

Preliminary Statement AB5

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AB5. Health Cost Balancing Account 5 (HCBA5)

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1. PURPOSE

The purpose of the Health Cost Balancing Account (HCBA5) 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 customers, 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 HCBA5 is effective beginning January 1, 2023, through December 31, 2025, and applies to all Class A ratemaking areas 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 HCBA5. 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 and other items listed in Section 2 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 or its successor.

4. DISPOSITION:

The HCBA5 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 a general rate case.

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