Golden State Water Company
A Subsidiary of American States Water Company

Cost of Capital Application

Frequently Asked Questions

What is the Cost of Capital?

This GSWC Cost of Capital filing will establish the framework for funding future capital projects in the years 2012, 2013, and 2014.

This is a good opportunity to explain how GSWC finances projects such as new pipelines, water treatment facilities, and equipment, otherwise known as capital improvements. GSWC funds these capital projects in the following manner:

- **Borrowing money from lending institutions**
  The lending institutions require GSWC to make payments on the principal and interest—the same as a consumer would for a car or home.

- **Selling shares of stock**
  The shareholders who purchased stock want a return on that investment.

In the filing we ask that approximately 44 percent of the funding come from borrowing and approximately 56 percent come from shareholders, or common equity as it is referred to in the filing.

GSWC asks for an average rate of return on rate base of approximately 9.5 percent. The 9.5 percent would be applied to how much capital investment is made in each ratemaking area.

The revenue from the rate of return would be used to pay off debts to the lending institutions and provide shareholders a return on their investment for the capital projects.

The rate authorized by the Commission is not guaranteed.

Why is GSWC asking for an increase?

GSWC is required to make this filing at this time, under the CPUC's rate case plan. It is based on forecasting the average cost of long-term debt and recommending a fair rate of return for shareholders that is sufficient to assure confidence in the financial soundness of the utility.

This filing, if approved, will help the company maintain a solid financial foundation to ensure it can maximize water quality and keep a well maintained water system.

This helps the company maintain a good credit rating and borrow money at lower costs.