These do not include the costs expended by
28 CAW in furtherance of the CR Dam project. These expenditures (as well as others incurred in the

1 pursuit of an alternate water supply) are substantial and result in CAW bearing a heavy regulatory
2 burden. In order to recover costs, CAW must submit cost recovery applications to the CPUC. To
3 date, CAW has filed two applications for recovery of these costs, Application 04-09-019, filed
4 September 20, 2004, and Application 08-04-019, filed April 10, 2008. These applications have
5 required the filing of extensive written testimony and responses to numerous data requests including
6 430 requests from DRA alone. Several third parties have intervened in the CPUC proceedings,
7 which are participants in this hearing. The CPUC has held several hearings on each application.
8 For each hearing, CAW submitted testimony and lengthy financial exhibits to support the costs to
9 develop alternate water sources.

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