

Preliminary Statement S

S. Water Cost of Capital Adjustment Mechanism (WCCM)

1. Purpose: The purpose of the Water Cost of Capital Adjustment Mechanism (WCCM) is to provide an automatic adjustment, up or down, to Cal Water’s adopted return on equity for rates implemented in 2023 after the issuance of D.23-06-025, and for rates implemented in 2024, only if there is a positive or negative difference of more than 100 basis points between a benchmark and the average of the Moody’s Utility Bond Index rates for a given 12-month period.
2. Applicability: Applicable to all Class A ratemaking areas (excludes Grand Oaks).
3. Cal Water shall maintain the WCCM as follows:
 - a. Cal Water’s initial benchmark is equal to the average interest rate shown on Moody’s Aa Utility Bond Index if it has an AA or A credit-rating or higher, or Moody’s Baa Utility Bond Index if Cal Water has a BBB+ credit-rating or lower, for the period from October 1, 2020 to September 30, 2021.
 - b. If the “deadband” (the range of change in interest rates that may occur without automatically triggering a change in the return on equity) of 100 basis points is exceeded, Cal Water’s return on equity will be adjusted by one-half of the difference between the benchmark and the October 1 to September 30 average.
 - c. In any year where the 12-month October 1 through September 30 average of the Moody’s Utility Bond Index rates triggers an automatic return on equity adjustment, that average becomes the new benchmark.
 - d. For rates implemented in 2023 after the issuance of D.23-06-025, the initial benchmark shall be compared to the average interest rate shown on Moody’s Aa Utility Bonds Index if it has an AA or A credit-rating or higher, or Moody’s Baa Utility Bonds Index if Cal Water has a BBB+ credit-rating or lower, for the period from October 1, 2021 to September 30, 2022.

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(To be inserted by utility)	Issued By	(To be inserted by CPUC)
Advice Letter <u>2485</u>	<u>Greg Milleman</u>	Date Filed <u>06/30/2023</u>
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	<u>Rates and Regulatory Affairs</u>	Resolution _____

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S. Water Cost of Capital Adjustment Mechanism (WCCM) (continued)

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3. Cal Water shall maintain the WCCM as follows: (continued)

- e. For rates implemented in 2023 after the issuance of D.23-06-025, if the 100 basis point deadband is exceeded, Cal Water will submit a Tier 2 advice letter to update return on equity and related rate adjustments to become effective for the rest of 2023. The advice letter would also update long-term debt and preferred stock costs to reflect actual embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued.
- f. For rates implemented in 2024, if the 100 basis point deadband is exceeded, Cal Water will submit a Tier 2 advice letter by October 15, 2023 to update return on equity and related rate adjustments to become effective on January 1, 2024. The advice letter would also update long-term debt and preferred stock costs to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued.
- g. Cal Water’s capital structure, as adopted in D.23-06-025, shall not be adjusted.
- h. If the WCCM is triggered, workpapers outlining the calculations relating to the change in return on equity, long-term debt costs, and preferred stock costs are required to accompany the advice letter.

4. Effective Date: The WCCM shall be effective for rates implemented in 2023 after the issuance of D.23-06-025, and for rates implemented in 2024, unless modified by order of the Commission.

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