

## **EXHIBIT 4-A**

A.12-04-019 ALJ/GW2/ar9/lil

### **Criterion 8: Reasonableness of WPA Terms**

Criterion 8 requires that applicant, Agency, and District have agreed upon a WPA whose terms are just and reasonable.

Applicant, Agency and District revised the WPA to address concerns raised in the April 8, and April 25, 2016 Rulings of the assigned Commissioner and assigned ALJ, as described above. The revisions substantially satisfy those concerns. Further, the terms of the revised WPA are just and reasonable with respect to the cost and water quality concerns of Water Plus.

The WPA contains a first year cost cap of \$1,720 per acre foot that no party argues is unreasonable. Moreover, the WPA provides that only the actual cost will be charged to Cal-Am and Cal-Am ratepayers. The first year cost will be adjusted downward if the first year cost is less, while a price over \$1,720 is subject to Commission review and approval.

No party makes a credible case that the WPA terms are not just and reasonable. Subject to our further directions to applicant below, we find that Criteria 8 is satisfied.

### **Criterion 9: Reasonableness of the GWR Revenue Requirement**

Criterion 9 requires that the revenue requirement for the combination of the GWR with the smaller desalination project is just and reasonable when compared to the revenue requirement for the larger desalination project alone.

In general, future revenue requirements for either the combined GWR with small desalination plant or the larger desalination plant remain uncertain and depend on assumptions about eventual construction costs, financing costs, escalation rates, power delivery method, return water requirements, delays, and lawsuits, among other factors. Nonetheless, there is no credible dispute among

## EXHIBIT 4-A

A.12-04-019 ALJ/GW2/ar9/lil

parties as to the reasonableness of the \$1,720 per acre-foot first year cost cap.

Among other parties, ORA agrees that this is a reasonable cost cap.

Applicant, Agency, and District evaluated the first year indifference cost for the GWR using low and high cost scenarios over a reasonable range of fixed and variable costs measured against the lifecycle total revenue requirement, the net present value of the lifecycle revenue requirement, and the first year revenue requirement.<sup>11</sup> (The indifference point is where ratepayers are indifferent between the larger desalination plant and the GWR/WPA combined with the smaller desalination plant). The first year indifference cost ranges from \$1,178 to \$2,062 per AFY. The soft cap of \$1,720 is reasonable given the wide range of results.

Several parties also argue that a first year premium, if any, is reasonable given several externalities, or non-quantified benefits, of the WPA. We discuss those under broader principles below.

Beyond the first year, future revenue requirements remain uncertain but ORA and other parties argue that lifecycle costs for the two options should also be considered in addition to the first year revenue requirement. A life-cycle analysis provides an opportunity to consider estimated replacement costs; estimated escalation of operation, maintenance and energy costs; and different financing costs. It is entirely plausible that, over the range of variables during the 30-year life of the WPA, the net present value of the revenue requirement for the smaller desalination plant with GWR is less than the net present value of the revenue requirement for the larger plant. It is nearly unanimous among parties, however, that even if a revenue requirement premium is required, the overall

---

<sup>11</sup> Exh. JE-2 at 7-8.