

CALIFORNIA WATER SERVICE COMPANY  
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       New CPUC Sheet No. 11318-W  
       CPUC Sheet No.       

Preliminary Statement  
(continued)

**AB3. Health Cost Balancing Account 3 (HCBA3)**

(N)

1. PURPOSE:

The purpose of the Health Cost Balancing Account (HCBA3) is to track the difference between the adopted health care expenses (including post-retirement benefits other than pension or PBOB) and the total actual cost incurred as health care expenses. Eighty-five percent (85%) of the reasonable cost difference will be flowed through to ratepayers, and fifteen (15%) of the reasonable cost difference will be at the company's risk. The difference may be either positive or negative depending upon how actual health care expenses compare to those included in rates.

2. APPLICABILITY:

The HCBA3 is effective beginning January 1, 2017, through December 31, 2019, and applies to all ratemaking areas ("districts") and Customer Support Services (General Office). This excludes out-of-state affiliates and unregulated operations expenses.

3. ACCOUNTING PROCEDURE:

There is no rate component to the HCBA3. Cal Water shall record for future disposition the following entries:

- a. Eighty-five percent (85%) of the difference between the adopted health care expenses and the actual cost incurred as health care expenses will be included in the balancing account, as either a debit or a credit balance depending upon if the actual costs exceed or are less than the amounts adopted in rates. The capitalized portion of health care expenses at the adopted capitalization ratio will be excluded.
- b. A monthly debit or credit entry equal to the average balance in each segment of the account multiplied by 1/12th of the most recent month's interest rate on Commercial Paper (prime, 90-day) published in the Federal Reserve Statistical Release H-15.

4. DISPOSITION:

The HCBA3 is recoverable or refundable in a Tier 2 advice letter filing if the accumulated balance exceeds 2% of gross adopted annual revenues for Cal Water in accordance with General Order 96-B and standard practices or by request in the next general rate case.

(N)

(To be inserted by utility)  
Advice Letter No. 2242  
Decision No. D.16-12-042

Issued by  
PAUL G TOWNSLEY  
NAME  
Vice President

(To be inserted by Cal P.U.C.)  
Date Filed 12-30-2016  
Effective 01-01-2017  
Resolution No. -