STATE OF CALIFORNIA GAVIN NEWSOM, *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

FILED
11/05/26
03:22 PM
A2507003

November 5, 2026

Agenda ID #24632
Ratesetting

TO PARTIES OF RECORD IN APPLICATION 25-07-003:

This is the proposed decision of Administrative Law Judge Rafael Lirag. Until and unless the Commission hears the item and votes to approve it, the proposed decision has no legal effect. This item may be heard, at the earliest, at the Commission's December 17, 2026, Business Meeting. To confirm when the item will be heard, please see the Business Meeting agenda, which is posted on the Commission's website 10 days before each Business Meeting.

Parties of record may file comments on the proposed decision as provided in Rule 14.3 of the Commission's Rules of Practice and Procedure.

The Commission may hold a Ratesetting Deliberative Meeting to consider this item in closed session in advance of the Business Meeting at which the item will be heard. In such event, notice of the Ratesetting Deliberative Meeting will appear in the Daily Calendar, which is posted on the Commission's website. If a Ratesetting Deliberative Meeting is scheduled, *ex parte* communications are prohibited pursuant to Rule 8.2(c)(4).

/s/ MICHELLE COOKE
Michelle Cooke
Chief Administrative Law Judge

MLC: asf
Attachment

ALJ/RL8/asf **PROPOSED DECISION** **Agenda ID #24632**
Ratesetting

Decision **PROPOSED DECISION OF ALJ LIRAG (Mailed 11/5/2026)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application of California-American Water Company (U210W) for Authorization to Increase its Revenues for Water Service by $63,090,981 or 17.20% in the year 2027, by $22,067,361 or 5.13% in the year 2028, and by $26,014,600 or 5.75% in the year 2029.	Application 25-07-003

DECISION ADDRESSING THE GENERAL RATE CASE APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY AND PROPOSED SETTLEMENT AGREEMENT

TABLE OF CONTENTS

Title **Page**

DECISION ADDRESSING THE GENERAL RATE CASE APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY AND PROPOSED SETTLEMENT AGREEMENT 2
Summary 2
1. Background 3
2. Scope 5
3. PPHs and Correspondence 6
4. Settlement Agreement and Standard of Review 7
5. Comments on Settlement 9
6. Discussion of Settlement Agreement 9
6.1. Customers, Sales, and Production 10
6.1.1. Number of Customers 10
6.1.2. Customer Sales 11
6.1.3. Water Production 12
6.2. Revenues and Rate Design 12
6.2.1. Customer Assistance Programs 13
6.2.2. Uncollectible Rate 14
6.2.3. Rate Design 14
6.3. Expenses 20
6.3.1. Purchased Water and Purchased Power 20
6.3.2. A&G 23
6.3.3. O&M 26
6.3.4. Service Company 27
6.3.5. Conservation 27
6.3.6. Tank Maintenance Expense 29
6.3.7. Chemicals 30
6.3.8. Hawaii American Water 30
6.3.9. Water Loss Funding 31
6.4. Labor and Benefits 32
6.4.1. Labor 32
6.4.2. Benefits 34
6.5. Plant Issues 35
6.6. Taxes 39
6.6.1. Income Taxes 39
6.6.2. Taxes Other than Income 40
6.7. Rate Base 42

6.7.1. Depreciation 42
6.7.2. Working Cash Allowance 43
6.7.3. Cost or Removal 44
6.7.4. Weighted Average Calculation 45
6.7.5. Early Asset Retirement 46
6.8. Memorandum and Balancing Accounts 47
6.9. Special Requests 49
6.9.1. Request 1 – Fixed Cost Recovery Account 49
6.9.2. Request 2 – Acquisition Rate Base Normalization 50
6.9.3. Requests 3 and 4 50
6.9.4. Request 5 – Rate Mitigation Plan for Certain Acquired Systems 50
6.9.5. Request 6 – Subsequent Rate Changes 51
6.9.6. Request 7 – Modifications to Existing ACAM 51
6.9.7. Request 8 – Water Contamination Memorandum Account 52
6.9.8. Request 9 – Attrition Year Normalization 52
6.9.9. Request 10 – Monterey Rates Website 53
6.9.10. Request 11 – Multi Family Low Income Pilot Program Extension and Expansion 53
6.10. Other Terms 54
6.10.1. Deceptive Pricing Adjustment 54
6.10.2. Customer Service 54
6.10.3. Hardship Benefit Program 55
6.10.4. Commission ESJ Plan 56
7. Conclusion Regarding Settlement 56
8. Construction Work-in-Progress 60
8.1. Comments from Parties 60
8.1.1. Cal Advocates 60
8.1.2. Cal-Am 61
8.1.3. CWA 62
8.1.4. Monterey 63
8.2. CWIP Discussion 63
9. ESJ Action Plan 65
10. Comments on Proposed Decision 67
11. Assignment of Proceeding 68
Findings of Fact 68
Conclusions of Law 71
O R D E R 73

Appendix A to F – California American Water California Total - 2025 GRC Summary Of Earnings at Adopted Rates
Appendix G - Appendix G re Settlement Agreement

DECISION ADDRESSING THE GENERAL RATE CASE APPLICATION OF CALIFORNIA-AMERICAN WATER COMPANY AND PROPOSED SETTLEMENT AGREEMENT

Summary

Today's decision addresses the Test Year (TY) 2027 general rate case (GRC) application of California-American Water Company (Cal-Am).

The decision adopts the Settlement Agreement between Cal-Am and the Public Advocates Office at the California Public Utilities Commission (Cal Advocates), which resolves all but one issue between the two parties.

The remaining disputed issue is whether or not to include construction work-in-progress (CWIP) in rate base and this decision finds it reasonable to include CWIP in rate base in this case based on the record of the proceeding.

With CWIP included in rate base, this decision authorizes a revenue requirement of $422.087 million for Cal-Am for TY 2027, which is $37.9 million lower than Cal-Am's requested amount of $460.0 million. The decision also authorizes revenue requirements of $444.379 million for post-test year (PTY) 2028 and $466.695 million for PTY 2029.

The authorized revenue requirement for TY 2027 represents an increase of $24.2 million or a 6.08 percent increase over current rates. For 2028, Cal-Am's revenue requirement is expected to increase by approximately 5.28 percent over 2027 revenues. For 2029, the revenue requirement is expected to increase by 5.02 percent over the 2028 adopted revenues.

Table 1 shows a comparison between the average residential monthly consumption and bill for 2026, and the Settlement consumption and bill for 2027, for each of Cal-Am's ratemaking areas. The table also shows the dollar and percent changes for average monthly consumption.

Table 1 Monthly usage and change in the monthly bill for the average residential customer with a 5/8 x 3/4" meter (excluding any applicable surcharges)					
Ratemaking Area	Monthly Use (hundred cu ft)	Current Bill	TY 2027 Bill	Amount Change	Percent Change
Sacramento	@ 9.9 Ccf	$68.74	$74.26	$5.52	8.03%
Larkfield	@ 8.6 Ccf	$77.91	$80.32	$2.41	3.09%
Meadowbrook	@ 15.6 Ccf	$61.14	$62.27	$1.13	1.85%
Monterey Main	@ 4.7 Ccf	$80.16	$87.74	$7.58	9.46%
Central Satellite	@ 10.1 Ccf	$110.96	$112.36	$1.40	1.26%
San Marino	@ 16.9 Ccf	$117.59	$123.94	$6.35	5.40%
Baldwin Hills	@ 11.7 Ccf	$89.72	$95.86	$6.14	6.84%
Ventura	@ 13.8 Ccf	$115.43	$125.43	$10.00	8.66%
San Diego	@ 7.8 Ccf	$84.14	$101.00	$16.86	20.0%

This general rate case proceeding is closed.

1. Background

On July 1, 2025, California-American Water Company (Cal-Am) filed Application 25-07-003, for among other things, to increase its revenues for water and/or wastewater services in each of its districts statewide for Test Year 2027 and Post-Test Years (PTY) 2028 and 2029.

On July 9, 2025, a Motion for Party Status was filed by Monterey Peninsula Water Management District (Monterey). The motion was granted in the administrative law judge (ALJ) ruling on July 29, 2025.

On July 28, 2025, a Motion for Party Status was filed by City of Thousand Oaks. The motion was granted in the ALJ ruling on July 29, 2025.

Also on July 28, 2025, the assigned ALJ issued a ruling requiring additional information on revenue requirement models and proposed capital additions.

Cal-Am shall meet with the Commission's Water Division and serve an additional exhibit pursuant to this ruling.

On August 4, 2025, a Protest to the Application was filed by the Public Advocates Office at the California Public Utilities Commission (Cal Advocates). Cal-Am filed a Reply on August 14, 2025.

On August 26, 2025, California Water Association (CWA) filed a Motion for Party Status. The motion was granted in an ALJ ruling issued on the same day.

A prehearing conference (PHC) was held on August 29, 2025. At the PHC, the issues, category, need for hearings, procedural schedule, and other procedural matters relating to the proceeding were discussed.

On September 19, 2025, the assigned Commissioner issued a Scoping Memorandum and Ruling (Scoping Memo) setting forth the scope and procedural schedule for the proceeding.

On October 13, 2025, Cal-Am filed an update to the Application.

On December 2, 2025, Cal Advocates filed a Motion to Strike the update filed by Cal-Am. Cal-Am filed a Response to the motion on December 17, 2025. The motion was denied on August 5, 2026.

Also on December 17, 2025, Cal-Am filed a Motion to Modify its Application. The motion was granted on August 5, 2026.

Public Participation Hearings (PPH) were held on January 6, 2026, January 13, 2026, January 20, 2026, and January 28, 2026, at various locations in Cal-Am's service territory and virtually.

On February 3, 2026, Cal-Am filed a Motion to Re-notice its Customers. The motion was granted on February 12, 2026.

On February 6, 2026, California Water Efficiency Partnership (CalWEP) filed a Motion for Party Status. The motion was granted in the ALJ ruling on February 9, 2026.

Evidentiary hearings were held on April 20, 2026 and April 21, 2026.[1]

On June 8, 2026, Cal-Am and Cal Advocates filed a Joint Motion for Approval of Settlement Agreement.[2]

On June 17, 2026, Cal-Am filed a Motion to Admit Additional Exhibit. The motion was granted on July 31, 2026.

On June 29, 2026, Cal-Am filed a Motion for Interim Rates. The motion was granted in D.26-10-007 issued on October 8, 2026.

Opening Briefs were filed on June 29, 2026, by Monterey, Cal-Am, CWA, and Cal Advocates. Reply Briefs were filed on July 20, 2026, by Cal-Am, Cal Advocates, CWA, and Monterey.

Comments on the Settlement Agreement were filed by Monterey on July 8, 2026. Reply Comments on the Settlement Agreement were filed on July 23, 2026, by Cal-Am and Monterey.

The proceeding is deemed submitted on July 23, 2026, upon the filing of Reply Comments to the Settlement Agreement.

2. Scope

As set forth in the assigned Commissioner's Scoping Memo, the issues in this proceeding are as follows:

1. Whether or not Cal-Am's forecast revenue requirements and associated rate and related requests are just and reasonable.

[1] Evidentiary hearings were originally scheduled from April 20, 2026 to May 1, 2026, but parties waived all remaining cross examination at the end of the hearing on April 21, 2026.

[2] The Settlement is included as Appendix G to this decision.

Subtopics under this issue include the reasonableness of the following:

a. Cal-Am's proposed expense budgets and allocations to and from affiliated interests;

b. Ratepayer funding of proposed capital spending;

c. Proposed rate base;

d. Proposed rate designs;

e. Provision of safe and reliable water service; and

f. Customer service.

2. Whether the proposed PTY ratemaking for PTY 2028 and 2029 are reasonable.

3. Whether Cal-Am's Special Requests 1 to 2 and 5 to 11 should be approved.[3]

4. Whether the Application supports the goals and objectives of the Commission's Environmental and Social Justice (ESJ) Action Plan.

3. PPHs and Correspondence

A total of four PPHs were held in different locations within the service territories of Cal-Am and remotely in connection with the GRC application and quality of water service.[4] The PPHs were held in order to receive comments from Cal-Am's customers regarding the impact of the application on them and the quality of service. Comments were also sent to the Commission about the application.

A great majority of the comments at the PPHs and correspondence received oppose the proposed increases that Cal-Am State is requesting. The

[3] Pursuant to discussions during the PHC and arguments raised by parties, Cal-Am's Special Requests 3 and 4 for the creation of two memorandum accounts relating to future acquisitions by Cal-Am, are outside the scope of the proceeding.

[4] PPHs were held in Citrus Heights, Sand City, and Camarillo. A fourth PPH was conducted remotely.

commenters explain that several rate increases in recent years have made rates unaffordable. Commenters also oppose the proposed rate increases because of the state of the economy and because of personal economic circumstances.

Many speakers at the PPHs and many of the comments sent to the Commission state that many residents are on fixed incomes, are unemployed or underemployed, and cannot afford any further increases in their utility bills. Several customers also pointed out that there have already been several rate increases from other applications and that their water bills do not decrease even when they conserve and consume less water.

4. Settlement Agreement and Standard of Review

As the Applicant, Cal-Am has the burden of proof to show that the rates it requests are just and reasonable and the related ratemaking mechanisms are fair.

On June 8, 2026, Cal-Am and Cal Advocates filed a Joint Motion for Approval of a Settlement Agreement (Settlement). The Settlement resolves all issues between Cal-Am and Cal Advocates except for the issue concerning Construction Work-in-Progress (CWIP). The Settlement includes the following appendices:

Attachment A-1: Average Customers by Class

Attachment A-2: Average Customers by Meter Size

Attachment A-3: Annual Consumption per Customer

Attachment A-4: Total Consumption

Attachment A-5: Water Production and System Delivery

Attachment B-1: Purchased Water Adopted Quantities

Attachment B-2: Purchased Power Adopted Quantities

Attachment B-3: Labor & Benefits

Attachment B-4: O&M and A&G Expense

Attachment B-5: Deferred Tank Maintenance

Attachment B-6: Chemical Adopted Quantities

Attachment C-1: Depreciation Rates

Attachment C-2: Engineering Overhead by District

Attachment C-3: Disputed Capital Expenditure Comparison

Attachment C-4: Strategic Capital Expenditure Plan 2

Attachment D-1: California American Water Advice Letter 1494 2026 ACAM

Attachment D-2: Preliminary Determination of Operating Safe Yield for 2026-27 through 2030-31

Attachment E-1: Statewide Comparison Exhibit

Attachment E-2: Northern Division Comparison Exhibit

Attachment E-3: Central Southern Division Comparison Exhibit

Attachment E-4: Southern Central Division Comparison Exhibit

Attachment E-5: Monterey Wastewater Comparison Exhibit

Attachment E-6: General Office Comparison Exhibit

Attachment F-1: Balancing and Memorandum Accounts

Attachment G-1: Labor Headcount

With respect to any settlement agreement, the Commission will only approve settlements that are reasonable in light of the record as a whole, consistent with the law, and in the public interest.

And in order to consider any possible proposed settlement in this proceeding as being in the public interest, the Commission must be convinced that the parties have a sound and thorough understanding of the application and all of the underlying assumptions and data included in the record. This level of

understanding of the application and development of an adequate record is necessary to meet our requirements for considering any settlement.

We shall first consider the Settlement Agreement including discussion of objections and concerns raised by Monterey, as well as Cal-Am's and Cal Advocates' positions regarding those objections. This shall be followed by a discussion of the remaining disputed issue relating to CWIP.

5. Comments on Settlement

Only Monterey provided comments to the Settlement which we discuss in the appropriate sections of our review of the Settlement. The other parties in the proceeding, though not parties to the Settlement, did not raise any objections which leaves Monterey as the sole party with objections to the Settlement.

Generally, Monterey argues that the level of expenditures proposed for the Monterey Service Area customers remains unsustainable and warrants further reductions. Monterey provided comments on certain topics in the Settlement including the total revenue increase, customer assistance program, purchased water and power, conservation, plant, and hardship benefit program.

6. Discussion of Settlement Agreement

The table below shows the proposed total revenue requirement increases in the Settlement for TY 2027 and PTYs 2028 and 2029. For comparative purposes, we also include the proposed increases made by Cal-Am in its application.

Year	Revenue Increase (Cal-Am)	Revenue Increase (Settlement)[5]
2027	62.1 million (+16.85%)	24.2 million (+6.08%)
2028	21.5 million (+4.99%)	21.1 million (+4.98%)
2029	26.4 million (+5.83%)	22.3 million (+5.02%)

[5] The Settlement numbers are with CWIP remaining in rate base.

6.1. Customers, Sales, and Production

This section includes the forecast for the number of Cal-Am's customers, water sales per customer, and total water production which represents the sum of water sales and non-revenue water.[6] Determining Cal-Am's revenue requirement and designing reasonable water rates requires a reasonable forecast of Cal-Am's customers and their water consumption.

6.1.1. Number of Customers

Both Cal-Am and Cal Advocates utilized a five-year average of growth in the number of customers to forecast the number of customer meters for the TY and PTYs although Cal-Am incorporated deviations to the five-year average based on facts specific for the customer areas for the cities of Monterey, Sacramento, Bellflower, East Pasadena, and Piru (Warring).

The Settlement agrees to utilize the Cal-Am's forecasts for the total number of customer meters of 197,376 for 2027, 197,920 for 2028, and 198,518 for 2029.

Per the Rate Case Plan, utilities must forecast customer growth using a five-year average of the change in the number of customers by customer class.[7] The Rate Case Plan also provides that a utility may make adjustments to the five-year average if an unusual event occurs or is expected to occur. However, Cal-Am argues in some instances, applying the five-year average in growth of customers does not take into account one-time events such as the acquisition of smaller utilities in a service area which increase the number of customers but are not expected to be recurring events.

---

[6] Non-revenue water is part of water that the utility produces and treats but is lost before reaching customers because of leaks, inaccurate metering, unauthorized use, etc.

[7] *See* D.07-05-062 (Rate Case Plan), Appendix A, at A-20.

We find Cal-Am's explanation for deviations reasonable in this case and find the Settlement proposal to utilize Cal-Am's forecast for the number of customers reasonable. In addition, the difference between Cal-Am's and Cal Advocates' forecasts for the number of customers is relatively small or around 4,572 customer meters out of a total of around 197,000 customer meters. Attachment A-1 of the Settlement contains a breakdown of the number of customers by class for the different service areas.

6.1.2. Customer Sales

Cal-Am states that it utilized econometric models to forecast consumption per connection as detailed in Exhibit Cal-Am 21. Cal-Am incorporated the effects of water rates, conservation programs, climate variability, weather conditions, and drought-related factors that influence water demand. Cal-Am then normalized the average water use per customer to account for the impacts of temporary measures including drought executive orders, and weather deviations.

Cal Advocates recommends use of the sales estimates pursuant to the Conservation Adjustment for Rate Tier Designs Mechanism (CART) rate design determine water sales per customer for all customer classes.

Monterey comments that the method proposed by Cal-Am is highly complex and that the most accurate data can be found in the Annual Consumption Adjustment Mechanism reflecting actual use by customer category through September 30, 2025.

In the Settlement, the parties agree to utilize Cal-Am's current total authorized sales in Advice Letter 1494[8] and Cal-Am's customer counts in this

[8] Advice Letter 1494 (2026 Annual Consumption Adjustment Mechanism) was filed on November 17, 2025 and became effective on December 16, 2025.

proceeding in order to calculate average sales per service. The total sales were divided by customer count to calculate the forecasted sales per customer by customer class for each service area.

Using the current total authorized sales represents a fair compromise between the different proposals by Cal-Am and Cal Advocates and was arrived at by parties that have extensive knowledge regarding this issue. It also partly addresses the comment from Monterey that the method proposed by Cal-Am is highly complex. Attachment A-3 presents the agreed upon consumption per connection and total consumption by customer class respectively for each service area.

6.1.3. Water Production

Total water production represents the sum of water sales and non-revenue water. The sum of water sales is determined by the number of customers and average consumption per meter which were discussed above.

For non-revenue water, both Cal-Am and Cal Advocates agree on utilizing a five-year average of non-revenue water from 2020 to 2024 so there is no disagreement regarding this issue. Because the Settlement agrees to utilize Cal-Am's forecasts for number of customers and customer sales per customer meter, the Settlement also agrees to utilize Cal-Am's forecast for total water production which is 36,134,336 hundred cubic feet (CCF). The forecast for non-revenue water is reflected in Attachment A-5 of the Settlement.

6.2. Revenues and Rate Design

This section discusses Customer Assistance Programs, Uncollectible Rate, and Rate Design.

6.2.1. Customer Assistance Programs

Cal-AM's Customer Assistance Programs (CAP) provide bill payment assistance to qualified customers. Cal-Am has a total of 24,972 CAP participants and provides a 25% per month discount on meter charges and Tier 1 and 2 volumetric charges to qualifying customers in all service areas except for the Monterey Main District, which has a 35% discount for Tier 1, 2, and 3 charges to account for Monterey's outdated rate design. CAP is currently funded by a $3.15 per month surcharge applicable to all non-CAP customers.

Cal-Am proposed to revise the Monterey CAP by increasing the Tier 1 meter charge discount from 35% to 50% but eliminating the discounts for Tier 2 and Tier 3 meter charges. CAP discounts for wastewater charges were to remain the same. Cal Advocates also recommended not changing Cal-Am's Monterey CAP discount to prevent rate shock.

The Settlement agrees to adopt Cal-Am's proposal to maintain its current CAP discounts for all services areas except for Monterey. For the Monterey service area, the Settlement agrees with Cal-Am's proposal to increase the Monterey CAP discount to a 50% discount on Tier 1 usage but to eliminate the discount for Tier 2 and Tier 3 usage.

Both Cal-Am and Cal Advocates have the same goal which is to help alleviate rate shock from proposed rate increases. According to Cal-Am however, their proposal results in greater rate relief for low-income households that are in greater need of economic assistance.

Monterey objects to the change in CAP arguing that the Settlement does not consider the impact to non-low income customers in Monterey who subsidize the CAP program.

As stated by Cal-Am, Tier 1 usage reflects mostly indoor water use, while Tier 2 and Tier 3 usage are for less essential water use; therefore, the increased discount for Tier 1 usage helps the more vulnerable customers. In addition, Monterey's argument is more about the subsidy to the CAP program itself and whether non-CAP members should pay less, as opposed to an argument about the change to the CAP discount proposed in the Settlement. From our review, we find the proposed change to CAP reasonable and aimed at providing greater assistance to Cal-Am's more vulnerable customers.

6.2.2. Uncollectible Rate

The uncollectible rate refers to the portion of a Cal-Am's billed water revenue that is expected to be unpaid due to customer delinquency, default, or other factors.

Cal-Am requested an uncollectible rate of 0.5117%, which was authorized in its GRC as established in D.21-11-018 and D.24-12-025. According to Cal-Am, it deviated from the standard practice of utilizing a five-year average due to the impacts of Covid-19, a moratorium on disconnections, and an unusual year in 2023.

Cal Advocates and other parties do not dispute Cal-Am's proposed methodology.

The Settlement adopts Cal-Am's proposed methodology for calculating the uncollectible rate which we find reasonable in light of the reasons proposed by Cal-Am and the facts and circumstances in this case.

6.2.3. Rate Design

Rate design refers to how Cal-Am's rates for water and wastewater service are structured so that Cal-Am can fairly recover costs, promote efficiency, meet policy goals, and obtain a fair rate of return on their investment. A well-designed

rate structure recovers authorized revenues, aligns the costs of operating a water system equitably across the system's users, and achieves state policy, including the affordability and equity of water rates for all customers.

In this proceeding, Cal-Am proposed two different rate designs. The first is the Fixed Cost Recovery Account (FCRA) method, a revenue decoupling mechanism.[9] The second is the CART method, which is also Cal-Am's current rate design mechanism. Cal-Am's proposal to use CART is contingent on the FCRA not being approved and being directed to continue utilizing CART as its revenue adjustment mechanism.

Under the FCRA rate design, the share of revenue recovered through volumetric rates are to increase by 5% in all service areas except in the Central Division, which will remain at its current authorized level. Under the CART design, the meter charge recovery percentage will increase by 10% but will be capped at 50% in accordance with D.16-12-026 (Balanced Rate Decision).[10] In said decision, the meter charge recovery percentage is set at a 40% floor but allows recovery of up to 50% of revenue through fixed charges. The FCRA also increases step-ups between usage tiers to strengthen conservation pricing signals, while the CART design reduces step-ups to enhance revenue stability.

Cal Advocates recommended that the Commission approve the meter charge and quantity charge ratios proposed by Cal-Am as part of its CART rate design.

[9] Relative to this case, decoupling is a rate-making mechanism that removes the direct link between a utility's revenue and the amount of water sold. This helps ensure that utilities can maintain financial stability even when customers reduce consumption.

[10] *See* D.16-12-026 at 55 to 57.

Regarding tier breakpoints, Cal-Am proposed to keep existing tier breakpoints in most areas except in certain acquired systems such as Bass Lake, Central Satellites, Chualar, West San Martin, and Yerba Buena. Cal Advocates agreed with increasing the rates for these districts by the CPI inflation rate. Cal Advocates also recommended different tier breakpoints for Sacramento, Meadowbrook, the Central Division, and the Southern Division.

Cal Advocates recommended changing Cal-Am's rate design to include three tiers for all of Cal-Am's districts except for the Monterey Main District. Cal Advocates also recommended setting the meter ratios for the Monterey Main District to the standard meter ratio and removing the Pure Water Monterey charge. Cal-Am, however, clarified that the Pure Water Monterey charges are already excluded from the Monterey rate design.

In the Settlement, the settling parties agree on Cal-Am's position on collecting 50% of revenue requirement from meter charges in the Northern Division and Monterey Service Area in the Central Division and 45% of revenue requirement from meter charges in the Southern Acquisition Transition Service Areas in the Southern Division and Central Satellite Systems in the Central Division and 40% of revenue requirement from meter charges in the Southern Division.

The Settlement also adopts Cal-Am's proposal to keep meter ratios for all service areas including Monterey at the current authorized level. The Settlement also agrees to utilize the CART rate design proposed in Cal-Am's testimony.

The agreement to use the CART rate design represents a negotiated agreement between the settling parties. Although Cal-Am initially proposed the FCRA rate design system, it also proposed use of the CART system as an alternative. The current rate design system is also based on the CART system and

so we find the agreement in the settlement reasonable and within the range of outcomes proposed by parties to the proceeding.

Keeping meter ratios at currently authorized levels is also reasonable and supported by the evidence. The agreed-upon meter charges for the Northern, Central, and Southern Divisions are within the ranges set forth in D.16-12-026, which prescribed a 40% floor and 50% maximum.

The tables below provide the tier break points and Standard Quantity Rate (SQR) Ratios for the Northern, Southern, and Central Divisions.

Sacramento				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	65.91%	75	54.58%	82.81%
Tier 2	20.08%	75	25.10%	125.00%
Tier 3	14.02%	N/A	20.33%	145.00%

Larkfield				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	47.22%	37	45.33%	96.00%
Tier 2	40.17%	98	40.17%	100.00%
Tier 3	5.76%	55	6.39%	111.00%
Tier 4	6.85%	N/A	8.11%	118.30%

Meadowbrook				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	56.91%	83	46.67%	82.00%
Tier 2	20.95%	67	23.05%	110.00%
Tier 3	22.13%	N/A	30.28%	136.82%

Yerba Buena				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	78.82%	135	75.67%	96.00%
Tier 2	21.18%	N/A	24.33%	114.91%

Central Satellite Systems				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	55.23%	60	49.16%	89.00%
Tier 2	22.24%	75	22.24%	100.00%
Tier 3	16.06%	192	19.27%	120.00%
Tier 4	6.47%	N/A	9.34%	144.30%

Southern Acquisition Transmission				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	67.55%	85	63.50%	94.00%
Tier 2	14.22%	50	14.93%	105.00%
Tier 3	11.97%	163	13.77%	115.00%
Tier 4	6.25%	N/A	7.80%	124.70%

Southern Division				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	64.88%	85	59.69%	92.00%
Tier 2	13.94%	50	14.64%	105.00%
Tier 3	13.53%	163	15.56%	115.00%
Tier 4	7.64%	N/A	10.10%	132.20%

Monterey County – Single Family				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR

Tier 1	63.22%	30	39.58%	150.00%
Tier 2	21.32%	30	16.91%	300.00%
Tier 3	9.01%	54	19.27%	450.00%
Tier 4	6.45%	N/A	16.82%	625.00%

Monterey County – Multi Family				
Tier	Percentage of Water Within Tier	Tier Width	Percentage of Volumetric Revenue Within Tier	Percentage of SQR
Tier 1	71.55%	19	0%	100.00%
Tier 2	22.77%	19	0%	200.00%
Tier 3	2.83%	13	0%	450.00%
Tier 4	2.84%	N/A	0%	625.00%

Southern Division Percentage of Purchased Water Consolidated	
San Diego	53%
Ventura	75%
Los Angeles Service Areas	100%

Cal-Am provided testimony with empirical data that shows the distribution pattern of usage among tiers varies from year to year and that Cal Advocates' claims about the advantages of using three tiers for all service areas is not supported by the evidence. Cal-Am identified several objectives as crucial in evaluating its rate design including: (a) affordability; (b) conservation/efficient water use; (c) equity; (d) rate clarity and simplification; and (e) ensuring revenue recovery. Both Cal-Am and Cal Advocates presented contradicting recommendations regarding tier breakpoints. Based on our review of the Settlement and evidence submitted, we find the agreed-upon tier breakpoints presented in the Settlement to be sufficiently negotiated and arrived at by parties that have extensive knowledge of the subject matter and the issues. The agreed-upon values are also within the range of outcomes initially presented.

In addition, the Settlement agrees to consolidate Bellflower, Piru, and East Pasadena into a new Southern Division Acquisition Transition group. These are recently acquired systems which have similar consumption characteristics and rate structures and the consolidation into a transitional grouping is reasonable. According to Cal-Am, this approach allows for a gradual transition into full consolidation into the Southern Division rate design over time.[11]

6.3. Expenses

6.3.1. Purchased Water and Purchased Power

Cal-Am's purchased water forecast is primarily based on estimated total water production, district operations assessments of sources and uses of produced and purchased water, and the current prices and assessments from water provider agencies. The primary exception to the above approach is in the Central Division where Cal-Am has historically recorded Seaside Basin Watermaster costs in the purchased water account. Projected costs utilize a five-year average of Watermaster assessment, escalated for inflation. Purchased water costs include costs related to the Sand City Desalination Plant and the Pure Water Monterey Project. In addition, Cal-Am proposed to decrease the amount of water production used to recover the Sand City Expenses from 300 to 200 acre-feet.

For Purchased Power, Cal-Am's forecast utilized an estimate of total kilowatt-hour (kWh) usage multiplied by the cost per kWh for each district based on 2024 data applied to estimated water production quantities in 2027 and 2028. Monterey Wastewater was the exception to the above process because it does not

[11] Exhibit CalAm-03 at 10.

have water production. Instead, Cal-Am's forecast utilized a historical five-year average of kWh usage to forecast costs.

Cal Advocates argued that Cal-Am did not utilize the most up-to-date vendor rates and known future increases for its purchased water forecasts which results in under-forecasting of costs.

Similarly, for purchased power forecasts, Cal Advocates argued that Cal-Am's methodology does not consider known future per unit power cost increases. Cal Advocates also pointed out that the proposed forecast method was not utilized for each district. Cal Advocates also proposed that the cost per kWh be escalated based on the escalation factors for O&M expenses. Cal Advocates reasons that use of 2024 kWh is improper and not indicative of Cal-Am's kWh per CCF and that it should instead use a five-year average.

In the Settlement, the settling parties agree to include escalation to wholesale purchased water rates and purchased power rates from the current effective rates for 2026 to the TY except where increases in the TY are known. The Settlement also agrees to use Cal-Am's supply mix estimate. This agreement in the Settlement addresses Cal Advocates' concern about using the most up-to-date rates as well as known increases in the TY which we find reasonable.

The Settlement also agrees to use Cal-Am's proposed Sand City Desalinization Plant expenses and ratemaking adjustments (see Attachments B-1 and B-2). Cal Advocates had argued that Cal-Am is not allowed to decrease water production for ratemaking purposes related to Sand City desalination expenses, but the settling parties were able to reach a reasonable agreement in the Settlement.

Lastly, future changes to purchased water cost driven by changes on the Main San Gabriel Basin Safe Yield will be implemented via purchased water offsets.

Monterey proposes several alternatives to the treatment of Purchased Water in Monterey. The first alternative is to include all purchased water in base rates as is currently done for the Sand City Desalination Plant water. A second alternative is to include a surcharge for all Purchased Water.

From the testimony presented and arguments raised, Monterey does not appear to raise specific benefits that would inure to Monterey customers for its proposals. Monterey's primary concern appears to be the line item description that appears in a Monterey residential customer's bill describing the Monterey Pure Water surcharge.

On the other hand, Cal-Am argues that Monterey's recommendation to include Pure Water Monterey costs in base rates would increase customer bills. According to Cal-Am, including the Pure Water Monterey costs in base rates would subject said costs to the calculation of user fees without providing any tangible benefits to customers. Cal-Am adds that the existing surcharge mechanism recovers Pure Water Monterey purchased water costs in a transparent, and usage-based manner.

We also agree that it is not necessary at this time to create additional purchased water line-item surcharges for other Purchased Water costs as it would appear to make bills more complex as these costs are currently included in base rates.

Based on the above, we find that the above changes proposed by Monterey are not supported by the evidence and not warranted at this time.

Finally, Monterey proposes that if the Commission determines that Purchased Water should remain a surcharge, Cal-Am should be ordered to modify any reference that the cost for Pure Water Monterey purchased water is imposed by Monterey. Monterey proposes that if Pure Water Monterey will still be identified as Monterey Purchased Water, then Cal-Am should also include line-item surcharges for Seaside Watermaster costs and Marina Coast Wheeler fees because these are identified by Cal-Am as purchased water.

As stated above, the line item for the Monterey surcharge identifies Pure Water Monterey purchased costs as a separate cost that is distinct from Cal-Am's base rates. However, we agree with Monterey that the current line item description that appears in Monterey customer bills may cause some Monterey customers to interpret the Pure Water Monterey charge as being imposed by Monterey. As such, we find it reasonable to revise the current line item description in order to remove possible misconceptions. Monterey did not offer specific suggestions on how the line item language or description should be revised and so we find it reasonable to direct Monterey and Cal-Am to engage in discussions towards revising the Pure Water Monterey line item description in customer bills. We also find that this directive does not impact any of the terms and agreements made in the Settlement.

6.3.2. A&G

The Settlement adopts the following agreements regarding Administrative and General (A&G) expenses:

a. Property Insurance: budget of $691,197, reflecting 2026 actual premiums and a reduction in the escalation rate from 18% to 7.5%.
b. Regulatory Expense: adopt Cal-Am's proposed forecast.

c. Contract Services (Temporary Employees): adopt Cal Advocates' position to remove expense recorded under PUC Account 798.

d. Conferences & Registration: adopt Cal Advocates' position removing all expenses.

e. Dues and Membership: adopt Cal Advocates' position to reduce TY expenses by 23.1%.

f. Community Partnerships: adopt Cal-Am's position.

g. Customer Education: adopt Cal-Am's position.

h. Discounts Available: adopt Cal Advocates' position to use the 2024 recorded Discount Available for the TY.

i. Employee Expense: agree to a 3.4% reduction.

j. Meal Expense: agree to a 3.16% reduction.

k. Vehicle Insurance: agree to adopt Cal-Am's position.

l. Relocation Expense: agree to adopt Cal Advocates' position to remove Relocation Expense.

m. Rent: agree to a rent budget of $2,144,204, reflecting the following:

   (i) Normalization of rent across all districts by averaging total rent over the 2027–2029 rate cycle;
   (ii) Removal of 50% of San Diego corporate office rent;
   (iii) Removal of 50% of Sacramento Capitol Mall corporate office rent;
   (iv) Inclusion of rent for the Corporate Headquarters Relocation & New Sacramento Operations Center, normalized over the 2027–2029 rate cycle;
   (v) Deferral of the Monterey District Ryan Ranch office in-service date to 2028.

Cal-Am's forecast prior to the Settlement is around $10.155 million which included recommended reductions to one or more accounts under most of the cost categories under A&G. Cal Advocates noted that the A&G forecast represented an increase of over 50% to 2024 recorded levels and recommended a

reduction of approximately $6.360 million from Cal-Am's forecast. Cal Advocates argued that certain requests are unreasonable, speculative, and/or unsupported. As a result, Cal Advocates recommended removal of discretionary or shareholder-oriented costs, alignment of insurance and rent forecasts with verified contracts and market indices, and elimination of abnormal entries and inflated escalation factors.[12]

The Settlement terms concerning A&G accounts contain a varied mix of agreements. The majority of the terms agree to a reduction of Cal-Am's initial forecasts by either reducing the proposed budget or altogether eliminating the proposed costs for certain accounts. In several instances, however, the settling parties agree to adopt Cal-Am's proposal.

From our review, we find that the Settlement terms reflect recommended reductions by Cal Advocates but retains the budget for key activities related to Regulatory Expenses, Community Partnerships, and Customer Education. Overall, we find the agreed-upon terms reflect a reasonable compromise between Cal-Am and Cal Advocates. Both parties presented evidence to support their positions and the agreed-upon terms are within the range of positions initially proposed by the Settling parties. Although the decision does not discuss each A&G account individually, we reviewed all arguments raised by both parties as part of our review. The forecasts proposed by Cal-Am and Cal Advocates for each A&G cost category are shown in Table 1-1 of Exhibit CalAdv-02.[13]

[12] Exhibit CalAdv-02 at iv.

[13] See Exhibit CalAdv-02 at 2.

6.3.3. O&M

This section concerns the forecasts for non-production O&M expenses. These expenses are for Source of Supply, Pumping, Water Treatment, Transmission and Distribution, and Customer Accounts.

Cal-Am based its forecasts using a five-year historical average adjusted for inflation except for the following where Cal-Am deviated from this methodology:

- Purchased Water and Purchased Water Power (Section 6.3.1);
- Chemicals (Section 6.3.7);
- Water Loss Standard (Section 6.3.9);
- Tank Maintenance (Section 6.3.6); and
- Uncollectible & Leak Adjustment (Section 6.2.2).

These are discussed in separate subsections and are not included in the discussion for this section.

Cal Advocates objected to three accounts where it argues that Cal-Am did not properly justify its expenses. Cal Advocates recommended that proposed expenses for these accounts totaling approximately $1,140,352 be removed.

In the Settlement, the settling parties agree on Cal-Am's proposed budgets for the following three accounts that were disputed by Cal Advocates:

a. Grounds Keeping - Source of Supply;
b. Contract Services – Other Maintenance – Pumping (Monterey County District); and
c. Miscellaneous Maintenance – Pumping (Monterey County and Sacramento).

Upon review, we have no objections to the agreement made in the Settlement regarding the accounts included in O&M. Parties did not object to the forecasts for all except three of the accounts included under O&M. We find the

forecasts for the undisputed accounts supported by the evidence presented. We also have no objections to the forecast methodology utilized by Cal-Am and find it appropriate in this case.

Regarding the three accounts originally disputed by Cal Advocates, Cal-Am explained that the invoices did not match entries in the General Ledger because of accounting differences or were otherwise supported by invoice documentation. Cal-Am also explained the importance of these accounts and we find the explanations reasonable and supported by the evidence presented.

6.3.4. Service Company

The Service Company is a wholly owned subsidiary of Cal Am's parent company, American Water Works. The Service Company provides various services to Cal-Am.

Cal-Am requested a TY budget of $18.555 million while Cal Advocates recommended $13.740 million based on various reductions such as removal of budgets relating to the Annual Performance Plan (APP) and Long-Term Performance Plan (LTPP) services, restricted stock, dues and membership, etc.

The Settlement agrees on a Service Company budget of $16,000,124. Cal-Am agrees to withdraw without prejudice its request for recovery of LTPP expenses and 50% of requested APP expenses.

APP and LTPP expenses are more thoroughly discussed in Section 6.4 of the decision, and the agreement here follows the agreement to withdraw without prejudice LTPP expenses and 50% of APP expenses from the Labor forecast.

6.3.5. Conservation

This section includes the forecast for water conservation activities to comply with state laws and regulations pertaining to water conservation and water loss management.

Cal-Am proposed a three-year conservation budget request of $4,974,500 which includes capital expenditures of $427,500 and expenditures of $292,000 that are being proposed for recovery through the Low-Income Balancing Account (LIBA). The net conservation funding request amount is therefore $4,255,000.[14]

Cal Advocates notes that the requested budget is 36% higher than the previous GRC budget and recommends only approving the amounts for capital expenditures ($427,500) and the $292,000 to be recovered in the LIBA. Cal Advocates argues that customers already practice water conservation as evidenced by the lower water usage.

CalWEP and CWA disagreed with Cal Advocates' recommendation. CalWEP argued that conservation is not a static condition and that the conservation framework requires continued implementation, monitoring, and verification of conservation savings. CWA argued that suspending the conservation budget is contrary to California's long-term sustainability and climate-resiliency goals and that the conservation funding is beneficial to customers.

The Settlement agrees to Cal-Am's proposed conservation budget of $4,974,500 as reflected in Attachment B-4 of the Settlement. More parties were of the opinion that the conservation budget is necessary to support the Making Conservation a Way of Life framework. Cal Advocates also relied on water savings data but did not discuss achievement of water use objectives and long-term conservation goals. We find the agreement reached in the Settlement as the more reasonable approach in this GRC cycle.

[14] Exhibit CalAm-09 at 28.

Monterey supports the three-year conservation budget in the Settlement, with Monterey receiving $1,722,000.28. However, Monterey states that the Settlement does not specify what was included in Cal-Am's proposal: that Cal-Am will have flexibility to move conservation funds except in the Monterey District, where approved conservation funding is required to be spent in Monterey. Although this is not specified in the Settlement resolution, the Settlement agrees to follow Cal-Am's proposed conservation budget, which we interpret to include the provision of non-transferability of the conservation budget allotted for Monterey.

6.3.6. Tank Maintenance Expense

Tank maintenance maximizes the life span of tanks and reservoirs and includes improvements such as tank painting and other improvement projects. The list of specific tank maintenance programs and proposed budgets are presented in Exhibit CalAm-11.[15]

Cal Advocates objected to the budget for two tank projects. The first objection is for painting a tank that is due to be replaced. The second objection is for including interior painting when the inspection report only recommended exterior painting.

The Settlement adopts Cal-Am's tank maintenance forecast. Attachment B-5 to the Settlement reflects the tank maintenance budget. Cal Advocates only had objections to two out of around 80 tank maintenance projects and without ruling on the specific objections, we find the overall agreement in the Settlement reasonable. Cal-Am had also argued that it was more cost effective to conduct interior and exterior painting at the same time rather than on separate occasions

[15] *See* Exhibit CalAm-11 at 199 to 203.

and noted that funds for the rehabilitation of the tank scheduled for replacement can be directed towards other tanks in the service area.

6.3.7. Chemicals

These costs are for chemicals used for water treatment. Cal-Am's forecast for chemical costs is $2,042,665 based on three years of average chemical usage and actual water production, actual bid chemical prices for 2025 and forecasted chemical costs for 2026 to 2028.

Cal Advocates recommended a reduction of $196,041 to Cal-Am's forecast noting that Cal-Am improperly used a two-year average (instead of three) because of $0 usage in 2022 as well as some calculation inconsistencies in Cal-Am's workpapers.

The Settlement adopts Cal-Am's chemical methodology with corrections to the two-year average for chemicals when they had a usage of 0 in 2022, and three-year average cost per pound for four chemicals that did not have price agreements. Attachment B-6 to the Settlement contains the agreed-upon chemical costs that incorporate these adjustments. In rebuttal, Cal-Am agreed with most of Cal Advocates' arguments and the resulting adjustments are reflected in the Settlement.

6.3.8. Hawaii American Water

Cal-Am provides management support and oversight to its affiliate Hawaii American Water which is then billed the costs for such services.[16] Cal-Am proposed to allocate $327,776 of labor, labor-related, and general overhead costs to Hawaii American Water for the TY.

[16] Exhibit CalAm-07 at 25 to 26.

In the Settlement, the settling parties agree to adopt Cal-Am's proposed allocation. Cal-Am calculated the proposed amount by using a three-year average of hours worked in 2022 to 2024 and then multiplied this by the projected hourly wage rate. We find the method used reasonable and no party had any objections to Cal-Am's proposal.

6.3.9. Water Loss Funding

The Making Conservation a California Way of Life regulation provides compliance requirements that include establishing water use objectives and long-term standards for efficient water use.[17] The regulation also requires water agencies to implement extensive non-residential water use performance measures and add substantial reporting requirements for water utilities to the state.

Cal-Am requested a total of $6,758,296 for the entire GRC period to address water loss issues. This includes $2,304,596 for capital expenditures and $4,453,700 for operational expenditures.

Cal Advocates recommended that Cal-Am's TY budget to meet its Water Loss Performance Standard should be reduced from $1,713,600 to $1,063,600 to exclude consulting costs that Cal Advocates argued is duplicative of other expenses.

In the Settlement, the settling parties agree to a Water Loss Consulting budget of $1,713,600 for TY 2027, and to the removal of inadvertent double counting due to costs recorded across multiple accounts.

[17] Exhibit CalAm-09 at 23.

In its rebuttal, Cal-Am agreed that some consulting costs were recorded in multiple accounts[18] and the Settlement agrees to remove these duplicative costs. Cal Advocates' testimony was not able to adequately show that the entirety of the consulting costs are itself duplicative and so the agreed-upon resolution in the Settlement is reasonable.

6.4. Labor and Benefits

This section discusses costs for Labor and Benefits of both union and non-union employees.

6.4.1. Labor

Cal-Am's labor forecast is $39.114 million which is approximately $10.279 million (plus 35.65%) higher than the labor forecast approved in its prior GRC of approximately $28.835 million. Cal-Am's total compensation includes the base salary of Cal-Am's employees and two performance-based compensation plans, the APP and LTPP. All full-time employees (FTE) participate in the APP but participation in the LTPP is limited to certain exempt employees.

Cal-Am requested to add 39 FTE positions in this GRC cycle. 16 of the requested FTEs have already been hired at this time and 23 more are needed to meet business and compliance needs and to provide safe and reliable services. Cal-Am further explained that 9 of the requested FTEs are for transitioning from a five-year fire hydrant maintenance schedule to a one-year maintenance schedule in compliance with the state's compliance programs.

Employee payroll was calculated by indexing the 2025 payroll with the union contract agreement rate which is based on the latest bargaining agreement

[18] Exhibit CalAm-10 at 10.

rate for union employees. Wage increases were forecast based on the three-year average of recorded merit increase percentages.

Cal Advocates recommended a payroll budget of $30,659,487 for the TY. Cal Advocates recommended that the salary budget be based on the last authorized amount escalated by the consumer price index (CPI). Cal Advocates also argued that the 16 FTEs already hired at the time of the GRC should be treated as filling vacancies instead of new FTEs. Cal Advocates also objected to the 23 new FTEs stating that these were not sufficiently justified. Cal Advocates agreed with Cal-Am's calculation of other labor components but recommended rejecting APP and LTPP pay because the incentive metrics benefit shareholders more rather than ratepayers.

In the Settlement, the settling parties agree to a labor forecast of $31,994,306. The forecast is based on an agreed upon total of 319 FTE positions. Attachment G-1 of the Settlement contains a list of the 319 positions. Aside from the 319 FTEs, the labor forecast was arrived at based on the following adjustments:

a. Withdrawal without prejudice of LTTP expenses;
b. Agreement regarding 50% of Cal-Am's requested APP expenses for union employees and 50% of APP expenses for non-union employees.
c. Agreement to utilize an escalation factor for union employees based on the negotiated agreements and use of Cal-Am's annual escalation factor for nonunion employees.
d. Agreement to use Cal-Am's forecasted labor overtime expense and capitalization percentage.

Cal-Am currently has 325 FTEs which includes the 16 FTEs that have already been hired.[19] The Settlement agrees to 319 FTEs and we find that this represents a compromise between the settling parties that takes into account Cal-Am's testimony regarding the need for 39 additional employees and Cal Advocates' arguments about inadequate testimony to support Cal-Am's request and treatment of the 16 FTEs already hired as filling-in of existing vacancies. The decision shall not go over the merits of each individual FTE request but instead consider what was agreed-upon in the Settlement vis-a-vis the testimony presented by the settling parties.

In this case, we find use of an escalation factor and Cal-Am's forecasted labor overtime expense and capitalization percentage reasonable. Applying these factors better reflects the need for specific FTEs. In addition, salaries based on union contracts governing employee salaries are more reflective of salary needs for the TY as opposed to utilizing CPI as the basis. Regarding the compensation package plans, removal of the budget for LTTP appears to be in line with non-inclusion of long-term incentive compensation in rates as stated in D.16-12-067. The Settlement also adopts 50% of APP expenses which we find reasonable in this instance.

6.4.2. Benefits

Cal-Am calculated pension and other post-employment benefits (OPEB) based on the actuarial projection of Willis Towers Watson[20] performed on behalf of all American Water. Cal-Am then calculated its portion of the total expense by taking its percentage allocation against each year's overall cost.

[19] Exhibit CalAm-07 Table A at 5.

[20] Willis Towers Watson is a multinational company that provides global advisory, risk management advice, employee benefits advice, investment consulting, and other services.

Cal Advocates recommended adopting Cal-Am's approach in extracting its portion of the total expenses from all of American Water in calculating the pension and OPEB expenses.

The Settlement agrees to adopt Cal-Am's approach which Cal Advocates agrees with. Other parties had no recommendations regarding this issue and we find the agreement in the Settlement regarding this issue reasonable and supported by the evidence presented by both Cal-Am and Cal Advocates.

6.5. Plant Issues

Cal-Am proposed capital projects and investments for the continued provision of safe and reliable service in order to continue to meet regulatory requirements. Capital projects are organized by district and are grouped into the following categories: (a) recurring projects; (b) completed capital investment projects; (c) ongoing capital investment projects, performed or planned but not yet adopted capital investment projects; (d) memo account capital investment projects; (e) proposed new capital investment projects; (f) planning studies; (g) Monterey wastewater consolidation; and (h) tank maintenance. The specific projects are detailed in Exhibit CalAm-11.

Cal-Am also proposed Enterprise Solutions projects that install, upgrade, or replace critical IT software and hardware systems which help ensure reliable operations. These projects are found in Attachment 1 of Exhibit CalAm-20.

Issues relating to CWIP are not settled and are discussed in Section 8 of this decision.

Cal Advocates recommended reducing Cal-Am's capital budgets for the Northern, Central, and Southern Divisions as well as Cal-Am's Corporate District.

Cal Advocates recommended removing carryover projects which it defined as projects authorized and funded in a prior GRC. Cal Advocates also recommended disallowing projects performed or planned without prior Commission authorization as well as contingency amounts included in forecasts. Cal Advocates also recommended disapproval of specific projects and reductions to proposed budgets of other projects.

Cal-Am explained that certain large infrastructure projects frequently span more than one GRC cycle because of the many processes involved which include planning and permitting timelines and added that authorization of requested budgets for these is needed to commence and fund planning and construction activities. However, recovery from ratepayers would only occur once the facilities are operational and providing service and would not result in ratepayers funding the same project twice.

Cal-Am also explained that the capital projects requested are necessary for the provision of safe and reliable services and for it to continue to meet regulatory requirements. Cal-Am also stated that each project is supported by supporting testimony.

Cal Advocates also opposed relocation of the San Diego office to Sacramento arguing that ratepayers should not fund corporate relocation. Cal Advocates also opposed the requested budget increases for Enterprise Solutions projects because these were not properly supported. Cal Advocates instead recommended using a budget based on a five-year average of spending.

Cal-Am explained that Exhibit CalAm-20 contains specific details of projects, including some already in service and some that are set to go into service. Cal-Am added that funding to transition to a new data processing

system is necessary because the old platform being used will no longer be supported.

The Settlement adopts the following capital budgets:

a. $164,192,025 for years 2026 through 2028 for the Northern Division;
b. $92,058,566 for years 2026-2028 for the Central Division;
c. $198,506,224 for years 2026-2028 for the Southern Division;
d. $1,847,374 for years 2026-2028 for the Wastewater District; and
e. $43,920,253 for years 2026-2028 for Corporate General Office.

Attachment C-4 reflects the specific dollar amounts allocated to each project.

From our review, we find the agreed-upon budgets stated above reflect compromises made between Cal-Am's requests and Cal Advocates' proposed reductions. According to Cal-Am, it agreed to reduce or remove funding for particular projects based on their merits. From the evidence presented, we agree with several of the reductions proposed by Cal Advocates such reductions to projects not needed in this rate cycle, projects partially funded by grants, projects that will not be completed in this cycle, etc. On the other hand, we also agree with some of the explanations made by Cal-Am in rebuttal, refuting objections to certain projects.

While this decision does not discuss each project and each objection raised by Cal Advocates, we reviewed the testimony provided for each project as well as each objection and recommendation made by Cal Advocates on specific projects. We instead present an overall finding since the Settlement is considered as a whole. Overall, we find the capital budgets adopted in the Settlement reflect

a fair and negotiated compromise between the settling parties that are highly knowledgeable about the topics and issues relating to Plant Issues.

Monterey questions the capital expenditures agreed-upon for the Monterey Service Area of approximately $92.059 million for 2026 to 2028 which represents an increase of approximately $20.358 million from the previous rate case cycle. Monterey argues that this increase is not proportional to the projected customer growth of only 98 customers for said period. Monterey also cites two projects, the Laureles Grade Interconnect ($4.5 million) and the new Division Office ($8.9 million), as being redundant.

Cal-Am responds that the proposed capital projects for the Monterey Service area are not tied to the growth in customers in the area. Rather, the proposed projects are to replace aging mains, wells, tanks, pumps, treatment facilities, services, and other assets as they reach the end of their useful lives. These capital improvements are required to maintain compliance with requirements, address reliability concerns of aging water infrastructure, improve resiliency, and help address operational risks. The evidence from Cal-Am and Cal Advocates reasonably support the necessity of said capital improvements and we agree that the projects are not primarily based on the number of customers as argued by Monterey.

Regarding the two projects specified by Monterey, Cal-Am explains that the Laureles Grade will connect to another system and provide redundancy to said system which only has one well, to improve reliability and support interconnection opportunities. Meanwhile, the Central Division office consolidates functions that are split between two facilities and will improve access and reduce travel time for customers and operations personnel. We find that Cal-Am's explanations reasonably support the need for the two projects.

The Settlement also agrees to allow Cal-Am management of the overall bottom-line capital improvement budget, with flexibility to allocate different spending levels to specific investment projects, recurring projects, and to address unforeseen issues at the time of filing. This allows Cal-Am to reallocate funding from one project to another based on need. This has typically occurred in prior GRCs although care must be taken that projects that have been partially funded in a prior rate case cycle are receiving the appropriate funding level in a future GRC.

The Settlement also provides that the 2029 forecasted capital expenditure shall not be used to calculate the rate base and revenue requirements for the year 2029, following Cal Advocates' position. Cal-Am explains that it presented planned 2029 capital projects for informational purposes only and that there are no funding requests for 2029 because it is outside this rate case cycle.

6.6. Taxes

This section discusses Cal-Am's income taxes as well as taxes other than income which includes property taxes, payroll taxes, franchise fees, etc.

6.6.1. Income Taxes

Cal-Am's revenue requirement includes income tax expenses for federal income taxes (FIT) and state income taxes (California Corporate Franchise Tax or CCFT). Cal-Am's forecast for FIT is $19.74 million and for CCFT is $8.91 million.

Cal Am calculated FIT by deducting the prior-year approved CCFT amount which is consistent with D.17-06-008. Because the 2026 approved CCFT is not yet known at the time the application was filed, Cal-Am used the 2025 CCFT as a placeholder amount with the understanding that it will be changed to the 2026 approved CCFT.

Cal Advocates does not oppose Cal-Am's income tax calculation methodology but proposed that $7,453,200 be deducted from the calculation of the TY 2027 FIT because of step rate filings which ratepayers will fund through rates and so ratepayers should receive the benefit of said deductions.

Cal-Am disagreed with Cal Advocates' recommendation to adopt flow through changes for calculation of all taxes because Cal-Am has an objection to most changes that will flow through to the calculation of income taxes.

The Settlement agrees to adopt Cal-Am's method for calculation of income taxes which incorporates the 2026 CCFT per the 2026 step rate filing.

While Cal Advocates offered a more detailed method of calculating FIT taxes, the method adopted in the Settlement offers a simpler approach by comparison. Both methods have advantages and disadvantages and without making a finding on which method is superior, we find it appropriate in this case to agree with the method adopted in the Settlement. This is because parties generally agree with the income tax calculation methodology proposed by Cal-Am and which is adopted in the Settlement although Cal Advocates initially recommended certain adjustments. The agreement in the Settlement on income taxes include concessions by parties in exchange for more favorable positions in other areas which is part of the settlement process.

6.6.2. Taxes Other than Income

Property taxes are levied on properties that Cal Am owns and paid to the relevant local government. Cal-Am calculated property tax rate by dividing 2024 ad valorem taxes[21] by the taxable plant in 2023. The property tax rate is then multiplied by the forecasted taxable plant. Cal Advocates did not oppose Cal

[21] Ad valorem tax is a tax levied based on the assessed value of an item, property, or service.

Am's method of calculating property taxes. Differences between Cal-Am's and Cal Advocates' property tax estimates are due to different forecasts of taxable plant.

Payroll taxes are taxes on employee wages. Cal-Am calculated payroll taxes by applying the statutory tax rates and bases to each employee's projected wages and then applying the capitalization rate for each district to determine the projected amounts to be expensed and capitalized. Cal Advocates does not have an issue with Cal Am's calculation of payroll taxes. Differences in the final amounts are due to different payroll recommendations between Cal-Am and Cal Advocates.

For other Taxes and license taxes, Cal-Am utilized a five-year average and applied the escalation factors to calculate the projected amounts for 2025 to 2028.

Franchise fees are fees paid to cities for the use of public ground, for operational needs such as construction, and maintaining equipment. Cal-Am does not collect franchise fees through rates but through surcharges. Franchise fee rates are updated through advice letters. Cal Advocates does not oppose Cal-Am's method of collecting franchise fees.

The settling parties agree on utilizing Cal-Am's methodology for forecasting taxes other than income.

Parties do not oppose Cal-Am's methodology for calculating taxes other than income which we find reasonable and supported by the record in the proceeding. Prior to the settlement, Cal-Am and Cal Advocates proposed different totals for property and income taxes but the differences are due to different plant and payroll recommendations and not with respect to the method for calculating the taxes.

6.7. Rate Base

Rate base is the value of a utility's property that is allowed to earn a specified rate of return under regulatory approval.

6.7.1. Depreciation

Depreciation expense in a utility's authorized revenue requirement recovers the original cost of utility plant minus estimated net salvage value over the asset's useful life. Amounts accrued for depreciation are recorded in the depreciation reserve, which is deducted from rate base so shareholders do not earn a return on assets already paid by customers. At retirement, the asset's original cost is removed from plant in service, and the same amount is removed from the depreciation reserve. If the asset is fully depreciated, these entries do not change the net rate base amount.

Cal-Am utilized the current authorized depreciation rates in D.24-12-025[22] to estimate depreciation expense. It applied the current approved depreciation rates to the average utility plant in service (UPIS).

Cal Advocates recommended depreciation expenses of $59.68 million for 2027 and $63.71 million for 2028 compared to Cal-Am's requests of $63.55 million for 2027 and $70.69 million for 2028.

The Settlement adopts Cal-Am's depreciation methodology. Depreciation rates by account by district for modeling purposes are provided in Attachment C-1 to the Settlement.

Cal-Am and Cal Advocates agree that the differences in depreciation expense estimates from each party are due to differences in recommended plant

[22] D.24-12-025 is the decision in A.22-07-001 (Cal-Am's TY 2024 GRC).

projects. Both parties also agree with use of the depreciation rate the Commission authorized in D.24-12-025.

6.7.2. Working Cash Allowance

Working cash is the cash a business has on hand to meet short-term operational needs. Working cash allowance is the fund allocated from working cash to cover specific expenses.

Cal-Am calculated its working cash allowance utilizing the Lead Lag Study methodology and the operational cash requirement methodology as outlined in the Commission's Standard Practice (SP) U-16-W. Cal-Am used data from the 12-months ending on September 30, 2024, for its analysis. Cal-Am also calculated net revenue and expense lags. If the difference between the average revenue lag and average expense lag is positive, then there is an increase in rate base. If the difference is negative, there may be a required decrease in rate base.

Cal Advocates recommended utilizing a 37.5-day waste disposal expense lag for the Southern Division instead of the 0-day lag used by Cal-Am because Cal-Am's payment periods ranged from 30 to 45 days. Cal-Am does not oppose this proposal but does not agree to adopt flow-through changes to expense amounts for calculation of allowance for working cash. The change only results in a working cash allowance reduction of $122 for the Southern District.

The Settlement agrees to adopt Cal-Am's methodology of calculating allowance for working cash and to incorporate Cal Advocates' recommendation to set waste disposal expense lag of 37.5 days for the Southern Division.

Parties agree with Cal-Am's methodology for calculating working cash allowance which is in accordance with SP U-16-W. Parties also agree with Cal Advocates' proposed revision for the Southern Division. Based on the record, we

find the working cash allowance provisions in the Settlement reasonable and supported by the record.

6.7.3. Cost or Removal

Cost of removal refers to expenses utilities incur when they remove or dispose of a portion of their plant or property. Cal-Am calculated the cost of removal, net of salvage, based on historical information, detailed engineering estimates, and information provided by contractor quotes. Cal-Am deducted cost of removal from its forecast of year-end Accumulated Reserve for Depreciation for 2025-2028.

Cal Advocates recommended lowering Cal-Am's recommended cost of removal from $20,529,058 to $16,733,797 based on recommendations to deny some of Cal-Am's proposed plant additions. Cal Advocates also adjusted nine cost-of-removal projects that were not tied to any percentage of plant additions.

The Settlement adopts Cal-Am's forecasts for cost of removal with adjustments to reduce cost of removal of the following 7 specific projects:

a. I15-400135 MRY-Arc Flash Mitigation
b. I15420007 MWW-WWTP Regional Analysis
c. I15640001 GEY-Geyserville Storage Project
d. I15670002 HILL-Coarsegold Iron & Manganese WTP
e. I15680002 BL-Bass Lake WTP Removal
f. R1501 N-line CA Corp – Office and Operations Centers
g. R15-47Q W. San Martin – Q-process Plant Facilities and Equipment

We find that the agreement in the Settlement regarding cost of removal reflects a compromise between the settling parties and identifies specific capital projects where reductions to Cal-Am's forecast appear to be merited due to

insufficient evidentiary support. We have no objections to the agreed-upon provisions and find them reasonable overall.

6.7.4. Weighted Average Calculation

Weighted average calculation is a method used to calculate the average annual depreciation expense for a group of assets, where each asset's depreciation is weighted by its relative value or importance within the group. This ensures that the overall depreciation rate reflects the actual mix of assets rather than treating them all equally.

Cal-Am calculated its weighted average UPIS based on the original cost of the assets that are or will be devoted to providing utility services to Cal-Am's customers. Cal-Am forecasted year-end UPIS by adding the projected capital expenditures to the recorded balance of UPIS as of December 2024 and deducting annual plant retirements.

Cal-Am based its forecast for plant retirements based on a five-year historical average ratio. The ratio calculation is done by utility plant account. In some instances where the five-year average ratio for an account appeared to not be reasonable such as retirement outliers and one-time retirements, Cal-Am made adjustments based on historical data. Cal-Am's weighted average accumulated reserve for depreciation balance contains the accumulated balance of depreciation expense taken on all utility assets to date, less utility plant retirements and cost of removal, net of salvage.

Cal Advocates recommended that the Commission use an average of the beginning of year and end of year balance (straight average) to calculate rate base related balances for ratemaking purposes. This is typically done by taking the average of the beginning of year and end of year balances for each plant account. Cal Advocates argued that using a straight average is less complicated

and produces better results and that Cal-Am provided insufficient support for its approach.

The Settlement agrees to adopt Cal-Am's weighted average calculation methodology with corrections to historical weighted average calculation for outlier retirements, outlier cost of removal, and incorrect hard-coded numbers at starting point of calculation.

Cal-Am explained that its methodology aligns with the Commission's policy to reflect weighted average balances which the straight average method proposed by Cal Advocates does not. Cal-Am also claims that its method accounts for historical weighted averages on a district level. Cal-Am also explains that the weighted average reserve in San Diego and Monterey are skewed because of outlier events.

Cal Advocates cited deficiencies with Cal-Am's methodology to which Cal-Am offered explanations citing outlier events. However, we find no strong reason in the record to oppose what the settling parties ultimately agreed upon in the Settlement after a thorough negotiation that examined both parties' initial positions.

6.7.5. Early Asset Retirement

Cal-Am's forecast for plant retirements is based on a five-year historical average ratio prepared by utility account but adjusted to account for retirement outliers and/or one-time retirements. The amounts for forecasted retirements are deducted from the forecasted Accumulated Reserve for Depreciation and from Utility Plant in Service.

Cal Advocates recommended increasing Cal-Am's depreciation reserve by $3,666,359 across all districts for 2022 to 2024 to add back the net book value of extraordinary early retirements. Cal Advocates argued that in 2022 to 2024, Cal-

Am retired many projects at roughly half their expected life or earlier. Retired assets are removed from plant in service and depreciation reserve. However, early retirement results in removal of the cost of the asset from depreciation reserve as if the asset has been fully depreciated but without the full amount being accumulated in depreciation reserve. This inflates rate base and increases what ratepayers have to pay.

The Settlement adopts Cal-Am's proposal as reflected in Attachment E-1 to E-9, tables J 1 and J-2, and K-1 and K-2.

Cal-Am had argued in testimony that it used an Average Remaining Life group methodology where the depreciation rate is based on the characteristics of the entire group rather than the individual life of each particular asset. Thus, early retirements are supposedly offset by late retirements or retirements longer than the average life of the entire group of assets. In addition, Cal-Am pointed out that many of the 234 different assets that Cal Advocates had identified as having been retired early were minor components of individual projects.

We find Cal-Am's explanation regarding use of an average life for a group of assets reasonable and do not oppose the agreement made in the Settlement concerning early asset retirement. The terms were negotiated by parties that have a deep understanding of the topic and various initial positions of both settling parties.

6.8. Memorandum and Balancing Accounts

Cal-Am presented information on a total of 44 memorandum and balancing accounts as of the time of the filing of the application on May 31, 2025. An additional memorandum account was added after discovery making the total 45. The information presented includes amounts of over or under collection,

whether the account should remain open, and whether the accounts should be transferred into Cal-Am's Consolidate Expense Balancing Account (CEBA).

Cal Advocates recommended the closure of 14 balancing and memorandum accounts.

Cal Advocates also argued that the over-collected balance of $3,657,555 in the TCP Litigation Proceeds Memo Account (TCPLMA) should be transferred to CEBA. Cal-Am did not intend to refund this over-collected amount in this GRC. This proposal would reduce the net under-collected balance of around $7.3 million for all the memorandum and balancing accounts to around $3.6 million. In the application, Cal-Am proposed to collect the entire $7.3 million from ratepayers as a surcharge.

The Settlement agrees to adopt Cal-Am's requested recovery of balancing and memorandum accounts. Attachment F-1 to the Settlement lists the 45 memorandum and balancing accounts, includes a description of each account, and any balances as of the date of the application.

The Settlement also agrees that the balance of $3,657,555 over collection tracked in the TCPLMA account will be transferred to CEBA to be refunded to customers. The resulting net balance of $3,602,792 under collection in balancing and memorandum accounts combined will be recovered from customers through the CEBA instead of recovering $7,260,347 in under collection that was requested in the application.

The following accounts will be closed with any balances to be transferred to the CEBA with interest up to the transfer date:

a. School Lead-Testing Memorandum Account
b. Rio Plaza Groundwater Management Memorandum Account

c. Meadowbrook Contribution in Aid of Construction Account

d. Warring Transaction Memorandum Account

The agreement in the Settlement represents compromises from both Cal-Am and Cal Advocates. Several memorandum accounts are to be closed, although Cal Advocates recommended that a greater number be closed. More importantly, the agreement deducts the over-collection from the TCPLMA from the overall under-collection from the other accounts, resulting in a significant reduction to the surcharges that ratepayers will be assessed. We find no reason to oppose the agreements made regarding the treatment of the 45 memorandum and balancing accounts in this proceeding.

6.9. Special Requests

6.9.1. Request 1 – Fixed Cost Recovery Account

Cal-Am requested authorization to establish a Fixed Cost Recovery Account (FCRA) that will break the link between revenue and the volume of water sold, allowing Cal-Am to ensure recovery of Commission authorized fixed costs while providing its customers with the tools necessary to more effectively manage their water bills and provide strong price signals to continue to drive conservation efforts.[23]

Cal Advocates opposed Cal-Am's request while CWA and CalWEP supported revenue decoupling proposed by Cal-Am.

The Settlement agrees that Special Request 1 shall be withdrawn without prejudice. We do not oppose the withdrawal of this request.

[23] Exhibit Cal-Am 16.

6.9.2. Request 2 – Acquisition Rate Base Normalization

Cal-Am requested authorization to normalize the rate base of two acquired systems (Bass Lake and West San Martin) by allocating a portion of acquisition rate base statewide. Cal-Am incorporated existing rates of these systems into its system.

The Settlement agrees that Special Request 2 should be adopted.

No party objects to Special Request 2 and we have no objection as well to its adoption in the Settlement.

6.9.3. Requests 3 and 4

As stated in the Scoping Memo, Special Requests 3 and 4 for the creation of memorandum accounts relating to future acquisitions by Cal-Am are outside the scope of this proceeding.

6.9.4. Request 5 – Rate Mitigation Plan for Certain Acquired Systems

Cal-Am requested authorization to place certain recently acquired systems (Bellflower, East Pasadena, Piru, Bass Lake, West San Martin, and Yerba Buena) onto transitional standalone rate designs that promote water conservation, rather than immediately transitioning them to the rate designs of nearby existing systems. Cal-Am also requested flexibility to move Meadowbrook customers onto the Sacramento rate design but based on the specific consumption profile for the Meadowbrook District. Cal-Am also proposed surcharges and regulatory mechanisms that would apply to newly acquired systems and that they be eligible for CAP.

Cal Advocates does not oppose this request except with respect for the establishment of an FCRA.

The Settlement adopts Special Request 5 except for components related to Special Request 1 which is withdrawn.

The settling parties are in agreement with this request after the request has been revised to remove elements pertaining to an FCRA which as discussed in Request 1 is being withdrawn.

6.9.5. Request 6 – Subsequent Rate Changes

Cal-Am requested that any subsequent rate changes, defined as any change to base rates or production costs that occur between the filing of Cal-Am's GRC application (July 1, 2025) and the start of the TY, be reflected in its final rates for the TY.

Cal Advocates did not dispute this request provided that the Commission only authorize changes that occur prior to the Commission's issuance of a final decision in this GRC.

The Settlement agrees to adopt Special Request 6 but incorporates Cal Advocates' proposal to incorporate into new rates any rate changes that occurred after this proceeding opened but prior to the Commission's issuance of a final decision in this GRC. These rate changes will also be placed into present rates for the determination of the actual rate increase caused by this application.

In rebuttal, Cal-Am agreed with Cal Advocates' recommended qualification of limiting changes prior to the issuance of a final decision so this is not a litigated issue and we have no objections to the agreement in the Settlement regarding this request.

6.9.6. Request 7 – Modifications to Existing ACAM

Cal-Am proposed three changes to its existing Annual Consumption Adjustment Mechanism (ACAM): (a) waiting for at least one GRC cycle before including recently acquired systems with standalone rates on the ACAM in order

to promote rate gradualism; (b) eliminating the Tier 1 ACAM implementation advice letter, currently submitted after the ACAM advice letter is approved; and (c) eliminating the annual Monterey ACAM customer notice.

Cal Advocates recommended denying proposed change (a) since it could result in high CART balances and customers will eventually be required to transfer to the ACAM. Cal Advocates also recommended rejecting proposed changes (b) and (c) because these changes rely on the Commission's authorization of Special Request 1 which is being withdrawn.

In the Settlement, Cal-Am agrees to withdraw Special Request 7 without prejudice. We do not oppose the withdrawal of this request.

6.9.7. Request 8 – Water Contamination Memorandum Account

Cal-Am requested creation of a memorandum account to track and record incremental costs related to emerging water contaminants and any changes to contaminant levels mandated by federal or state drinking water standards.

Cal Advocates recommended denying this special request because capital investments should not be tracked in a memorandum account.

In the Settlement, Cal-Am agrees to withdraw Special Request 8 without prejudice. We do not oppose the withdrawal of this request.

6.9.8. Request 9 – Attrition Year Normalization

Cal-Am requested authorization to deviate from the revenue model for calculating the accumulated deferred income taxes (ADIT) for the attrition year. Currently, attrition year ADIT is calculated the same as the rest of the rate base, by taking the difference between the two rate base TYs and adding it to the second rate base TY. Cal-Am proposes to change this to calculating attrition year ADIT when rates are determined through the advice letter escalation filing process.

Cal Advocates does not oppose this request and the Settlement agrees to adopt this request. We find no reason to oppose Request 9 and note that the Commission has authorized a similar request in a previous GRC.[24]

6.9.9. Request 10 – Monterey Rates Website

Cal-Am proposed to deactivate its Monterey Rates webpage due to the existence of updated and more comprehensive statewide resources.

Cal Advocates recommended denying this request and requested instead that this webpage be incorporated with Cal-Am's "How to Read Your California American Water Bill" webpage.

The Settlement agrees to adopt Cal-Am's request.

We find Cal-Am's explanation that the information contained in the Monterey Rates webpage can be found in other webpages reasonable although some information is provided with greater detail. Cal-Am further argued that maintaining this separate webpage increases the risk of having outdated information or information that is inconsistent with other webpages such as Cal-Am's "How to Read Your California American Water Bill" webpage.

6.9.10. Request 11 – Multi Family Low Income Pilot Program Extension and Expansion

Cal-Am requested authorization to continue until 2028 Components 1 and 4 of the Multi Family Low Income Pilot Program which expired in 2025. Component 1 is for provision of CAP discounts and Component 4 for water energy retrofit programs to low-income customers residing in master metered properties. Cal-Am also requested to expand Component 1 to its Monterey County District service area.

[24] *See* D.25-01-036 at 51 to 52.

Cal Advocates agreed to this special request but requested that the Commission impose strict conditions contingent on the publication of a program evaluation study by mid-2026 evaluating the cost per participant, participation rate and metrics, cost per gallon saved, customer satisfaction, enrollment versus outreach metrics, and administrative overhead.

The Settlement agrees to adopt Special Request 11.

Both Cal-Am and Cal Advocates agree with continuation of Components 1 and 4 of the Multi Family Low Income Pilot Program. Disagreement concerned timing for publication of a program evaluation strategy. Because this difference is resolved in the Settlement, we do not oppose approval of this request.

6.10. Other Terms

This section discusses specific proposals in the Settlement that have not been discussed previously. Most of these are proposals that were made during initial testimony of parties but were withdrawn after settlement negotiations.

6.10.1. Deceptive Pricing Adjustment

Cal Advocates recommended the adoption of a "Deceptive Pricing Adjustment" of $5,103,014 for Cal-Am's purchased power forecast because Cal-Am collected said amount in purchased power advice letter filings.

The Settlement provides that this request be withdrawn. Cal-Am argued that an adjustment to the purchased power forecast in the TY also causes the same amount of adjustment for the PTYs and that there was no precedential basis for implementing this non-recoverable penalty.

6.10.2. Customer Service

Cal Advocates recommended reducing ratepayer funding of an executive employee's salary by $59,232 corresponding to a 16% decrease of the executive's

salary. Cal Advocates argued that there was a failure to meet approximately the same percentage of the customer service standards in General Order 103-A.

In the Settlement, Cal Advocates agrees to withdraw this request. The request from Cal Advocates involves the reduction in salary of a single employee and Cal-Am had argued that most of the customer service goals were met. The two goals not met were only missed narrowly falling short by around one percent of the target percentage.

6.10.3. Hardship Benefit Program

The Hardship Benefit Program is a program to help struggling customers avoid having their water shut off due to nonpayment of their water bills with the help of local non-profit organizations. The program is funded through a combination of 70% customer funds and 30% non-customer funds ratio during this GRC cycle which is the same funding level ratio authorized in D.24-12-025. Cal-Am proposed to continue offering its Hardship Benefit Program for all of its service areas.

Cal Advocates recommended maintaining the 50/50 split between customer and non-customer funds but Cal-Am clarified in its rebuttal testimony that the current split ratio is 70/30 and not 50/50.[25]

The Settlement provides that Cal-Am will continue its Hardship Benefit Program which we find reasonable especially since there will be no change in the funding mechanism as authorized in Cal-Am's prior GRC decision (D.24-12-025).

Monterey objects to the program but states that if the Commission were to allow it, that the Commission should determine what the proper funding ratio should be and that Cal-Am should provide commensurate funding to offset

[25] *See* Exhibit CalAm-10 at 13 to 15.

program costs.[26] However, Monterey does not make specific funding recommendations or provide support for what the correct funding source and ratio should be. Monterey only explains that the program started as being fully funded by ratepayers to help customers in the Monterey Service Area only. On the other hand, the Settlement follows the funding mechanism approved in Cal-Am's prior GRC and there is insufficient record to help determine an alternative funding mechanism.

6.10.4. Commission ESJ Plan

Cal Advocates had recommended that Cal-Am be directed to meet ESJ goals 1, 2, 4, 6, 7 and 8.

The settling parties agree that Cal Advocates' recommendation shall be withdrawn without prejudice. Cal-Am argued that the request was vague and that it had been it has been meeting the Commission's ESJ goals.

Although the issues concerning ESJ were withdrawn in the Settlement, whether the application supports the goals and objectives of the Commission's ESJ action plan is one of the issues in this proceeding and is discussed further in Section 9 of the decision.

7. Conclusion Regarding Settlement

The Commission has specific tests for granting motions to approve settlement agreements. Rule 12.1(d) provides that the Commission shall not approve a settlement agreement, unless it is reasonable in light of the whole record, consistent with law, and in the public interest. After thorough review of the Settlement between Cal-Am and Cal Advocates, review of comments and objections to specific portions of the Settlement by Monterey, and the various

[26] Exhibit MPWMD-01 at 5 to 6.

testimonies admitted into evidence, we find that the Settlement satisfies Rule 12.1(d), as well as the Commission's other requirements specified in Rule 12.1 for approval of formal settlements.

Prior to adopting a settlement, the Commission must be satisfied that the parties have a sound and thorough understanding of the application and of all the underlying assumptions and data included in the record. This level of understanding of the application and development of an adequate record is necessary to consider a settlement as required by Article 12 of the Commission's Rules of Practice and Procedure.

The Settlement between Cal-Am and Cal Advocates is a detailed proposal which resolves all but one issue between the two parties and shows the differences in final litigation positions and the agreed upon compromises in each item where settlement was reached. Additionally, the Settlement Agreement also identifies the single issue in the GRC, specifically the issue concerning CWIP, that was not settled.

The settling parties complied with Rule 12.1(a) by making the appropriate filings in a timely manner and noticing of a settlement conference. The Settlement Motion and Settlement Agreement contain a statement of the factual and legal considerations adequate to advise the Commission of the scope of the settlement, and of the grounds for its adoption. The Settlement also includes sufficient information to determine what was allowed for rates and what Cal-Am is obligated to do.

Cal-Am and Cal Advocates also submitted extensive testimony containing analyses and recommendations concerning the application. After review of the above, as well as the various briefs and pleadings filed by both parties, and after evidentiary hearings, we are able to conclude that the parties to the Settlement

have demonstrated a thorough understanding of the application as well as the various issues included in the Scoping Memo. Based on the foregoing, we conclude that the proposals in the Settlement resolving all but one issue in this proceeding between the settling parties were made by parties that are competent and well prepared to make informed choices with respect to the terms agreed upon and the concessions reflected in the Settlement.

We find the Settlement reasonable in light of the record as a whole. The Settlement represents various compromises made by the settling parties. Each of the issues resolved in the Settlement is contained within the evidence in the record, and most of the proposed amounts and proposed outcomes in the Settlement fall within the ranges recommended by parties in the proceeding. Overall, the monetary amounts agreed upon are less than Cal-Am's initially requested amounts. In addition, both the monetary and non-monetary components in the Settlement reflect compromises by the settling parties from their initially recommended positions. The settling parties actively participated in the proceedings, and the terms of the Settlement reasonably resolve issues raised in the proceedings.

The proposals in the Settlement are the result of arm's length negotiations between the settling parties. With the exception of Monterey, all the other active parties in the proceeding that are not parties to the Settlement do not contest or oppose the settled terms. Monterey's objections to specific provisions in the Settlement were considered and are discussed in Section 6 of the decision.

The settling parties set aside many of the disputed factual and legal issues and have agreed on resolving these disputes in the Settlement. We find that the proposed resolutions of these disputed issues are within the Commission's

jurisdiction and do not contravene or compromise any statutory provision or prior Commission decision.

The Commission has a public policy favoring the settlement of disputes to avoid costly and protracted litigation and the proposals and resolutions set forth in the Settlement satisfy the Commission's public policy preference of favoring settlements.

Parties to the Settlement represent the interests of the Applicant and its customers. Cal-Am represents the interests of its shareholders and provides necessary water and wastewater services to its customers while Cal Advocates represents the interests of residential and commercial customers. Thus, we find that the settling parties represent the interests of shareholders, customers, and ratepayers that have an interest and are affected by the services provided by Cal-Am.

The proposals and agreements in the Settlement serve the public interest by resolving competing concerns in a collaborative and cooperative manner. Approval of the Settlement provides a timely and complete resolution of all but one of the contested issues raised in the proceeding. The Settlement meets the tests for adoption by the Commission because the Settlement does not contravene or compromise any statutory provision or prior Commission decision, is consistent with the law, reasonable, and in the public interest.

Based on the above analysis and discussion, we find that the Settlement meets the settlement standards of Rule 12.1(d), that the Settlement is reasonable in light of the record as a whole, is consistent with law, and is in the public interest. We have examined each proposal in the Settlement and find them to be reasonable. Objections and concerns raised by Monterey have been reviewed, considered, and discussed during our analysis of the Settlement but are

insufficient to overturn our findings and conclusions concerning the reasonableness of the agreed-upon terms in the Settlement.

The proposals, agreements and recommendations in the Settlement are presented as an integrated package of revenue requirement and rate recommendations and we conclude that all of these proposals, agreements, and recommendations set forth in the Settlement should be approved.

8. Construction Work-in-Progress

CWIP is the cost of utility plant that is in the process of construction. The CWIP balances being sought to be recovered in this GRC total approximately $52.8 million in 2027 and $27.5 million in 2028.

The following table[27] shows the total revenue increase in the Settlement when including or excluding CWIP into rate base:

Year	Revenue Increase with CWIP in Rate Base	Revenue Increase if CWIP excluded from Rate Base	Difference
2027	$24.2 million (+6.08%)	$20.2 million (+5.08%)	$4.0 million
2028	$21.1 million (+4.98%)	$19.0 million (+4.48%)	$2.1 million
2029	$22.3 million (+5.02%)	$22.3 million (+5.02%)	$0

8.1. Comments from Parties

8.1.1. Cal Advocates

Cal Advocates argues that the Commission should disallow CWIP in rate base and only allow recovery of project costs once a project is used and useful in accordance with the policy of the state as stated in Public Utilities Code Section 701.10. The used and useful principle requires that utility property be actually in use and providing service in order to be included in the utility's rate base.

[27] *See* Settlement at 8 to 9.

Cal Advocates adds that Cal-Am's current financial condition does not warrant including CWIP in rate base especially in today's economy and that the inclusion of CWIP serves as a disincentive to complete projects. Cal Advocates explains that CWIP was introduced around 50 years ago[28] for the purpose of assisting utilities under financial hardship and this does not apply to Cal-Am.

Cal Advocates also states that Cal-Am inflates its CWIP balance to collect unearned profits on projects that are not used and useful and included 350 projects for CWIP treatment in this GRC with a combined CWIP balance of approximately $159 million across all districts. Cal Advocates also argues that CWIP project costs proposed to be included in rate base are uncertain and should not be allowed until the projects are completed and project costs have been reviewed for reasonableness.

8.1.2. Cal-Am

Cal-Am states that it does not profit from keeping projects in CWIP because CWIP only permits recovery of financing costs associated with construction that are already incurred. It does not compensate the utility for operating an asset before the asset is completed, as depreciation does not begin until the asset is placed in service.

Cal-Am explains that CWIP does not depart from the used and useful principle because only carrying costs are recovered and not the primary costs and underlying capital investment, which are recovered through depreciation when plant is placed in service. Leaving plant in CWIP prevents Cal-Am from recovering project costs, or what is depreciated, once the plant is placed in service.

[28] Historically, construction costs have also been recovered as Allowance for Funds Used During Construction.

Cal-Am adds that due to a combination of technical, engineering, legal, regulatory, staffing, and other factors, many water projects currently take longer to complete and CWIP helps utilities recover costs along the timelines that they are incurred and assures that utilities have sufficient financing to fund and complete large projects.

Cal-Am also states that the current Commission policy over the last 40+ years is to include CWIP in rate base and that Cal Advocates fails to consider the benefits of CWIP such as preventing rate shock, helping to defray costs of utilities, and lowering financing costs. Cal-Am also notes that CWIP is part of the regulatory compact wherein utilities are obligated to provide safe, adequate, and reliable service to customers at reasonable rates, in exchange for a reasonable opportunity to earn a fair return on its investment.

8.1.3. CWA

CWA states that Cal-Am's CWIP proposal is reasonable and consistent with ratemaking principles adhered to by the Commission. CWA explains that CWIP represents the carrying costs of the utility's capital investments because there is a natural time lag between construction of an authorized project and its completion. It adds that Cal-Am should be allowed to recover its cost of service, which include financing costs.

CWA also argues that utilities will not be disincentivized to finish projects because they do not earn a return on the investment through depreciation until projects are completed and transferred out of CWIP. Further, including CWIP in rate base benefits ratepayers by mitigating rate impacts to customers because CWIP spreads the rate impact over the entire construction period. CWIP also provides financial stability by minimizing the impact of delays and avoiding

higher borrowing costs. Lastly, CWA states that Commission precedent supports the inclusion of CWIP in rate base.

8.1.4. Monterey

Monterey offers no opinion on CWIP other than stating that the definition of CWIP appears to have changed and that there may no longer be a distinction between short-term and long-term projects.

8.2. CWIP Discussion

In its testimony and in briefs regarding this topic, Cal Advocates opposes the use of CWIP as a means of recovering construction costs arguing primarily that plant costs should only be recovered once a project is completed and the plant asset is used and useful and providing benefits to ratepayers. However, based on our review, we find that Cal Advocates does not make a clear proposal on how all costs that would have otherwise been part of CWIP are to be recovered. It also does not make a complete and comparative analysis on the benefits of an alternative treatment and recovery method.

While the proposal to place assets in rate base only when they are placed in service suggests that Cal Advocates may be proposing to apply the Allowance for Funds Under Construction (AFUDC) method of recovery, as pointed out by Cal-Am,[29] said language may also refer to other means of recovery such as debt financing or other means not specified by Cal Advocates. Under AFUDC, amounts are not included in rate base immediately but are instead added to the total cost of the asset and recovered after plant is placed in service. The financing costs (both debt and equity) are capitalized and added to the total cost of the asset. Historically, the Commission has applied CWIP and AFUDC as acceptable

[29] *See* Cal-Am Opening Brief at 28.

methods to recover project costs depending on specific circumstances and considerations such as policy goals, project size, and ratepayer considerations.

This decision does not make a finding on which method is better overall as both methods have their own advantages and disadvantages. Based on the record of this proceeding however, we find that Cal-Am's proposal to apply CWIP to construction costs is better supported and explained with testimony and analysis. The methodology is explained clearly and includes discussion of the impact and benefits to ratepayers as well as to Cal-Am. Although we do not entirely agree with all of Cal-Am's arguments in support of including CWIP in rate base, we find that there is adequate evidence to support its proposal. For example, we do not entirely agree that Cal-Am does not earn a rate of return from CWIP because if these costs are included in rate base, then it will already earn a partial return on its investments.

However, we agree that more recent projects are subject to more delays because they are larger in scope and subject to more stringent regulatory compliance requirements. We also agree that there may be advantages in spreading construction costs over a larger number of years as opposed to adding all the project costs once the plant is placed in service. There is also greater assurance that utilities are able to fund large projects and financing costs may be reduced. We also take note of the potential impact of adding CWIP in rate base to the forecast revenue requirements in TY 2027 and PTY 2028, which is approximately $4.0 million and $2.1 million respectively. And while we do not consider these amounts to be small in light of today's economy, deferring costs until projects are completed may have a greater impact on ratepayers in subsequent GRCs.

To conclude, based on the evidence, we find that Cal-Am presented a more complete and reasonable proposal for its recommendation to include CWIP in rate base as compared to Cal Advocates. CWA also presented many of the arguments that were also raised by Cal-Am. And although Cal Advocates presented several reasonable criticisms to Cal-Am's proposal, it did not present a complete analysis and method on how it proposes to treat and recover all plant costs. We therefore find that based on the record of this proceeding, it is reasonable to include CWIP in rate base.

9. ESJ Action Plan

In February 2019, the Commission adopted the ESJ Action Plan to serve as a roadmap for implementing the Commission's vision to advance equity in its programs and policies for ESJ or disadvantaged communities.[30] The ESJ Action Plan includes goals related to health and safety, consumer protection, program benefits, and enforcement in sectors regulated by the Commission.

The ESJ Goal 1 is to consistently integrate equity and access throughout the Commission's regulatory activities. Cal-Am states that this is a Commission goal and we find that the application does not contravene this goal.

ESJ Goal 2 is to increase investment in clean energy resources to benefit ESJ communities, especially to improve local air quality and public health. Cal-Am states that it is working to complete four battery storage projects and that it is proposing clean energy projects and energy regeneration projects.[31]

[30] The ESJ Action Plan was approved February 21, 2019 in CPUC Public Agenda 3433 at Item # 44 [17051]. Version 2.0 of the ESJ Action Plan was approved April 7, 2022 in CPUC Public Agenda 3505 at Item # 45 [20479]. The Commission adopted Version 2 of the ESJ Action Plan on April 7, 2022.

[31] Exhibit CalAm-9 at 42 to 43.

ESJ Goal 3 strives to improve access to high-quality water, communications, and transportation services for ESJ communities. Cal-Am offers various customer service assistance programs, including the Multi-Family Low Income Pilot and the Customer Assistance Program for ESJ Communities. These programs include bill discounts, direct install programs, and bill payment assistance.

ESJ Goal 4 is to increase climate resiliency in ESJ communities. Cal-Am claims that this goal is being addressed in the climate change proceeding but it has numerous capital projects that may reduce environmental vulnerabilities in ESJ communities.

ESJ Goal 5 is to enhance outreach and public participation opportunities for ESJ communities to meaningfully participate in the Commission's decision-making process. Cal-Am states that it maintains a Spanish language website and the customer service center has access to live translation services. In addition, Cal-Am conducts outreach in various communities and meetings are held with interested stakeholders around rate case applications.[32]

ESJ Goal 6 is to enhance enforcement to ensure safety and consumer protection for all, especially for ESJ communities. Cal-Am states that this is a Commission goal and we find that the application does not contravene this goal.

ESJ Goal 7 is to promote high road career paths and economic opportunities for residents of ESJ communities. Cal-Am argues that this is a Commission goal but it has sponsored several organizations that seek to foster

[32] Exhibit CalAm-9 at 45 to 46.

growth, career advancement, and job opportunities of residents of ESJ communities.[33]

ESJ Goal 8 improves training and staff development related to environmental and social justice issues within the Commission's jurisdictions. Cal-Am states that it continues to provide its team members with the training and tools to enhance their understanding about how to better interact with customers and members of communities and to build a culture of trust, dignity and respect in the workplace.[34]

ESJ Goal 9 seeks to monitor the Commission's environmental and social justice efforts to evaluate how they are achieving their objectives. Cal-Am states that this is a Commission goal and we find that the application does not contravene this goal.

Based on the foregoing, we conclude that the application supports the goals and objectives of the Commission's ESJ Action Plan where applicable and does not negatively impact the achievement of any of the nine goals of the ESJ Action Plan.

10. Comments on Proposed Decision

The proposed decision in this matter was mailed to the parties in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure.

Comments were filed by _____ on _____. Reply comments were filed by _____ on _____.

[33] Exhibit CalAm-9 at 46 to 47.

[34] Exhibit CalAm-9 at 47.

11. Assignment of Proceeding

Commissioner Matthew Baker is the assigned Commissioner and Rafael Lirag is the assigned ALJ for the proceeding.

Findings of Fact

1. Generally, Monterey finds that the level of expenditures proposed for the Monterey Service Area customers remains unsustainable and warrants further reductions.

2. In forecasting the number of customers, deviations from the five-year average are reasonable for one-time events that are not expected to be recurring events.

3. Using the current total authorized sales to forecast customer sales represents a fair compromise and addresses Monterey's comment that the method proposed by Cal-Am is highly complex.

4. The changes to the CAP program adopted in the Settlement are aimed at providing greater assistance to more vulnerable customers.

5. The facts and circumstances in this case support the proposed uncollectible rate.

6. Keeping meeting ratios at currently authorized levels is supported by the evidence while the agreed-upon meter charges for the Northern, Central, and Southern Divisions are within the ranges set forth in D.16-12-026.

7. Including escalation to wholesale purchased water rates and purchased power rates using current rates or known increases address Cal Advocates' concern about using the most up-to-date rates.

8. The Pure Water Monterey purchased costs are identified as a separate cost that is distinct from Cal-Am's base rates.

9. The customer bill line item for Pure Water Monterey surcharges may be misinterpreted as a surcharge being imposed by Monterey.

10. The Settlement amounts for A&G reflect recommended elimination and reduction of costs proposed by Cal Advocates but at the same time retains proposed costs for key activities.

11. The forecasts for non-production O&M expenses are supported by the record and discrepancies concerning certain accounts were adequately clarified by supporting evidence.

12. The conservation budget is necessary to support the Making Conservation a Way of Life framework.

13. The Settlement adopts Cal-Am's proposed conservation budget and the original proposal includes the non-transferability of the conservation budget allotted for Monterey.

14. The agreement concerning the number of FTEs is a compromise between the needs presented by Cal-Am and Cal Advocates' arguments that some requests were not supported and employees already hired should not be considered as new FTEs.

15. The calculation of pension and other post-employment benefits is not contested by any party.

16. Overall, the capital budgets adopted in the Settlement reflect a fair and negotiated compromise between the settling parties.

17. We agree with some of the proposed capital reductions made by Cal Advocates but also agree that other objections were adequately explained or justified by Cal-Am in its rebuttal testimony.

18. Proposed capital projects for the Monterey Service area are not tied to the growth in customers in the area but are for replacement of aging infrastructure.

19. Parties generally agree with the income tax calculation methodology proposed by Cal-Am although Cal Advocates initially recommended certain adjustments.

20. Parties agree with Cal-Am's methodology for calculating property taxes, payroll taxes, license and other taxes, and franchise fees and the different totals recommended by Cal Advocates are due to differences in total plant and payroll recommendations.

21. Cal Advocates does not oppose Cal-Am's method for calculating depreciation expense and working cash allowance with differences in total amounts being due to differences in total plant recommendations.

22. Reductions to Cal-Am's cost of removal proposals reflect recommendations by Cal Advocates to disallow several plant additions.

23. The weighted average calculation methodology adopted in the Settlement includes corrections and accounts for outlier events.

24. Early retirements are offset by late retirements when using the average life of the entire group of assets to calculate asset retirements.

25. The Settlement agrees to close several memorandum accounts although Cal Advocates recommended that a greater number be closed.

26. The agreement to deduct the over-collection from the TCPLMA from overall under-collection results in a significant reduction to the surcharges that ratepayers will be assessed.

27. Special Requests 1, 7 and 8 are withdrawn without prejudice.

28. Special Requests 2, 5, 6, 9, and 11 were not opposed.

29. Information contained in the Monterey Rates webpage can be found in other webpages.

30. Both monetary and non-monetary components in the Settlement reflect compromises by the settling parties from their initially recommended positions.

31. The settling parties set aside many of the disputed factual and legal issues and have agreed on resolving these disputes in the Settlement.

32. The Settlement resolves competing concerns in a collaborative and cooperative manner and approval of the Settlement provides a timely and complete resolution of all but one of the contested issues raised in the proceeding.

33. The Settlement does not contravene or compromise any statutory provision or prior Commission decision.

34. Cal-Am presented a more complete and reasonable proposal for its recommendation to include CWIP in rate base as compared to Cal Advocates.

35. There is adequate evidence to support the proposal to include CWIP in rate base.

36. The application supports the goals and objectives of the Commission's ESJ Action Plan where applicable and does not negatively impact the achievement of any of the nine goals of the ESJ Action Plan.

Conclusions of Law

1. The terms in the Settlement concerning number of customers, customer sales, and water production are reasonable.

2. The Settlement terms concerning revenues and rate design are reasonable.

3. The O&M forecasts and agreed-upon terms in the Settlement concerning O&M expenses are reasonable.

4. It is reasonable to direct Cal-Am and Monterey to discuss revisions to the line item description for Pure Water Monterey surcharges in customer bills.

5. The A&G costs adopted in the Settlement are reasonable and reflect negotiated agreements between the settling parties.

6. Although not specifically specified, the adoption of Cal-Am's proposal is interpreted to include the non-transferability of the conservation budget allotted for Monterey.

7. The Settlement terms concerning Labor and Benefits are reasonable and reflect negotiated as well as uncontested issues.

8. The capital budgets adopted in the Settlement for the Northern Division, Central Division, Southern Division, Wastewater District, and Corporate General Office are reasonable and reflect a fair compromise.

9. The Settlement terms concerning income and ad valorem taxes are reasonable and supported by the record.

10. The agreements made in the Settlement on depreciation expense, working cash allowance, cost of removal, weighted average calculation, and asset retirement are reasonable and reflect negotiated agreements and differences in capital plant recommendations.

11. The treatment of balancing and memorandum accounts in the Settlement is reasonable and supported by the record.

12. The Settlement terms concerning withdrawal of Special Requests 1, 7, and 8 and approval of Special Requests 2, 5, 6, 9, 11 are reasonable and the approval of Special Request 10 is justified.

13. The Settlement is reasonable in light of the record as a whole, consistent with law, and in the public interest and should therefore be approved.

14. Objections and concerns raised by Monterey are insufficient to overturn the reasonableness of the Settlement terms.

15. Based on the record of this proceeding, it is reasonable to include CWIP in rate base.

16. The application does not contravene any of the nine goals of the ESJ Action Plan.

O R D E R

IT IS ORDERED that:

1. The Joint Motion for Approval of Settlement Agreement filed by California-American Water Company and the Public Advocates Office at the California Public Utilities Commission on June 8, 2026 is approved. The Joint Motion and Settlement Agreement are attached as Appendix "G" to this decision.

2. California-American Water Company is authorized to include construction work-in-progress costs in rate base for this rate case cycle.

3. Pursuant to Ordering Paragraphs 1 and 2, California-American Water Company is authorized to collect, through rates and through authorized ratemaking accounting mechanisms, the 2027 Test Year base revenue requirement set forth in Appendix "A" and further described in the Settlement Agreement, effective January 1, 2027.

4. Pursuant to Ordering Paragraph 1 and as described in the Settlement Agreement, Special Request Numbers 2, 5, 6, 9, 10, and 11 are approved.

5. Within 30 days of the effective date of this decision, California-American Water Company shall file a Tier 1 advice letter with revised tariff schedules incorporating the 2027 Test Year rates in compliance with this decision for each of its ratemaking districts, consistent with the rates adopted for each rate area as described in the Settlement Agreement. The advice letters shall comply with

General Order 96-B and shall be subject to approval by the Commission's Water Division.

6. California-American Water Company is authorized to implement a Post-Test Year (PTY) ratemaking mechanism for 2028 and 2029 as described in the Settlement Agreement. The adopted PTY base revenue requirements are set forth in Appendix "A" and further described in the Settlement Agreement.

7. To update its revenue requirement for Post-Test Year (PTY) 2028, California-American Water Company shall file a Tier 1 advice letter with the Commission's Water Division two months prior to January 1, 2028. The PTY 2028 update shall be effective on January 1, 2028, through December 31, 2028. The advice letters shall comply with General Order 96-B and shall be subject to approval by the Commission's Water Division.

8. To update its revenue requirement for Post-Test Year (PTY) 2029, California-American Water Company shall file a Tier 1 advice letter with the Commission's Water Division two months prior to January 1, 2029. The PTY 2029 update shall be effective on January 1, 2029, through December 31, 2029. The advice letters shall comply with General Order 96-B and shall be subject to approval by the Commission's Water Division.

9. Within 60 days from the date of this decision, California-American Water Company (Cal-Am) and Monterey Peninsula Water Management District (Monterey) shall engage in discussions to revise the line item description for Pure Water Monterey surcharges in order to make it clear that said surcharges are not imposed by Monterey. Cal-Am is further authorized to take necessary steps to make any agreed-upon revision relating to the Pure Water Monterey surcharge description.

10. Application 25-07-003 is closed.

This order is effective today.

Dated ____, at San Francisco, California.

APPENDIX A to F

(California American Water California Total - 2025 GRC
Summary Of Earnings at Adopted Rates)

(END OF APPENDIX A to F)

APPENDIX G

(Appendix G re Settlement Agreement)

(END OF APPENDIX G)