

**NOTIFICATION OF PROPOSED RATE INCREASE BY  
FONTANA WATER COMPANY  
Application No. 09-05-004**

On May 1, 2009, Fontana Water Company (the company) filed its Cost of Capital Increase request in Application No. 09-05-004 (A.09-05-004) with the California Public Utilities Commission (CPUC) for years 2010, 2011, and 2012. Cost of capital is a financial term defining how much a corporation is allowed in rates as a return on its invested capital. This filing requests the following companywide cost of capital for 2010:

	Capital Ratio	Cost	Weighted Cost
Long-Term Debt	36.05%	7.56%	2.73%
Common Equity	<u>63.95%</u>	12.95%	<u>8.28%</u>
Total	100.00%		11.01%

This proposed application filing would result in a \$4,150,000 or 8.19% increase in revenues from customers in this division. The company proposes that any rate change resulting from this application be implemented effective January 1, 2010. The annualized proposed increases are reflected in the chart below and are based on rates now in effect:

**Annualized Proposed Increases  
Based on Rates Now in Effect  
(Dollars in Thousands)**

Customer Class	\$	%
Residential	3,019.7	8.09
Commercial	499.0	8.83
Industrial	203.9	8.69
Public Authority	314.3	8.71
Private Fire Service	43.9	5.38
Construction	33.4	5.38

If approved by the CPUC, the effect of the proposed 2010 cost of capital, based on present rates, on a residential customer using 23 Ccf per month is as follows:

	5/8"x3/4" meter		1" meter	
	Present	Proposed	Present	Proposed
Monthly Service Charge	\$16.55	\$17.44	\$41.38	\$43.6
Quantity Rate	\$36.88	\$40.46	\$36.88	\$40.46
Total	\$53.43	\$57.90	\$78.26	\$84.06
Proposed Increase		\$4.47		\$5.80
		8.37%		7.41%

In addition, the company proposes the following costs of capital for 2011 and 2012:

	Capital Ratio	Cost	Weighted Cost
Long-Term Debt	38.05%	7.78%	2.96%
Common Equity	<u>61.95%</u>	12.95%	<u>8.02%</u>
Total	100.00%		10.98%

	Capital Ratio	Cost	Weighted Cost
2012 Long-Term Debt	39.60%	8.08%	3.20%
2012 Common Equity	<u>60.40%</u>	12.95%	<u>7.82%</u>
Total	100.00%		11.02%

In the alternative for 2011 and 2012, the company proposes a Cost of Capital Adjustment Mechanism to adjust its cost of capital as of January 1, 2011 and January 1, 2012 if specified conditions occur in the future.

**EVIDENTIARY HEARINGS**

The CPUC may hold formal Evidentiary Hearings (EHs) on this matter. At the EHs, formal parties of record provide testimony and are subject to cross examination before the CPUC's Administrative Law Judge (ALJ). Expert testimony would also be provided by the company. These hearings are open to the public to attend and listen, but only those who are formal parties of record can participate. If an EH is scheduled, it would be to analyze the need for the proposed rate increase and the allocation of any approved increases among different classes of customers. The Division of Ratepayer Advocates (DRA) consists of engineers, accountants, economics and attorneys who independently evaluate the proposals of utilities for rate changes and present their analyses and recommendations for the CPUC at the EHs. Once hearings are complete, the ALJ will consider all of the evidence presented and release the draft decision. The CPUC may approve the proposed requests for the company, approve the draft decision by the ALJ, or may approve an alternate decision filed by a CPUC Commissioner. The final decision may differ from the company's original proposed request.

**CPUC PROCESS**

Written public comment by the company's customers is very much desired by the CPUC and may be sent to the CPUC's Public Advisor's Office (PAO). The PAO was established to assist members of the public who want to participate in CPUC proceedings. If you wish to participate or comment on this application, please contact the Public Advisor's Office, 320 West, 4th Street, Suite 500, Los Angeles, CA 90013, or by e-mail to [public.advisor.la@cpuc.ca.gov](mailto:public.advisor.la@cpuc.ca.gov). When sending an e-mail or writing a letter, please reference A.09-05-004, the Cost of Capital application.

Public comments will become part of the formal public comment correspondence file for this proceeding. All e-mails and letters are circulated to the assigned Commissioner, ALJ, and CPUC staff reviewing this application.

Further information regarding the Cost of Capital application filing may be obtained from Fontana Water Company. A copy of the application may be inspected at the business office listed below or at the CPUC office at 505 Van Ness Avenue, San Francisco, CA, Monday - Friday, 8am - 12 noon.

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