AA6. Pension Cost Balancing Account (PCBA6) (N)

1. PURPOSE

   The PCBA6 will track the difference between the adopted pension expense and California-regulated pension expense recorded in accordance with Generally Accepted Accounting Principles (GAAP). The adopted and recorded expenses include only the expensed portion of benefits and exclude pension costs assigned to capitalized overhead, capitalized projects, out-of-state affiliates, and unregulated entities.

2. APPLICABILITY

   The PCBA6 is effective beginning January 1, 2026, through December 31, 2028, and applies to all ratemaking areas ("districts") and Customer Support Services (General Office). This excludes out-of-state affiliates and unregulated operation expenses.

3. ACCOUNTING PROCEDURE:

   The following entries will be recorded annually to the PCBA6:

   a. Annual pension expense as determined by Cal Water's actuarial expert according to the method prescribed by the Financial Accounting Standards Board's ASC 715 and fees to administer the Company's pension plans. The capitalized portion of pension costs at the adopted capitalization ratio will be excluded.
   b. The annual amount of pension expense authorized to be collected in rates. The capitalized portion of pension costs at the adopted capitalization ratio will be excluded.
   c. The difference between 3.a and 3.b.
   d. The sum of entries in item 3.c., all prior year entries in 3.c., and all accumulated interest calculated in 3.e., below.
   e. Interest shall accrue to the account by applying a rate equal to 1/12th of the most recent month's non-financial Commercial Paper Rate (prime, 90-day), as published in the Federal Reserve Statistical Release H-15 or its successor, to the average balance for each month. (N)

(Continued)

AA6. Pension Cost Balancing Account (PCBA6) (continued) (N)

4. RATEMAKING PROCEDURE:

   The PCBA6 is recoverable in a Tier 2 advice letter filing if the accumulated balance exceeds 2% of gross adopted revenues for Cal Water in accordance with General Order 96-B and standard practices or by request in the next general rate case. In any filing, Cal Water shall demonstrate its continued compliance with ASC 715 and demonstrate that any changes to its expenses were reasonable and prudently incurred.

   In any filing, Cal Water will identify any changes in pension accounting that were required by federal or state law or directed by the Financial Accounting Standards Board. Changes in assumptions reflecting current market, interest rate, or demographic conditions should not be considered "changes in accounting" as these are standard practices used to develop ASC 715 requirements.

(N)