

Decision **PROPOSED DECISION OF ALJ ROSAS (Mailed 3/13/2026)**

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

In the Matter of the Application of CALIFORNIA WATER SERVICE COMPANY (U60W), a California corporation, for an order (1) authorizing it to increase rates for water service by \$140,558,101 or 17.1% in test year 2026, (2) authorizing it to increase rates on January 1, 2027 by \$74,162,564 or 7.7%, (3) authorizing it to increase rates on January 1, 2028 by \$83,574,190 or 8.1% in accordance with the Rate Case Plan, and (4) adopting other related rulings and relief necessary to implement the Commissions ratemaking policies.

Application 24-07-003

**DECISION ADOPTING PARTIAL SETTLEMENT AGREEMENT;
AUTHORIZING RATE INCREASES IN TEST YEAR 2026,
AND IN 2027 AND 2028 ESCALATION YEARS ON JANUARY 1, 2027,
AND ON JANUARY 1, 2028; AND ADOPTING OTHER RELIEF NECESSARY
TO IMPLEMENT THE COMMISSION'S RATEMAKING POLICIES**

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Partial List of Abbreviations
 (in alphabetical order)

- A&G Administrative and General
- AMI Advanced Metering Infrastructure
- ADR Alternative Dispute Resolution
- AMP Arrearage Management Program
- ALMA Asbestos Litigation Memorandum Account
- BAMA Balancing and Memorandum Account
- CEMA Catastrophic Event Memorandum Account

CBA	Collective Bargaining Agreement
CEBA	Conservation Expense Balancing Account
CAP	Customer Assistance Program
DAC	Disadvantaged Community
DWFBA	Drinking Water Fees Balancing Account
ESJ	Environmental and Social Justice
EY	Escalation Year
GO	General Order
GRC	General Rate Case
HCBA	Health Cost Balancing Account
ICBA	Incremental Cost Balancing Account
LIBA	Liability Insurance Balancing Account
LUWEP	Low Use Water Equity Program
MCBA	Modified Cost Balancing Account
M-WRAM	Monterey Water Revenue Adjustment Mechanism
OB	Opening Brief
O&M	Operation and Maintenance
PCBA	Pension Cost Balancing Account
PID	Project Identification
PFAS	Per- and Polyfluoroalkyl Substances
PSPS MA	Public Safety Shut-Off Memorandum Account
RSF	Rate Support Fund
RB	Reply Brief
RO	Results of Operations
SRM	Sales Reconciliation Mechanism
SWRCB	State Water Resources Control Board
SERP	Supplemental Executive Retirement Plan
TY	Test Year
WCRMA	Water Contamination Remediation Memorandum Account
WRAM	Water Revenue Adjustment Mechanism

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Summary

This decision adopts rates for California Water Service Company for Test Year 2026 and two subsequent attrition years, 2027 and 2028. This decision grants the joint motion of California Water Service Company, the Public Advocates Office at the California Public Utilities Commission, California Water Association, and National Association of Water Companies for adoption of their Partial Settlement Agreement that partially resolves some of the issues in scope in this proceeding. We also adopt the settled issues where there were no disputes and the parties stipulated to a forecast. As to those issues not resolved by the Partial Settlement Agreement, this decision adjudicates and resolves those contested issues in scope in this proceeding by weighing the evidence, considering the arguments made in this proceeding, and applying the law to the facts and evidence in this proceeding.

This decision authorizes a total revenue requirement of \$923,651,400 (a rate increase of \$90,503,500 or 10.9 percent) in test year 2026; total revenue requirement of \$966,839,000 (a rate increase of \$43,187,600 or 4.7 percent) on January 1, 2027; and total revenue requirement of \$1,015,749,250 (a rate increase of \$48,910,300 or 5.1 percent) on January 1, 2028.

This decision adopts other orders as necessary to implement the California Public Utilities Commission's ratemaking policies.

This proceeding is closed.

1. Background

On July 8, 2024, California Water Service Company (Cal Water) filed Application (A.) 24-07-003 for a general rate increase with the California Public

Utilities Commission (Commission or CPUC).¹ Cal Water is the largest subsidiary of the California Water Service Group, which also includes Washington Water Service, New Mexico Water Service, Texas Water Service, and Hawaii Water Service.²

Cal Water seeks authority³ to increase rates for water service by \$140,558,101, or 17.1 percent, in test year 2026; by \$74,162,564, or 7.7 percent, on January 1, 2027; and by \$83,574,190, or 8.1 percent, on January 1, 2028. The Application also requested approval of various Special Requests and other related relief.

On August 7, 2024, the City of Carson protested the Application. On August 8, 2024, the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) filed its protest, and the California Water Association (CWA) and the National Association of Water Companies (NAWC) submitted responses. On August 16, 2024, the City of Bakersfield moved for party status. Cal Water filed replies to the protests of Cal Advocates and the City of Carson on August 19, 2024.

On August 26, 2024, the Commission appointed Administrative Law Judges (ALJs) Jacob Rambo and Peter Wercinski as Alternative Dispute Resolution (ADR) neutrals. The parties met with the ALJ neutrals on September 19, 2024, for an initial discussion of the ADR process.

Pursuant to the August 30, 2024 ALJ ruling, Cal Water, Cal Advocates, the City of Carson, the City of Bakersfield, CWA, and NAWC filed a joint prehearing conference statement on September 23, 2024, proposing a procedural schedule, recommending a proceeding category, and identifying a preliminary list of issues. The prehearing conference was held on September 30, 2024.

¹ In California, water companies that serve more than 10,000 customers are considered Class A water utilities. Cal Water is one of nine Class A water utilities regulated by the Commission.

² <https://www.calwater.com/about/company-information/> as of November 11, 2025.

³ Cal Water is a public utility subject to the jurisdiction of this Commission pursuant to Public Utilities (Pub. Util.) Code Section 216(a)(1).

The Assigned Commissioner's Scoping Memo and Ruling was issued on November 8, 2024, followed by the Amended Scoping Memo and Ruling on March 13, 2025. The Amended Scoping Memo established the scope and category of the proceeding, set the procedural schedule, provided direction for the ADR process, and listed the locations for mandatory public participation hearings (the two hearings were held on January 23, 2025).

Cal Advocates served its direct testimony on January 28, 2025; CWA and NAWC served testimony on February 11, 2025; and Cal Water served its rebuttal testimony on March 28, 2025. Cal Advocates submitted minor corrections to its testimony on May 5 and May 19, 2025.

Cal Water and Cal Advocates filed a joint motion requesting evidentiary hearings on April 22, 2025. Although the parties agreed to waive cross-examination of witnesses, evidentiary hearings were held at the request of the assigned ALJ on May 14-15 and May 21, 2025, to allow the ALJ to question witnesses regarding their testimony.

Status conferences were held on November 20, 2024, January 29, 2025, April 29, 2025, and June 17, 2025. Following the June 17 status conference, the briefing schedule was revised, setting the filing of opening briefs by July 7, 2025, and reply briefs by July 28, 2025.

On June 13, 2025, Cal Water filed a motion for interim rates to track the difference between the interim rates in effect starting January 1, 2026, and the Commission-approved final rates that would have been in effect during the interim period until final rates are implemented.

On June 23 and June 25, 2025, the City of Bakersfield and the City of Carson, respectively, filed motions for inactive party status. On July 7, 2025, Cal Water and other parties filed a joint motion to move exhibits into evidence, and on July 29, 2025, the parties submitted a joint comparison exhibit.

A formal settlement conference was properly noticed on July 24, 2025, pursuant to Rule 12.1(b) of the Commission's Rules of Practice and Procedure (Rules), and held on July 31, 2025, with participation from interested parties.

Pursuant to an October 3, 2025 ALJ ruling, Cal Water was directed to file a Tier 1 advice letter by November 17, 2025, to implement interim rates effective January 1, 2026, and establish a 2026 Interim Rates Memorandum Account. Cal Water filed this required advice letter on November 14, 2025.

An Assigned Commissioner's Ruling was issued on November 14, 2025, amending the prohibitions on *ex parte* communication.

Oral Argument was held in person on April 6, 2026, at the Commission's headquarters in San Francisco.

1.1. Submission Date

This matter was submitted on January 5, 2026, upon the issuance of the ALJ's Ruling Setting Submission Date.

1.2. Burden of Proof

In a General Rate Case (GRC), the applicant utility bears the burden of proving that it is entitled to the rate relief and other regulatory authorizations it requests. Under Public Utilities (Pub. Util.) Code Section 451 and Section 454, all rates and charges demanded or received by a public utility must be just and reasonable, and no rate change shall be made except upon a showing before the Commission that the new rate is justified.⁴ "Every unjust or unreasonable charge demanded or received for such product or commodity or service is unlawful."⁵

The burden of proof in Commission proceedings such as this rests with the applicant utility. The utility must affirmatively demonstrate that its proposed rates and associated ratemaking mechanisms are just, reasonable, and supported by the

⁴ See Pub. Util. Code §§ 451, 454.

⁵ Pub. Util. Code § 451.

evidence of record.⁶ As the Commission has long held, the applicant bears the obligation to present sufficient evidence to substantiate its requests; the fact that other parties may contest specific elements of the application does not shift the ultimate burden of proof away from the utility.

The standard of proof required is the preponderance of the evidence. The Commission has defined this standard as “such evidence as, when weighed with that opposed to it, has more convincing force and the greater probability of truth.”⁷ California law similarly provides that the party bringing a claim generally bears the burden of proving that claim by a preponderance of the evidence.⁸

Accordingly, in this proceeding, Cal Water must establish, by a preponderance of the evidence, that the rate increases, ratemaking mechanisms, and other forms of relief it seeks are just and reasonable and consistent with California law and Commission policy.

2. Issues Before the Commission

As the proceeding progressed, the parties’ analysis and discussions grouped the issues shown below into three categories: (1) undisputed stipulated issues where there were no disagreements and the parties were both satisfied with the forecast; (2) settled issues where the parties were able to reach mutually acceptable trade-offs; and (3) the disputed issues litigated before the Commission. We have reviewed the entire evidentiary record throughout the course of the proceeding. Based on our review of the record, we will accept the stipulated issues, and by applying our settlement rules, we will also accept the partial settlement. In the remainder of the decision, we resolve the litigated, or contested issues based on the

⁶ See Decision (D.) 18-10-019 at 31.

⁷ D.18-10-019 at 31, quoting D.87-12-067, 27 CPUC 2d. 1, 22.

⁸ Evid. Code §§ 115, 500; see also *Sargent Fletcher Inc. v. Able Corp.* (2003) 110 Cal.App.4th 1658, 1667 [citations omitted].

evidentiary record, the applicable law, and our general ratemaking practices and principles.

As identified in the Assigned Commissioner's Amended Scoping Memo, the issues before the Commission are as follows:

General Issues

1. Whether Cal Water's proposed rate increases for the Test and Escalation Years are just and reasonable;
2. Whether Cal Water's estimates of its operation and maintenance (O&M), and administrative and general (A&G) expenses are reasonable;
3. Whether Cal Water's proposed plant additions are accurate, reasonable, and justified;
4. Whether Cal Water's proposed revenue requirement is just and reasonable;
5. Whether Cal Water's proposed rate designs are just and reasonable;
6. Whether Cal Water has complied with prior Commission orders, including but not limited to those in the decision that resolved Cal Water's last GRC, D.20-12-007;
7. Whether Cal Water's proposal for the Low Use Water Equity Program (LUWEP) is just and reasonable;
8. Whether Cal Water's Water Rights Leases comply with prior Commission orders;
9. Whether Cal Water is in compliance with California's regulatory requirements for the provision of safe and reliable water service, including but not limited to adequate Emergency Preparedness Plans, the Low-Income Rate Assistance (LIRA) program, and any other conservation, accessibility, and water equity safeguards;
10. Whether Cal Water's water quality meets all applicable local, state and federal drinking water standards and other provisions of General Order (GO) 103-A;
11. Whether Cal Water's Application supports the goals and objectives of the Commission's Environmental and Social Justice (ESJ) Action Plan;

12. Whether Cal Water's proposed Balancing and Memorandum Accounts (BAMAs) are reasonable and in the public interest;

Special Requests

13. Whether Special Request #1 is reasonable (Special Request #1: Enhancing Affordability Through Consolidation, which would remove the Rate Support Fund subsidy that is currently embedded in the rates for Dixon customers, and to instead address the affordability concerns of the area by consolidating Dixon's revenue requirements with that of the Livermore Districts);
14. Whether Special Request #2 is reasonable (Special Request #2: Updating the Rate Support Fund (RSF), which would retain the RSF subsidies for the Kern River Valley and Willows Districts, eliminate the annual subsidy currently provided to the Dixon District, and apply an annual RSF subsidy to decrease the revenue requirement and mitigate bill impacts for customers in the small, economically disadvantaged Selma District);
15. Whether Special Request #3 is reasonable (Special Request #3: Authorizing Decoupling and Sales Reconciliation Mechanism, which includes: (1) a Safe Infrastructure Balancing Account to track the difference between actual and adopted revenues; (2) a Supply Cost Balancing Account to track the difference between actual and adopted production expenses; (3) a proposal to amortize net decoupling program balances in base rates using the adopted rate design (as opposed to separate surcharges or surcredits); and 4) reinstating and modifying the Sales Reconciliation Mechanism (SRM));
16. Whether Special Request #4 is reasonable (Special Request #4: Authorizing Annual Sales and Services Forecasts, which would provide discrete annual sales and services forecasts over the GRC period);
17. Whether Special Request #5 is reasonable (Special Request #5: Incorporating Subsequent Rate Changes into Final Rates, which would incorporate rate changes due to other proceedings or the advice letter process into the calculations of final rates in this proceeding);

18. Whether Special Request #6 is reasonable (Special Request #6: Updating Escalation Factors for Final Rates, which would require the Water Division to use the most current Commission escalation rates for expenses and capital when calculating the final revenue requirement and rates for the final decision in this proceeding);
19. Whether Special Request #7 is reasonable (Special Request #7: Payroll Escalation Based on Union Contract, which would calculate the labor expenses for Cal Water's escalation and attrition year step filings using the company's actual union contract annual wage increases);
20. Whether Special Request #8 is reasonable (Special Request #8: Amortizing Balancing Accounts, which would allow Cal Water to amortize the balances in the following BAMAs within 90 days or more of a final decision: Conservation Expense Balancing Account (CEBA 5), Pension Cost Balancing Account (PCBA 5), Healthcare Cost Balancing Account (HCBA 5), General District Balancing Account (District BA), Catastrophic Event Memorandum Account (CEMA), Asbestos Litigation Memorandum Account (ALMA), Public Safety Shut-Off Memorandum Account (PSPS MA), and Drinking Water Fees Balancing Account (DWFBA));
21. Whether Special Request #9 is reasonable (Special Request #9: Reauthorizing Balancing Accounts, which would re-authorize the Conservation Expense Balancing Account (CEBA), Pension Cost Balancing Account (PCBA), and Health Cost Balancing Account (HCBA));
22. Whether Special Request #10 is reasonable (Special Request #10: Request for Liability Insurance Account, which would establish a two-way balancing account for liability insurance costs (Liability Insurance Balancing Account). The Liability Insurance Balancing Account would track the difference between the liability insurance expense (third party premium amounts for general liability, excess liability and umbrella policies) included in the revenue requirement and the actual liability insurance expense Cal Water incurs);
23. Whether Special Request #11 is reasonable (Special Request #11: Request for Water Contamination

Remediation Memo Account (WCRMA), which would establish a Contamination Remediation Memorandum Account in place of multiple, contaminant-specific memo accounts);

24. Whether Special Request #14 is reasonable (Special Request #14: Attrition Year Normalization, which would authorize Cal Water to deviate from the Rate Case Plan to update its practice for applying deferred taxes during the attrition year (*i.e.*, third year) of the GRC cycle to avoid a normalization violation); and
25. Whether Special Request #15 is reasonable (Special Request #15: Deferred Tax Liability with Current Year Capital Additions, which authorize Cal Water to modify its practice for prorating deferred tax liabilities for current year capital additions to conform with the normalization proration rules.)

3. Partial Settlement Agreement

On August 4, 2025, Cal Advocates, Cal Water, CWA, and NAWC (Settling Parties) filed a Joint Motion for Adoption of Partial Settlement Agreement (Motion for Partial Settlement), which included a copy of the Partial Settlement Agreement dated August 4, 2025. This Partial Settlement Agreement is attached thereto as Appendix Y and includes a corrected version of the “List of Undisputed Issues and Partially Resolved Capital Projects” (“Undisputed Issues List”); these are attached and incorporated herein as Appendix Y to this decision.

When it comes to sales and services, the parties agree that “[w]hile the amount of sales remains in dispute, the Commission should adopt sales-per-customer figures for each year such as those shown in Attachment 2 to this Partial Settlement.”⁹ This attachment, which is included here as part of Appendix Y, consists of Cal Water’s 2024 GRC Sales Forecast Report. “For service

⁹ Appendix Y: Partial Settlement Agreement at 2.

connections,” an attachment to the Partial Settlement Agreement “provides the agreed-upon number for each customer class and operating district or sub-district.”

The Settling Parties indicate that “[o]ther than the issues reflected in either the proposed Partial Settlement Agreement or the Undisputed Issues List, the remaining issues in this proceeding are contested by the Settling Parties and are addressed in opening and reply briefs.”¹⁰

Table 1 below shows whether the scoped issues are addressed in either the Partial Settlement Agreement, as part of the Undisputed Issues List, or as part of the disputed issues addressed in the party briefs:

Table 1
(Roadmap of Issues)

<u>Scoped Issues</u>	<u>Settled Issues</u> <i>(See Partial Settlement Agreement)</i>	<u>Undisputed Issues</u> <i>(See Undisputed Issues List)</i>	<u>Disputed Issues</u>
1. Whether Cal Water’s proposed rate increases for the Test and Escalation Years are just and reasonable.	X	X	X
2. Whether Cal Water’s estimates of its O&M and A&G expenses are reasonable.	X	X	X
3. Whether Cal Water’s proposed plant additions are accurate, reasonable, and justified.		X	X
4. Whether Cal Water’s proposed revenue requirement is just and reasonable.	X	X	X
5. Whether Cal Water’s proposed rate designs are just and reasonable.			X

¹⁰ Motion for Partial Settlement at 3.

<u>Scoped Issues</u>	<u>Settled Issues</u> <i>(See Partial Settlement Agreement)</i>	<u>Undisputed Issues</u> <i>(See Undisputed Issues List)</i>	<u>Disputed Issues</u>
6. Whether Cal Water has complied with prior Commission orders.			X
7. Whether Cal Water's proposal for the LUWEP is just and reasonable.			X
8. Whether Cal Water's Water Rights Leases comply with prior Commission orders.		X	
9. Whether Cal Water is in compliance with California's regulatory requirements for the provision of safe and reliable water service.	X	X	
10. Whether Cal Water's water quality meets all applicable local, state and federal drinking water standards and other provisions of GO 103-A.	X	X	X
11. Whether Cal Water's Application supports the goals and objectives of the Commission's ESJ Action Plan.			X
12. Whether Cal Water's proposed BAMAs are reasonable and in the public interest.	X	X	X
13. Whether Special Request #1 is reasonable.	X	X	
14. Whether Special Request #2 is reasonable.	X	X	
15. Whether Special Request #3 is reasonable. (Decoupling)			X

<u>Scoped Issues</u>	<u>Settled Issues</u> <i>(See Partial Settlement Agreement)</i>	<u>Undisputed Issues</u> <i>(See Undisputed Issues List)</i>	<u>Disputed Issues</u>
16. Whether Special Request #4 is reasonable.	X	X	
17. Whether Special Request #5 is reasonable.		X	
18. Whether Special Request #6 is reasonable.		X	
19. Whether Special Request #7 is reasonable.			X
20. Whether Special Request #8 is reasonable.		X	X
21. Whether Special Request #9 is reasonable.		X	X
22. Whether Special Request #10 is reasonable.			X
23. Whether Special Request #11 is reasonable.			X
24. Whether Special Request #14 is reasonable.	X	X	
25. Whether Special Request #15 is reasonable.	X	X	

3.1. Analysis of Partial Settlement Agreement

To determine if the Partial Settlement Agreement should be approved in whole or in part, or rejected outright, this decision analyzes the settlement in accordance with Article 12 of the Commission's Rules of Practice and Procedure, which applies to contested and uncontested settlements. The Partial Settlement Agreement is uncontested. The Commission has long favored the settlement of

disputes. Under Rule 12.1(d), the Commission will not approve a settlement unless it is reasonable in light of the whole record, consistent with law, and in the public interest.

On whether the settlement is reasonable in light of the whole record, the parties point out in their Motion for Partial Settlement that:

The Partial Settlement is a reasonable resolution of certain issues presented in this proceeding. Cal Advocates and Cal Water entered into the Partial Settlement based upon independent investigation and analysis performed by each party's respective representatives with expertise in various subject areas and based on the record in this proceeding. Cal Advocates and Cal Water fully evaluated their respective positions and the record in this proceeding and find the Partial Settlement to be a reasonable and fair resolution of the issues addressed in the Settlement Agreement. The other active parties, CWA and NAWC, are supportive of the Partial Settlement but do not take a stance on specific issues.¹¹

In their joint motion, on the issue of consistency with the law, the parties also point out that:

The Settling Parties are aware of no statutory provision or prior Commission decision that would be contravened or compromised by the Settlement Agreement. The issues resolved in the Partial Settlement are within the scope of this proceeding. Resolution of the issues as addressed in the Partial Settlement will contribute to just and reasonable rates.¹²

Finally, on the issue of public interest, the parties also point out that:

The Partial Settlement will result in a reduction in Cal Water's revenue requirement request in its Application while still providing, for those issues addressed in the Settlement Agreement, reasonable estimates of Cal Water's expected costs and expenses, and capital budget to complete much-needed capital projects to deliver safe and reliable water service at

¹¹ Motion for Partial Settlement at 4.

¹² Motion for Partial Settlement at 4.

reasonable rates. The Partial Settlement advances this interest by ensuring, with regard to those issues addressed in the Settlement Agreement, that Cal Water will continue to provide consumers with safe and reliable water service at reasonable rates.¹³

In reviewing the Partial Settlement Agreement, the Commission applies the standards set forth in Article 12 of the Commission's Rules of Practice and Procedure. Under Rule 12.1(d), the Commission will not approve a settlement unless it is reasonable in light of the whole record, consistent with law, and in the public interest.

California courts have long recognized that the evaluation of a settlement is not an exercise in deciding the underlying merits of the case but an assessment of whether the agreement as a whole is fair and reasonable.¹⁴ The trial court, or in this context the Commission, "does not try out or attempt to decide the merits of the controversy" but instead determines whether the settlement meets established fairness criteria.¹⁵ As explained in *7-Eleven Owners for Fair Franchising v. Southland Corp.* (2000) 85 Cal.App.4th 1135, 1146, courts exercise broad discretion in evaluating settlements and consider a range of factors, including the strength of the parties' positions, the risks and expense of further litigation, the extent of discovery, and the experience and views of counsel. Similarly, in *Dunk v. Ford Motor Co.* (1996) 48 Cal.App.4th 1794, the court recognized a presumption of fairness when: (1) the settlement is reached through arm's-length bargaining; (2) investigation and discovery are sufficient to allow counsel and the tribunal to act intelligently; (3) counsel are experienced in similar matters; and (4) there is little or no opposition to the settlement.

¹³ Motion for Partial Settlement at 4.

¹⁴ *City of Detroit v. Grinnell Corp.* (2d Cir. 1974) 495 F.2d 448, 456.

¹⁵ *Ibid.*

Federal precedent is to the same effect. As the Ninth Circuit observed in *Hanlon v. Chrysler Corp.* (9th Cir. 1998) 150 F.3d 1011, 1027, “Settlement is the offspring of compromise; the question we address is not whether the final product could be prettier, smarter or snazzier, but whether it is fair, adequate and free from collusion.” This pragmatic approach aligns with the Commission’s policy favoring settlements as efficient, equitable, and resource-conserving resolutions of complex regulatory disputes. The focus is not on whether the agreement achieves the optimal result for any one party, but whether the negotiated outcome as a whole advances fairness, reasonableness, and the public interest.

Applying these principles, the Commission concludes that the Partial Settlement Agreement satisfies the Rule 12.1(d) criteria in its entirety. The record demonstrates that the settlement was the product of arms-length negotiations between knowledgeable and well-represented parties, each with extensive experience in Commission proceedings. The Settling Parties collectively represent a broad and balanced range of interests, including those of ratepayers, regulated utilities, and the broader water industry.

The Commission finds the Partial Settlement Agreement to be reasonable in light of the whole record. The settlement was reached after discovery, evidentiary hearings, and submission of extensive written testimony. It resolves numerous issues supported by the evidentiary record and narrows the scope of remaining disputes. The agreement reflects compromises grounded in the data and testimony presented, resulting in rate and policy outcomes that are balanced and supported by the record as a whole.

The settlement is also consistent with the law. The Settling Parties represent that no term of the agreement contravenes any statute or prior Commission decision, and the Commission’s independent review finds no conflict with governing law. The settlement complies with Pub. Util. Code Sections 451 and 454, which require that all rates be just and reasonable and that no rate change occur without

Commission authorization. The settlement also aligns with longstanding Commission practice approving partial settlements that advance administrative efficiency and conserve public and party resources.

Finally, the Partial Settlement Agreement is in the public interest. It provides rate and policy outcomes that will reduce litigation costs, conserve regulatory resources, and enhance regulatory certainty for both the utility and customers. The settlement reduces Cal Water's requested revenue requirement while still ensuring the utility can continue to provide safe and reliable water service at reasonable rates. The participation of Cal Advocates — the ratepayer's independent consumer advocate — further supports the conclusion that the settlement protects the interests of ratepayers, including residential and low-income customers.

Consistent with judicial and administrative precedent, the Commission's review of the settlement does not require parceling each fact or issue resolved therein.¹⁶ The Commission's role is to ensure that the agreement as a whole complies with Rule 12.1(d). Having conducted a comprehensive, high-level assessment of the settlement and the corresponding evidentiary record, the Commission concludes that the Partial Settlement Agreement, taken in its entirety, is reasonable in light of the whole record, consistent with law, and in the public interest.

4. Discussion and Analysis of the 25 Scoped Issues

Below is the discussion and analysis of the 25 issues within the scope of this proceeding. For each scoped issue, we briefly summarize party positions. We briefly address whether the scoped issue is one that the parties addressed in the Partial Settlement Agreement and/or Undisputed Issues List. We include an analysis of the

¹⁶ See *Title Ins. Co. v. State Bd. of Equalization* (1992) 4 Cal.4th 715, 733 ["A court will respect a stipulation limiting the issues in a case."].

scoped issue. Finally, as to those issues that are not fully resolved through settlement, we provide a conclusion as to the adjudication of each unsettled issue.

4.1. Scoped Issue #1: Whether California Water Service Company's Proposed Rate Increases for the Test and Escalation Years Are Just and Reasonable

Scoped Issue #1 serves as the overarching framework for evaluating Cal Water's proposed Test Year (TY) and Escalation Year (EY) rate increases. The Commission's determination on this issue reflects the integrated results of the more detailed analyses contained in Scoped Issues #2 through #5, which address the individual cost components of the revenue requirement — O&M and A&G expenses, capital additions, revenue requirement methodology, and rate design. Collectively, those determinations establish the evidentiary foundation for assessing whether Cal Water's overall rate increases are just and reasonable. This section, therefore, synthesizes the record on Cal Water's rate increase proposal, the Partial Settlement Agreement, and the Commission's evaluation of the remaining disputed issues in light of the statutory and precedent-based standards for reasonableness. The specific adopted TY and EY revenue requirements and the average systemwide percentage rate increases are set forth in Appendices A through X.

Cal Water requests Commission authorization for rate increases in the TY and EYs to recover costs associated with regulatory compliance, system reliability, and infrastructure investment. The company asserts that the proposed increases are fully supported by its cost-of-service showing, which includes capital investment requirements, inflationary pressures, and necessary operational spending.¹⁷ Cal Water maintains that its forecast is consistent with Commission precedent and reflects prudent utility management as required under Pub. Util. Code Sections 451 and 454.

¹⁷ Cal Water Opening Brief (OB) at 8-15; Exhibit (Ex.) CWS-2 at 13-18.

Cal Advocates opposes the magnitude of the proposed increases, arguing that Cal Water's forecasts are overstated and that many capital projects are premature or insufficiently supported.¹⁸ Cal Advocates contends that the Commission should adopt its lower forecasts, which it asserts are sufficient to maintain safe and reliable service while protecting customers from unnecessary rate impacts.¹⁹

NAWC and CWA support Cal Water's proposal. NAWC emphasizes that the proposed increases are necessary to sustain system reinvestment, ensure compliance with water-quality regulations, and maintain industry stability.²⁰ CWA highlights the statewide policy need for adequate cost recovery to preserve reliability and resiliency in essential water infrastructure.²¹

This issue overlaps substantively with Scoped Issues #2 through #5, which evaluate specific components of Cal Water's cost structure (O&M, capital additions, revenue requirement, and rate design). This section addresses the overall reasonableness of the requested rate increases in light of those component determinations. For modeling and implementation purposes, the Commission adopts: (1) the test-year and escalation-year O&M and A&G expense levels derived from the adjustments adopted in Scoped Issue #2; (2) the utility plant in service and related capital additions adopted in Scoped Issue #3; (3) the revenue requirement methodology adopted in Scoped Issue #4; and (4) the rate design adopted in Scoped Issue #5, as the numerical basis for the TY and EY revenue requirements and rate increases used in the Results of Operations (RO) Model.

¹⁸ Cal Advocates OB at 9-20; Ex. CalPA-1, Tables 2-4.

¹⁹ Cal Advocates Reply Brief (RB) at 4-9; Ex. CalPA-2 at 22.

²⁰ NAWC OB at 3-9.

²¹ CWA RB at 3-5.

4.1.1. Partial Settlement

The Settling Parties' joint motion and accompanying Undisputed Issues List resolve certain cost components affecting the proposed rate increases, including general office expenses, depreciation, property taxes, and overhead allocations.²² What follows is an analysis of the unsettled portions of this scoped issue. For purposes of the RO Model, the settled items are implemented by using the adopted general office, depreciation, property tax, and overhead allocation amounts and calculations reflected in Joint Exhibit 2 (Undisputed Issues) and the corresponding workpapers.

4.1.2. Analysis

Revenue requirement should be based on the utility's cost of service to provide safe and reliable service.

Cal Water asserts that its proposed increases reflect necessary cost recovery driven by inflation, regulatory mandates, and long-term infrastructure renewal.²³ It argues that its forecast is built on detailed cost-of-service analyses covering O&M, A&G expenses, and plant additions. Cal Water cites D.19-05-044 to emphasize that rate increases are just and reasonable when supported by demonstrable evidence of prudence and necessity. It further notes that disallowing recovery of prudent costs could impair the utility's ability to maintain compliance with drinking-water and safety standards.²⁴

In its opening brief, Cal Water further explains that the company's systemwide cost pressures reflect state and federal regulatory mandates —

²² Motion for Partial Settlement at 4-7.

²³ Cal Water OB at 10-13; Ex. CWS-3 at 6-8.

²⁴ Cal Water RB at 8-10; Ex. CWS-4 at 10-11.

particularly those relating to emerging contaminants, cybersecurity, and drought resilience — which justify moderate but necessary rate adjustments.²⁵

Cal Advocates contends that Cal Water’s proposed increases are excessive, asserting that the company’s escalation assumptions and capital forecasts exceed historic spending trends without adequate support.²⁶ Cal Advocates recommends applying lower escalation factors derived from inflation indices and historical averages, consistent with Commission practice in prior GRCs.²⁷ It also argues that several major capital additions lack sufficient project documentation and that rate increases based on such forecasts would not meet the Pub. Util. Code Section 451 standard of reasonableness. Cal Advocates emphasizes that “empirical, project-specific documentation” must substantiate any forecasted capital work before rate recovery may be granted.²⁸

For non-production O&M and non-actuarial A&G expenses, the Commission adopts a hybrid escalation framework that: (1) starts from the recorded and forecast test-year expense levels (by account and by district) as presented in Cal Water’s testimony and Minimum Data Requirement (MDR) workpapers, as modified by the specific disallowances and adjustments recommended by Cal Advocates and adopted in Scoped Issue #2; and (2) applies the most recent Commission escalation memo factors²⁹ for labor and non-labor expenses available

²⁵ Cal Water OB at 12-14; Ex. CWS-5 at 4-6.

²⁶ Cal Advocates OB at 13-16; Ex. CalPA-1 at 26.

²⁷ Cal Advocates RB at 5-7; Ex. CalPA-2 at 23.

²⁸ Cal Advocates OB at 16-18.

²⁹ Cal Advocates prepares two monthly memorandums which provide (1) a Summary of Compensation Per Hour prepared using the annual IHS Global Insight U.S. Economic Outlook, and (2) a five-year forecast Estimates of Non-labor and Wage Escalation also using IHS Global Insight U.S. Economic Outlook. These are referred to as “memo factors.” The Commission generally relies on these as an independently prepared source of information and it is consistent with the Commission’s Water Rate Case Plan, D.07-05-062. These two memos are reliable data but are not binding on applicants, intervenors, or the Commission.

at the time the RO Model is finalized, consistent with the normal GRC practice described in Cal Water's Special Request #6 testimony.

Specifically:

- For labor-related O&M and A&G accounts, the RO Model shall apply the Commission's latest labor escalation factors from the Commission's escalation memo, rather than Cal Water's proposed union-contract-based payroll escalation mechanism. This is consistent with the Cal Advocates' position that escalation-year labor costs should be calculated using the standard Commission labor indices and with the Rate Case Plan's reference to Commission memo inflation factors.
- For non-labor O&M and non-actuarial A&G accounts, the RO Model shall apply the latest Commission non-labor escalation factors (*e.g.*, Consumer Price Index for All Urban Consumers (CPI-U)/Gross Domestic Product (GDP) price deflator-based indices) used in the Commission's escalation memo, consistent with the approach advocated by Cal Advocates, in place of Cal Water's higher inflation assumptions where the record does not support those higher assumptions.
- For production-related source of supply, pumping, and purchased-water costs that are subject to balancing-account treatment (*e.g.*, Independent Commodity Balancing Account (ICBA) and purveyor tariff pass-throughs), the RO Model shall not apply general O&M escalation factors to the underlying unit prices. Instead, those costs shall be modeled using the adopted balancing-account and tariff mechanisms described in Scoped Issues #2 and #5 (including the ICBA structure), so that recovery reflects actual recorded costs and adopted purveyor tariffs rather than forecast escalation adders.
- For pension, Other Post-Employment Benefits (OPEB), and other actuarially determined benefit expenses, the RO Model shall use the actuarial forecasts and methodologies adopted in Scoped Issue #2, rather than applying generic non-labor escalation factors.

The record indicates that Cal Water's escalation methodology generally aligns with Commission precedent and past GRC practices. Alternative escalation methodologies, however, such as those incorporating lower inflation assumptions or adjusted demand-growth projections, offer a more balanced approach to cost recovery and affordability. The Commission adopts Cal Advocates' use of current escalation indices for labor and non-labor expenses as the modeling default, supplemented by the more recent escalation memo factors requested by Cal Water in Special Request #6.

The record demonstrates that while Cal Water has substantiated the need for continued infrastructure and compliance investment, certain components of its proposed increases — particularly those based on aggressive escalation assumptions — are not fully supported by the evidence.

Adjustments to O&M and capital forecasts are warranted to ensure ratepayer protection. Incorporating those adjustments yields moderated rate increases that continue to provide Cal Water with adequate revenues to meet its service obligations. For capital additions, the RO Model shall implement the adopted plant-in-service balances and related Interest During Construction (IDC)/Allowance for Funds Used During Construction (AFUDC) assumptions as set forth in Scoped Issue #3, including the reduction of Cal Water's proposed AFUDC rate to the IDC rate adopted in that section, as recommended by Cal Advocates.

The NAWC and CWA policy arguments underscore the importance of maintaining a sufficient rate recovery to support infrastructure resilience and regulatory compliance. These considerations are consistent with Commission policy recognizing that safe and reliable water service requires ongoing capital reinvestment. At the same time, the Commission must balance those needs with affordability concerns, particularly for low-income customers.

Consistent with D.19-05-044, the Commission concludes that a partial approval of Cal Water's proposed rate increases — limited to demonstrably

necessary and prudently supported costs — best meets the statutory “just and reasonable” standard. This approach allows cost recovery for verified compliance and safety obligations while applying Cal Advocates’ more conservative escalation factors where Cal Water’s evidence is insufficient. The resulting adopted revenue requirements and percentage rate changes, by district and customer class, are shown in Appendices A through X and shall be used as the controlling numerical inputs to the RO Model.

Cal Water’s escalation forecasts incorporate assumptions consistent with the Office of Ratepayer Advocates’ (currently Cal Advocates) historical inflation indices used in D.19-05-044 and D.21-11-018; however, moderation is warranted to align with the most recent CPI-U and GDP price deflator data trends cited by Cal Advocates.³⁰ Alternative escalation methods that incorporate lower inflation assumptions or adjusted demand-growth forecasts, as recommended by Cal Advocates, provide a reasonable means of balancing the utility’s cost-recovery needs with customer affordability. Such approaches will be considered in future GRCs to ensure that rate projections reflect both economic conditions and efficiency improvements. In this proceeding, the Commission adopts a hybrid escalation framework that: (1) applies current Commission labor and non-labor escalation memo factors to the adjusted test-year O&M and A&G expense levels; (2) excludes balancing-account-tracked production costs from generic O&M escalation and instead recovers those costs through the adopted ICBA and appropriate-tariff mechanisms; and (3) uses actuarial forecasts for pension and OPEB expenses.

While infrastructure investment remains essential to maintain resilience and regulatory compliance, its rate impacts — particularly on low-income households — must be closely monitored to prevent disproportionate burdens. Accordingly,

³⁰ Cal Advocates RB at 6-7.

Cal Water shall continue to evaluate affordability metrics, including low-income program participation and bill-impact analyses, in future filings.

Based on the evidentiary record, the Commission concludes that Cal Water's overall request should be approved in part and adjusted as follows:

- Adopt the settlement on agreed sub-issues.
- Approve escalation factors but apply moderated adjustments where Cal Advocates' empirical data support lower inflation or demand-growth assumptions.
- Direct Cal Water to include affordability and bill-impact assessments in its next GRC application.

For purposes of the RO Model and implementing the adopted rate increases, the Commission further directs that:

- Cal Water shall calculate the TY and EY revenue requirements using: (a) the O&M and A&G expense levels adopted in Scoped Issue #2, escalated using the most recent Commission labor and non-labor escalation memo factors available at the time the RO Model is finalized; (b) the capital-related inputs (utility plant in service, IDC/AFUDC rate, depreciation) adopted in Scoped Issue #3; and (c) the revenue-requirement methodology and rate-design assumptions adopted in Scoped Issues #4 and #5.
- Cal Water shall not apply generic O&M escalation factors to production-related costs that are recovered through balancing accounts or purveyor tariffs, but shall instead model those costs using the adopted balancing-account structures and tariff-based unit prices.
- The resulting systemwide and district-specific percentage rate increases for the TY and EYs shall be those produced by the RO Model when it is populated with the adopted inputs described above, and those values shall control over any illustrative figures previously presented in party testimony.

This outcome balances prudent cost recovery, infrastructure investment, and ratepayer protection. It upholds the Commission's statutory mandate to ensure that rates are just and reasonable, consistent with precedent in prior Cal Water GRC

decisions such as D.19-05-044, and advances the state's broader policy objectives for affordability, reliability, and long-term system resilience.

4.2. Scoped Issue #2: Whether California Water Service Company's Estimates of Its Operation and Maintenance, and Administrative and General Expenses Are Reasonable

Cal Water seeks Commission approval of its forecasted O&M and A&G expenses for the test years. Cal Water contends that its forecasts are reasonable and prudent. According to Cal Water, the expense estimates reflect inflation, labor market conditions, and increased regulatory and environmental compliance obligations.³¹ Cal Water emphasizes that its methodology is forward-looking, grounded in operational realities, and consistent with its past ratemaking treatment.

Cal Advocates challenges Cal Water's forecasts as overstated and insufficiently supported, asserting that several increases depart materially from historical spending patterns without adequate justification.³² Cal Advocates recommends reductions across multiple expense categories, arguing that the Commission should rely primarily on historical averages adjusted for inflation to ensure that ratepayers are not burdened by speculative cost projections.

NAWC supports Cal Water's approach, contending that the forecasts appropriately account for inflationary and regulatory cost pressures that are affecting water utilities industry-wide.³³ CWA, in its reply comments, similarly emphasizes the need for regulatory consistency in approving reasonable expense forecasts to promote industry stability.

This issue encompasses both settled and disputed sub-issues. Portions of the issue were resolved through the Partial Settlement Agreement and the

³¹ Cal Water OB at 14-15; Ex. CWS-6 at 42.

³² Cal Advocates OB at 27-30; Ex. CalPA-2, Tables 8-9.

³³ Cal Water RB at 21.

accompanying Undisputed Issues List. The remaining contested elements are addressed below. We clarify that adopted Test Year O&M amounts exclude costs attributable to district-level capital projects that the Commission denies or defers for cost recovery, consistent with Appendices A through X and the revenue requirement model.

In addition, this section sets forth the specific forecasting methodology and screening criteria the Commission adopts for production-related O&M accounts and certain other O&M and A&G categories, including the sales forecast used to derive those expenses.

4.2.1. Partial Settlement

Several O&M and A&G categories were resolved through the Partial Settlement Agreement, including general office expenses and administrative salaries, with remaining contested O&M and A&G components addressed below, including certain production-related accounts and other disputed expense categories.³⁴ What follows is an analysis of the unsettled portions of this scoped issue, principally those concerning Cal Water's escalation assumptions and select expense categories such as chemicals, purchased power, and customer service costs.

4.2.2. Analysis

Under Pub. Util. Code Section 451, all utility rates and charges must be "just and reasonable," and utilities must demonstrate that their proposed costs are necessary and prudently incurred. Under Pub. Util. Code Section 454(a), the utility bears the burden of proving that its requested rate changes, including those based on O&M and A&G expenses, are justified.

The Commission's reaffirmed, in D.19-05-044 (2018 Cal Water GRC), that a utility bears the burden to establish the reasonableness of its expense forecasts and that the Commission may test those forecasts using recorded data and historical

³⁴ Motion for Partial Settlement at 5-6.

averages. Similarly, D.04-07-022 (San Diego Gas & Electric Company GRC) emphasized the Commission's duty to balance forward-looking estimates with protection for ratepayers against speculative or inflated projections.

Cal Water defends its O&M and A&G forecasts as prudent and necessary to maintain safe, reliable service and compliance with water quality regulations. It contends that the forecasts were developed using an integrated budgeting process that applies escalation factors derived from inflation indices, labor agreements, and vendor contracts.³⁵ Cal Water argues that reliance solely on historical averages fails to capture current and anticipated market conditions, particularly in areas of chemical procurement, purchased power, and employee compensation.³⁶

Cal Water also asserts that several of its forecasted increases are mandated by external regulatory requirements. For example, Cal Water identifies additional O&M costs associated with compliance monitoring, cybersecurity improvements, and workplace safety standards.³⁷ Cal Water further points to Commission precedent in D.19-05-044, where the Commission recognized the necessity of forward-looking O&M escalation to account for inflation and regulatory obligations.³⁸

In addition, Cal Water explains that its O&M increases reflect compliance with the State Water Resources Control Board's (SWRCB) evolving water-quality testing mandates, including Per- and Polyfluoroalkyl Substances (PFAS) and manganese monitoring, as well as state-mandated drought-preparedness planning requirements.³⁹ The company contends that such costs are nondiscretionary and

³⁵ Cal Water OB at 15-17; Ex. CWS-7 at 9-10.

³⁶ Cal Water RB at 23-25; Ex. CWS-10 at 15-16.

³⁷ Cal Water OB at 18; Ex. CWS-11 at 22-23.

³⁸ Cal Water RB at 21-22.

³⁹ Cal Water OB at 19-21.

must be recovered to ensure continued public health and environmental compliance.

Regarding employee benefits, Cal Water supports its proposed healthcare and pension expense escalators with actuarial analyses prepared by outside consultants, arguing these projections are based on measurable, industry-standard methods and thus represent reasonable forward-looking estimates.⁴⁰

Cal Advocates disputes Cal Water's approach, arguing that the company has not met its burden to justify O&M and A&G forecasts that materially exceed inflation-adjusted historic averages. Cal Advocates recommends using five-year historical averages, escalated by labor and non-labor inflation factors, to produce more balanced and evidence-based expense levels.⁴¹

Cal Advocates further contends that several of Cal Water's cost categories — particularly chemicals, purchased power, and customer service expenses — lack documentary support linking forecasted increases to verifiable external factors. According to Cal Advocates, the Commission has consistently applied historical trend analysis in prior Cal Water and other water utility GRCs to prevent over-collection from ratepayers.⁴²

Cal Advocates notes that Cal Water's O&M escalation factors exceed both recent inflation trends and the utility's own historical cost growth. For instance, Cal Advocates highlights that Cal Water's proposed O&M escalation of approximately 6.5 percent per year contrasts with a recorded five-year average of 3.2 percent.⁴³ In Cal Advocates' view, absent clear evidence of increased workload,

⁴⁰ Cal Water OB at 20; Ex. CWS-12 at 4-5.

⁴¹ Cal Advocates OB at 29-31; Ex. CalPA-2, Table 9.

⁴² Cal Advocates RB at 26-27, citing D.16-12-042 at 43.

⁴³ Cal Advocates OB at 32; Ex. CalPA-2 at 41.

staffing, or regulatory mandates, such increases are not justified under Pub. Util. Code Sections 451 and 454.

Cal Advocates also stresses that Commission precedent in D.21-11-018 (California-American Water Company GRC) requires that forward-looking cost projections be substantiated by specific documentation — such as vendor quotes, new regulatory directives, or identifiable cost-drivers — rather than general inflationary assumptions. It argues that Cal Water’s documentation, while generally consistent with prior GRC formats, falls short of that evidentiary threshold in several contested categories.⁴⁴

The record demonstrates that while Cal Water provides credible support for certain forward-looking adjustments — particularly actuarially derived healthcare and pension costs — the evidentiary showing is mixed across categories, and several proposed increases exceed what the record supports. For line items such as purchased power and chemicals, Cal Water’s forecasts exceed its five-year historical averages by a material margin, and the company provides limited documentation of market data or contract changes to justify those variances.⁴⁵ Cal Advocates’ O&M testimony provides five-year, inflation-adjusted historical averages and alternative, lower unit costs for purchased power and chemical expenses, which it recommends as a benchmark for reasonableness in these categories.

The Commission acknowledges that water utilities statewide are experiencing inflationary cost pressures in chemical, power, and labor markets; however, consistent with the Commission’s reasoning in D.19-05-044, forward-looking escalation must be tied to measurable, demonstrable factors rather than broad market expectations.

⁴⁴ Cal Advocates RB at 28-30.

⁴⁵ Cal Advocates RB at 27-28; Ex. CalPA-3 at 18.

The Commission also notes that both Cal Water and Cal Advocates rely on the M.Cubed Sales Forecast Report for Unrestricted sales forecasts at the ratemaking-area and class level, and that Cal Advocates explicitly urges adoption of the Normal-Scenario sales forecast for the TY, with attrition-year forecasts that reflect changes in water use over time rather than freezing TY sales. Consistent with this evidentiary record, the Commission adopts the Unrestricted M.Cubed sales forecast for the TY and both EYs for all districts and customer classes and uses that adopted sales forecast as the basis for computing production-related O&M, including purchased water, purchased power, and chemical expenses.

To operationalize this balance for production-related accounts, the Commission adopts a category-specific approach:

- For purchased water (Account 704), the Commission finds it reasonable to rely on Cal Water’s tariff-based purchased-water unit costs, which reflect exogenous wholesale purveyor rates and contract terms that the utility does not control. These tariff-based unit rates are documented in Cal Water’s plant and O&M testimony and associated workpapers and are appropriately applied to the adopted Normal-Scenario sales forecast to derive purchased-water expense.
- For purchased power (Account 726 — Fuel or Power Purchased for Pumping) and chemicals (Account 744 — Chemicals and Filtering Materials), the Commission finds that Cal Advocates’ five-year inflation-adjusted historical averages and associated unit-rate recommendations provide a more conservative and better-supported basis for escalation than Cal Water’s higher proposed unit costs, which the record does not fully substantiate. Accordingly, for these two accounts the Commission adopts unit rates at or below the levels recommended by Cal Advocates, applied to the adopted Normal-Scenario sales forecast to compute Test Year and Escalation-Year expenses.

Beyond these specific production accounts, the Commission adopts a “targeted downward” rule for O&M and A&G categories where Cal Water’s forecast

materially exceeds historical experience without sufficient evidentiary support. For any non-settled O&M or A&G account for which: (1) Cal Advocates provides a distinct forecast in Ex. CalAdv-09; (2) Cal Water’s forecast exceeds 110 percent of the five-year inflation-adjusted historical average; and (3) the record, including Cal Water’s testimony and workpapers, does not identify concrete cost drivers such as new regulatory mandates, verifiable contract changes, or measurable workload increases, the Commission adopts an account-level forecast equal to the lower of Cal Water’s or Cal Advocates’ competing forecast.

Where the Commission adopts a specific TY amount or escalation percentage for a contested Scoped Issue #2 sub-issue in Table 2, that specific determination governs over the general screening rule.

Contested Sub-Issues and Adopted Test Year Amounts

For transparency and ease of implementation, Table 2 below summarizes the Commission’s adopted TY amounts (or escalation percentages) for the contested Scoped Issue #2 sub-issues. These adopted values are reflected in the revenue requirement model.

Table 2
(Adopted Scoped Issue #2 Contested Sub-Issues)

Sub-Issue	Adopted Test Year 2026 Amount / Escalation	Adopted Basis / Implementation Note
1. Postage	3.0303% escalation	We apply a 3.0303% postage rate increase to forecasted mail/service volumes for TY postage expense.
2. Transportation	\$7,639,029	We adopt Cal Advocates’ adjusted TY amount, reflecting removal of transportation costs tied to non-adopted staffing complements and non-adopted capital-related activities.

Sub-Issue	Adopted Test Year 2026 Amount / Escalation	Adopted Basis / Implementation Note
3. Uncollectibles	Methodology adopted (2022-2023 average rate)	We adopt the average uncollectible rate from 2022 and 2023 to adopted forecasted revenues to forecast uncollectibles.
4. Source of Supply	\$1,008,316	We adopt Cal Advocates' adjusted TY amount, which includes supported, ongoing SGMA-related activities while excluding unsupported proxies/estimates.
5. Pumping	\$2,383,340	We adopt Cal Advocates' adjusted TY amount, which excludes AMI-related savings/cost assumptions, and remove certain non-recurring items consistent with Standard Practice U-26-W.
6(a). Production — Purchased Water	\$214,774,570	We adopt Cal Water's tariff-based methodology: apply most recent approved wholesale rates to forecasted purchased-water volumes.
6(b). Production — Purchased Power	\$25,795,616	We adopt Cal Advocates' approach: five-year average of unit costs and production (rather than 2023 alone), applied consistent with adopted sales/production assumptions.
6(c). Production — Pump Taxes	\$18,651,961	We remove surface water volumes from the Bakersfield District pump tax calculation; retain undisputed fixed groundwater replenishment fee of \$423,138 (included within adopted total).
6(d). Production — Purchased Chemicals	\$3,730,744	We adopt an adjusted amount that accounts for chemical treatment associated with groundwater, surface water, and applicable purchased water (including untreated purchased supplies where applicable).

Sub-Issue	Adopted Test Year 2026 Amount / Escalation	Adopted Basis / Implementation Note
7. Water Treatment	\$8,802,420	We adopt an adjusted TY amount; removes certain non-recurring items, excludes AMI-related costs/savings assumptions, and reflects East Los Angeles Water Quality laboratory correction (savings commence in 2026).
8. Transmission & Distribution	\$6,492,491	We adopt Cal Water's corrected amount based on inflation-adjusted five-year average and supported correction to Customer Support Services solar project model.
9. Customer Accounting	\$19,367,846	We adopt adjusted TY amount reflecting removal of non-recurring/insufficiently supported items and correction of overstated assumptions (<i>e.g.</i> , certain software/licensing/discretionary initiatives).
10. Contracted Maintenance	\$15,058,929 (conditional)	We adopt TY amount subject to adjustment to exclude amortization associated with tank painting or well rehabilitation projects not adopted for cost recovery in this decision.
11. A&G Non-Specifics	\$43,815,507	We adopt an inflation-adjusted five-year historical forecast excluding the proposed \$624,468 apprenticeship program.
12. Conservation	\$ 13,807,856 (annual)	We adopt an annual conservation budget of \$ 13,807,856 for each year of the cycle.
13. Payroll	\$122,108,891	We adopt Cal Water's TY payroll forecast based on recorded 2023 payroll with documented adjustments; no additional vacancy-based haircut to avoid double counting.

Sub-Issue	Adopted Test Year 2026 Amount / Escalation	Adopted Basis / Implementation Note
14. Benefits	\$27,134,154	We adopt Cal Water’s updated benefits forecast using undisputed actuarial inputs and participant-based methodology updated for employee base plus adopted staffing; includes SERP costs within pension.

The exclusion of AMI-related savings and costs from the Scoped Issue #2 Test Year O&M forecasts does not preclude separate treatment of AMI capital and any incremental AMI-related O&M, if adopted, under the Common Plant determinations.

Consistent with D.04-07-022 and D.19-05-044, the Commission may balance forward-looking considerations against historical experience to ensure ratepayer protection from speculative cost recovery. This balance requires: (1) adopting Cal Water’s forward-looking forecasts where the company provides specific, evidence-based support for increases; and (2) adjusting downward only those categories where Cal Water has not adequately demonstrated the magnitude of requested escalation. This approach ensures rates reflect prudent cost recovery while avoiding both inflated forecasts and “unthinking,” backward-looking assumptions.

However, the evidentiary record supports adopting Cal Water’s forecasts only where the utility shows a clear, documented basis for increases above inflation or historical norms. For categories lacking sufficient justification, targeted adjustments are warranted — but not wholesale substitution of historical averages as recommended by Cal Advocates. This balanced approach better reflects prudent ratemaking under Pub. Util. Code Sections 451 and 454 and ensures that the Commission incorporates both past experience and present conditions in determining just and reasonable rates. The use of the Unrestricted M.Cubed sales forecast, tariff-based purchased-water unit rates, Cal Advocates’ more conservative

unit rates for purchased power and chemicals, *etc.*, collectively implement this balance in a transparent, reproducible manner.

Historical trends remain a useful benchmark, but they are only a starting point. The Commission does not apply historical averages mechanistically where Cal Water has provided evidence of changed operating conditions, regulatory requirements, or market dynamics that materially differ from past years.

There are remaining O&M and A&G categories, such as qualifying non-settled O&M and A&G accounts, purchased power and chemical expenses, and purchased water. The record does not fully support the magnitude of Cal Water's proposed increases for these cost categories, particularly where escalation materially exceeds both inflation indices and Cal Water's own historical trends without commensurate evidence of market changes, vendor contract shifts, or new workload drivers. The Commission adopts targeted adjustments to Cal Water's forecasts, but not the wholesale historical-average approach advanced by Cal Advocates. Instead, the Commission evaluates each forecast on its merits rather than relying exclusively on backward-looking metrics that may not reflect current or anticipated conditions. Specifically, for qualifying non-settled O&M and A&G accounts identified in Ex. CalAdv-09 where Cal Water's forecast exceeds 110 percent of the five-year inflation-adjusted historical average and the record does not document new, discrete cost drivers, we adopt the lower of Cal Water's or Cal Advocates' competing forecast. For purchased power and chemical expenses, the Commission adopts Cal Advocates' lower unit-rate proposals applied to the adopted Normal-Scenario sales forecast, while for purchased water, the Commission relies on Cal Water's tariff-based unit costs applied to that same sales forecast.

The Commission also directs Cal Water to include, in its next GRC, detailed documentation for any forecasted cost category exceeding 110 percent of its five-year inflation-adjusted average, accompanied by evidence of new regulatory requirements, vendor contract revisions, or measurable workload growth. This

additional documentation will enable a more transparent review and promote consistency in evaluating future expense forecasts.

Accordingly, Cal Water shall revise its revenue requirement consistent with these determinations. This outcome achieves a forward-looking and evidence-based result — recognizing the need to fund essential operational and compliance costs while ensuring that ratepayers are protected from unsupported or excessive forecasts — without resorting to the mechanical application of historical averages.

4.3. Scoped Issue #3: Whether California Water Service Company's Proposed Plant Additions Are Accurate, Reasonable, and Justified

Cal Water requests Commission approval of its forecasted plant additions for the TY and EYs. The company contends that its proposed capital program is necessary to maintain safe, reliable, and compliant operations, emphasizing that each project was developed through an engineering-based asset management process incorporating regulatory requirements and operational risk assessment.⁴⁶ Cal Water maintains that its capital budgeting process uses condition-based assessments and forward-looking planning consistent with D.19-05-044 (2018 Cal Water GRC) and D.19-12-057, and that it prudently prioritized projects based on infrastructure condition, system performance, and public-safety considerations.⁴⁷

Cal Advocates disputes the scope, timing, and cost estimates of numerous proposed projects, arguing that Cal Water's documentation is insufficient to demonstrate prudence, necessity, or cost-effectiveness as required by Pub. Util. Code Sections 451 and 454.⁴⁸ Cal Advocates contends that many projects remain at conceptual stages without supporting design plans, cost curves, or bid comparisons.

⁴⁶ Cal Water OB at 84-93; Ex. CWS-14 at 10-17.

⁴⁷ Cal Water RB at 70-73; Ex. CWS-15 at 8.

⁴⁸ Cal Advocates OB at 112-130; Ex. CalPA-5 at 33-40.

It asserts that Cal Water's inclusion of unbuilt plant deferred from prior GRC cycles inflates rate base forecasts and contravenes Commission precedent requiring "project-specific evidence of need and readiness."⁴⁹

NAWC and CWA support Cal Water's approach. NAWC characterizes the company's capital plan as a prudent, forward-looking framework that mitigates deferred-maintenance risks and aligns with industry-wide best practices.⁵⁰ CWA similarly endorses Cal Water's asset management methodology, emphasizing regulatory consistency and stable long-term capital planning.⁵¹

To facilitate implementation of the adopted policy determinations in the RO Model, the Commission relies on the detailed project-level documentation contained in Cal Water's district workpapers (Ex. CWS-27 through Ex. CWS-50) and Cal Advocates' corresponding capital-review testimony (Ex. CalAdv-07). These exhibits identify, for each district: (1) compliance-driven treatment projects supported by engineering reports and regulatory citations; (2) discretionary office remodels; and (3) AMI-related capital requests. Where the record contains project-specific cost estimates, construction schedules, or engineering need documentation, these items form the evidentiary basis for inclusion in rate base; where such documentation is absent, those projects are deferred or denied consistent with Commission precedent.

The dispute thus centers on whether Cal Water's documentation demonstrates sufficient engineering and cost support to satisfy the statutory standards of prudence and reasonableness, and whether certain projects should be deferred pending further evidentiary showing.

⁴⁹ Cal Advocates OB at 126-127; Ex. CalPA-6 at 44.

⁵⁰ NAWC OB at 45-50.

⁵¹ CWA RB at 19-23.

4.3.1. Partial Settlement

Several categories of proposed plant additions were resolved through partial settlement and the associated Undisputed Issues List, including well rehabilitations, distribution-main replacements, and scaled-down office upgrades.⁵² What follows is an analysis of the unsettled portions of this scoped issue concerning Projects-in-Progress, contingency factor, Non-Specifics and Unscheduled, treatment-plant expansions, Advanced Metering Infrastructure (AMI) deployment, and discretionary office improvements.

4.3.2. Analysis of Disputed Capital Projects

In D.19-05-044 (2018 Cal Water GRC), the Commission stated that “each plant addition must be supported by sufficient evidence of need and reasonableness before inclusion in rate base.” Similarly, D.04-07-022 (San Diego Gas & Electric GRC) holds that utilities must support forecasts with “detailed cost estimates and evidence of need, reliability, and cost efficiency.” Later decisions such as D.16-12-026 and D.07-05-062 reiterate that proposed plant additions require clear documentation — including project scope, estimated costs, and alternatives considered — to enable the Commission to verify reasonableness.

Consistent with these standards, the Commission reviewed the district-level plant documentation contained in Ex. CWS-27 through Ex. CWS-50 and the corresponding Cal Advocates capital analyses (Ex. CalAdv-07). The record demonstrates that treatment-plant expansions driven by regulatory mandates — including PFAS, manganese, nitrate, and revised surface-water treatment requirements — are supported by engineering memoranda, feasibility studies, and regulatory citations contained in these exhibits. Conversely, the record shows that AMI-related requests and discretionary office remodels lack comparable design-level cost support, alternatives analyses, or readiness documentation.

⁵² Motion for Partial Settlement at 7-9.

Cal Water asserts that its plant additions result from a rigorous engineering process guided by the company's Asset Management Program and five-year Capital Improvement Plan.⁵³ It argues that its cost estimates are based on recent bid histories, standardized cost-estimating models, and review by district engineers.⁵⁴ Cal Water contends that its planning horizon is consistent with prudent utility practice and Commission policy encouraging proactive infrastructure renewal rather than reactive replacement.

Cal Water cites D.19-05-044 and D.19-12-057 for the proposition that utilities may seek forward-looking capital approval when project need and regulatory requirements are well-established. Cal Water maintains that the Commission "has consistently recognized the importance of authorizing necessary system improvements in advance of failure."⁵⁵ It highlights several major projects, including treatment-plant expansions mandated by revised water-quality standards, as examples of regulatory compliance investments that are unavoidable and time-sensitive.⁵⁶

Cal Advocates challenges the adequacy of Cal Water's project documentation, asserting that many cost estimates are unsupported or inconsistent with historical spending patterns.⁵⁷ It argues that Cal Water's proposed capital expenditures exceed its historical annual construction capacity and also includes projects that were previously authorized but remain unbuilt. To the extent that Cal Water now seeks recovery of these projects in this GRC, they fall into the category of "deferred" projects discussed below. Cal Advocates contends that "ratepayers should not be

⁵³ Cal Water OB at 85-87; Ex. CWS-14 at 12-13.

⁵⁴ Cal Water RB at 71-73; Ex. CWS-15 at 9.

⁵⁵ Cal Water RB at 72; Ex. CWS-15 at 10.

⁵⁶ Cal Water OB at 88-89; Ex. CWS-16 at 27.

⁵⁷ Cal Advocates OB at 118-123; Ex. CalPA-5 at 34-36.

required to finance speculative plant that lacks construction readiness or cost substantiation.”⁵⁸

Cal Advocates questions Cal Water’s proposed AMI rollout, asserting that the company has not provided a cost-benefit analysis or pilot evaluation demonstrating net benefits to ratepayers.⁵⁹ Cal Advocates points to D.22-09-019, where the Commission deferred statewide AMI deployment pending additional pilot results, as supporting deferral here until Cal Water submits further evidence of cost-effectiveness.

The record shows that Cal Water’s project documentation and cost estimates vary significantly in completeness. The company provides strong evidentiary support for capital additions tied to regulatory compliance — particularly treatment-plant expansions required under updated water-quality and fire-flow standards⁶⁰ — but provides less developed support for discretionary projects such as office remodels and AMI deployment.

For treatment and distribution projects supported by engineering reports and regulatory citations, the evidence demonstrates necessity and prudence consistent with Pub. Util. Code Sections 451 and 454. However, for projects lacking detailed cost bases or readiness documentation, approval at this time would be inconsistent with Commission precedent requiring project-specific justification before rate-base inclusion.⁶¹

Cal Advocates’ showing in Ex. CalAdv-07 provides project-specific identification of capital items that it believes require deferral due to insufficient documentation, including: (1) AMI deployment; (2) discretionary office remodels

⁵⁸ Cal Advocates RB at 128; Ex. CalPA-7 at 19.

⁵⁹ Cal Advocates OB at 125; Ex. CalPA-6 at 45.

⁶⁰ Cal Water OB at 88; Ex. CWS-16 at 27.

⁶¹ See D.16-12-026 at 45.

without engineering justification; and (3) plant items deferred from prior GRC cycles where Cal Water did not provide updated cost estimates, engineering readiness, or construction schedules.

To ensure accurate modeling in the adopted revenue requirement, the Commission clarifies that only “plant in service” as of the end of 2025 (consistent with recorded plant balances used in Ex. CWS-01, Workpapers Volume 1) may be included in the beginning-of-test-year rate base.

Any previously authorized but unbuilt project from earlier cycles is excluded from rate base in this proceeding, until the project is used and useful. Once the deferred project is used and useful Cal Water can submit a Tier 2 Advice Letter. Water Industry Rule 7.3.3(8) provides that rate base offsets previously approved by the Commission, as is the case for these previously authorized but unbuilt projects, will be processed as Tier 2 advice letters when staff verifies that the scope is consistent with what the Commission approved, and the Commission approval included a budget and where the rate base offset is at or below the previously adopted budget.⁶² Therefore, at the time of submitting the advice letter, Cal Water shall show the previously authorized budget or the project. If project costs exceed previously authorized amounts, Cal Water may request recover the remaining costs in the next GRC cycle.

Cal Water’s reply identifies several compliance-driven treatment projects where need is anchored in revised state and federal standards and supported by

⁶² Tier 2 advice letters are subject to Industry Division disposition where such disposition would be a ministerial act. Industry Division disposition is appropriate where the Commission has previously authorized projects with a specified scope and budget. Liberty should present workpaper/documentation supporting its advice letter requests for rate base offsets consistent with the Commission’s approval of these projects. Whenever such determination requires more than ministerial action, the disposition of the advice letter on the merits will be by Commission resolution. *See* General Order 96-B, Rule 7.6.1.

engineering workpapers; those projects meet the burden for forward-looking approval, subject to reasonable budgets and reporting.⁶³

With respect to the newly proposed AMI projects, Cal Advocates recommends that the Commission require that 50 percent of the annual AMI budget requested by CWS, beyond the cost of meter replacement under GO 103-A, be contingent on meeting its proposed performance criteria.⁶⁴ Cal Water, in its opening comments on the proposed decision, states that it does not oppose partial cost recovery as proposed by Cal Advocates as long as the remaining cost recovery for AMI infrastructure that is installed, and becomes used and useful over the 4-year program, can occur through Tier 2 advice letters.⁶⁵

Cal Water is authorized to recover \$1,893,288 for necessary meter replacements for those districts which are not in the AMI program. As to the five ratemaking areas within the AMI program, Cal Water is authorized to recover \$2,037,650 of capital costs in 2026 (50% of \$4,482,831) and \$15,413,917 in capital costs in 2027 (50% of \$32,721,122) in rates. Cal Water may request the remaining 50 percent in its next GRC, provided it demonstrates that the AMI project was completed as designed and is performing effectively and as intended. To manage the remaining balances, Cal Water shall track the unfunded 50 percent of costs forecast for 2026 and 2027 in a new 2026-2027 AMI Implementation Memorandum Account. As with any memorandum account, Cal Water must demonstrate that the recorded costs were reasonably incurred and the project is in fact used and useful.

The Commission approves AMI implementation in the five ratemaking areas, namely Bay Area Region, Bear Gulch, Los Altos, Los Angeles County Region, and

⁶³ Cal Water RB at 70-73; Cal Water OB at 88-89.

⁶⁴ We note that Cal Water has other necessary meter replacements for the remaining districts, which are not in the AMI program. Those meters are funded separately in this proceeding.

⁶⁵ Cal Water Opening Comments on the Proposed Decision at 15.

Westlake.⁶⁶ , Cal Advocates proposes performance-based metrics, which it believes would ensure that deployment provides measurable benefits to ratepayers.⁶⁷ However, Cal Advocates' proposal lacks specificity on two of these criteria, namely how the Commission can verify the success of the AMI deployments. Cal Advocates recommends reporting O&M savings and using customer enrollment as a metric to motivate Cal Water to encourage as many customers as possible to enroll in the customer portal. We note that the success of the AMI system in providing customers with accurate billing and timely meter readings will likely be influenced by customer enrollment levels; increased enrollment can provide customers with valuable information into their usage habits, which may further support conservation efforts. We agree on the third criterion that AMI deployments should be able to demonstrate a 5 percent reduction in system-wide water loss attributable to AMI, as anticipated by Cal Water. While these metrics do not alter the current economic decision to authorize the AMI project, Cal Water is required to submit the proposed performance metrics for informational purposes in its next GRC; specifically, this information should be included in its testimony for the recovery of the 50 percent deferred costs within the new 2026-2027 AMI Memorandum Account.

Consistent with the evidentiary record and the Commission's forward test-year ratemaking framework, the Commission adopts, modifies, defers, or denies components of Cal Water's Common Plant capital programs as summarized in Table 3 below. These determinations apply where no contrary district-specific determination is made elsewhere in this decision.

Where this decision makes an explicit district-level determination for a specific project or Project Identification (PID), that determination controls for

⁶⁶ Cal Advocates Ex. 07 at 7-1.

⁶⁷ Cal Water Opening Comments on the Proposed Decision at 14-15.

ratemaking purposes; Common Plant determinations apply only where no contrary district-specific instruction is provided.

Table 3
(Common Plant Program Determinations)

Adopted as Proposed
<p>The Commission adopts Cal Water’s proposed budgets and treatment for the following Common Plant programs, as reflected in the Application and supporting workpapers:</p> <ul style="list-style-type: none"> • Construction Management and Special Inspections (CMSI) • Analyzers and Instrumentation Program • Cathodic Protection Systems Program • Control Valve Overhaul and Replacement Program • Flowmeter Replacement Program • New and Replacement Generators (subject to district-level determinations, where applicable) • Main Replacement Program • Pressure Vessel Improvement Program (excluding contingency) • Pump and Motor Replacement Program (excluding contingency) • Service Line Replacement Program • Tank Improvement Program • Well Renewal Program • Routine Granular Activated Carbon Changeout Program (as corrected in rebuttal) • Water Quality Sample Station Program • Physical Security Program • Vehicle Replacement Program (excluding vehicles tied to unadopted staffing complements) • Nitrification (Tank and Mixing) Projects <p>These programs are supported by record evidence demonstrating operational necessity, regulatory compliance requirements, or reasonable asset-management practices.</p>

Adopted with Modification

The Commission adopts the following program with modifications:

- Panelboard (MCC) Replacement Program: adopted, excluding any contingency amounts.
- AMI: The Commission authorizes recovery of 50% of AMI costs in rates, with the remaining 50% recoverable in the next GRC. The remaining 50% of costs are to be recorded in the 2026-2027 AMI Implementation Memorandum Account.

Deferred

The Commission defers the following pending further evidentiary showing in a future proceeding:

- All unbuilt, previously authorized projects, deferred from the prior GRC can be recovered in rates via a Tier 2 Advice Letter once the project is used and useful.
-

Denied for this GRC Cycle

The Commission denies inclusion of the following Common Plant categories in rate base for this GRC cycle (such projects may be reconsidered in a future GRC proceeding upon an adequate evidentiary showing):

- Design- and Permitting-Only Projects, which are not used and useful during the test or attrition years.
- Engineering and Planning Studies, which do not constitute used-and-useful plant.
- Multi-GRC Projects, which are not proposed for rate recovery and are not ripe for review in this proceeding.
- Project contingencies embedded in capital estimates.

Consistent with the statutory standards of prudence, reasonableness, and the used-and-useful doctrine, the Commission adopts, modifies, defers, or denies district-level plant projects as summarized in Table 4 below.

Table 2 and Table 3 are adopted for purposes of populating the RO Model and Appendices A through X. The Commission uses the disposition and adopted

amounts shown in these tables, by PID where applicable, without reclassification, aggregation, or modification, except as expressly directed elsewhere in this decision.

Table 4 identifies each project by PID number and specifies the adopted ratemaking treatment for purposes of the RO Model and Appendices A through X. Except as expressly provided below, all other district-level plant projects are adopted as proposed, subject to the Common Plant determinations adopted in this decision.

Table 4
(Summary of District-Level Determinations)

District / Region	Project ID (PID)	Project Description	Disposition	Adopted Amount / Treatment
Customer Support Services & Rancho Dominguez	135805	Salesforce CRM Project	Denied	\$0
	00134646	CSS Vehicles for New Complements	Denied	\$0
	00132575-00132577	PC & Device Replacements	Denied	\$0
	00132815	Digital Twin Ops Optimization	Denied	\$0
	00133533	CSS Rooftop Solar	Denied	\$0
Antelope Valley	132967	LHUG-001 Portable Generator	Deferred	Excluded from this GRC
	132973	Leona Station Generator	Denied / Withdrawn	\$0
Bakersfield	00133192	BK Low Zone Property Purchase	Adopted	\$545,083
	00133194	BK North Garden Property Purchase	Adopted	\$558,004
	00133199	BK Office Property Purchase	Adopted	\$3,500,000
	00134719	Vehicles for New Complements	Denied	\$0

District / Region	Project ID (PID)	Project Description	Disposition	Adopted Amount / Treatment
Bayshore	00132992	Grid Strengthening — NC	Adopted	\$545,775
	00134125	Grid Strengthening — Dead Ends	Adopted	\$252,903
	00134769	Vehicles for New Complements	Denied	\$0
	132985	SC-117 Station Rebuild	Adopted (Modified)	\$1,417,883
Chico	00124797; 00133034	400-Zone Wildfire Pump Storage Facility	Denied	\$0
	00123979; 00133029	CH-050 Station Rebuild	Denied	\$0
	00133031	CH-064 Generator	Denied	\$0
Dixon	All district PIDs	District Plant Projects	Adopted	\$5,436,420 (total)
Dominguez	020768; 00098099	Station 275 Treatment	Adopted	Retained in rate base
	00118107	Station 274 4-Log Disinfection	Adopted	\$2,531,646
	00020838	Well 216-02	Adopted	\$5,583,966
	00114503	Station 215 Design	Adopted	\$632,911
	00114507	Station 215 Construction	Adopted	\$4,430,380
	00133053	Station 203 Rebuild	Adopted (Modified)	\$2,479,146
	00133051	Hydrant Iso Valve Installs	Adopted	\$1,034,714
	00133047	Station 232 Tank Nitrification	Denied	\$0
East Los Angeles	00124112	Land Purchase (Future Well)	Adopted	\$526,508
	00125358	Main Office Improvements	Adopted	\$1,023,376
	00126483; 00126484	Station 63 GAC Changeouts	Deferred	Excluded from this GRC
	00133068; 00133069	Nitrification Projects	Denied	\$0

District / Region	Project ID (PID)	Project Description	Disposition	Adopted Amount / Treatment
King City	00133092	KC-012 New Generator	Adopted	\$671,323
	00133091	KC Office Generator	Adopted	\$572,745
Livermore	00133111; 00133113; 00133115	Chlorination Systems	Denied	\$0
	00134776	Vehicles for New Complements	Denied	\$0
Los Altos	00133283	LAS-117 Station Rebuild	Adopted (Partial)	\$1,173,403
	00133287	New Well Property Purchase	Adopted	\$4,786,474
	00134768	Vehicles for New Complements	Denied	\$0
	00133284	Well Hardness Study	Deferred	Excluded from this GRC
Marysville	00133119	Well Land Acquisition	Adopted	\$614,396
	00133402	Fire Flow / Hydrant Equipment	Adopted	\$4,045
	00133118	Well Siting Study	Deferred	Excluded from this GRC
Oroville	00133123	Clarification Improvements	Adopted	\$1,195,610
	00133124	Chlorine System Replacement	Adopted	\$603,798
	00133125	Sedimentation Basin Improvements	Adopted	\$404,692
Salinas	00133233	New Well Station 155 Zone	Deferred	Excluded from this GRC
	00133235	Property Purchase	Deferred	Excluded from this GRC
Stockton	00133216; 00133217	Land Purchases	Deferred	Excluded from this GRC
Travis	00133516	TAB-002-T2 Surface Aeration	Adopted	\$1,065,294
Visalia	00133149	Property Purchase	Adopted	\$865,686
	00133152	VIS-048 New Generator	Adopted	\$995,164

District / Region	Project ID (PID)	Project Description	Disposition	Adopted Amount / Treatment
	00133153	VIS-080 New Generator	Adopted	\$759,794
	00133416	Building Upgrades	Deferred	Excluded from this GRC
	00134771	Vehicles for New Complements	Deferred	Excluded from this GRC
	00133146; 00133147	Well Siting / Recharge Studies	Denied	\$0
Westlake	All district PIDs	District Plant Projects	Adopted	Adopted as proposed
Willows	All district PIDs	District Plant Projects	Adopted	Adopted as proposed

To ensure transparency and accurate ratemaking implementation, the Commission identifies district-level determinations at PID level where disputes exist. This PID-specific treatment provides clear direction for the RO Model and Appendices A through X and avoids ambiguity regarding the disposition or adopted cost of individual projects.

Consistent with the standards articulated in D.07-05-062 and D.16-12-026, Cal Water must ensure that each future plant addition is accompanied by sufficient documentation to enable full Commission review of necessity, cost reasonableness, and engineering prudence. Projects lacking adequate support or demonstrating costs above industry norms shall be subject to disallowance or deferral until the required evidence is provided.

4.3.3. Deferred Projects from the Prior General Rate Case

Cal Water sought to include projects previously approved and included in the prior GRC, but which it deferred and has yet to construct. It argues that these projects are still needed. Cal Advocates takes exception to carrying forward to this

GRC unbuilt projects which Cal Water deferred. These specific projects are identified above in Table 3.

Deferred projects and projects already in progress shall be treated consistently for ratemaking purposes.

The Commission is concerned by the deferral of previously authorized projects, particularly where those projects were expected to be completed during the prior GRC cycle. Similar circumstances have arisen in prior GRCs, including proceedings involving Cal Water and other Class A water utilities. While project reprioritization may at times be warranted, repeated deferrals of previously authorized capital projects merit careful review.

In this GRC, we deny the inclusion of deferred projects in rate base without prejudice and provide Cal Water with a clear pathway to seek rate recovery via a Tier 2 Advice Letter when the completed project is used and useful. This approach balances the need for accountability with recognition that circumstances affecting capital planning may change over time.

The Commission is particularly mindful of the recurrence of deferrals involving both a substantial number of projects and significant authorized dollar amounts from a prior GRC. We authorize the projects in the amount consistent with their previous authorization, but decline to allow recovery in rates at this time. Consistent with D.24-04-12-030 and D.24-04-032, we will allow Cal Water to place deferred projects in Table 3 into rates as they are completed with the Commission's existing process for adding previously authorized projects into rate base, discussed below.

Cal Water may proceed with project development and construction consistent with utility practices. Deferred projects and projects in progress shall be treated consistently. Completed projects may be placed into rates through a Tier 2 advice letter filing supported by updated cost, schedule, and in-service documentation. If actual project costs exceed the previously adopted budget, or if

the project scope differs from what was previously adopted, recovery of such incremental costs shall be sought through a Tier 3 advice letter, consistent with GO 96-B Water Industry Rule 7.6.3 (8).

4.3.4. Contingency Allowances

The Commission clarifies its treatment of contingency allowances applicable to capital programs. While contingency allowances may be used by utilities as an internal planning tool to address uncertainties such as material price volatility, supply chain disruptions, labor cost escalation, and site-specific construction risks, the Commission must ensure that only costs supported by the evidentiary record are included in rates.

The record in this proceeding does not demonstrate that the proposed contingency amounts are supported by sufficiently specific, project-level evidence or tied to quantifiable cost drivers. Accordingly, the Commission does not adopt any contingency allowance for inclusion in rate base in this current GRC proceeding.

This determination is consistent with the Commission's obligation under Pub. Util. Code Sections 451 and 454 to ensure that rates reflect only those costs that are just, reasonable, and supported by the evidentiary record. Excluding contingency allowances from the adopted revenue requirement in this GRC avoids recovery of speculative costs that have not yet been incurred or demonstrated to be necessary.

The Commission recognizes that actual project costs may vary from forecast estimates. This determination does not preclude Cal Water from seeking recovery of reasonable, documented cost increases through the applicable advice letter process or in a future proceeding, where such costs are supported by sufficient evidence and are shown to be prudent and used and useful.

4.3.5. Non-Specifics and Unscheduled Budgets Provide Operational Flexibility

Cal Water requests a non-specific capital budget of \$55.918 million and an unscheduled budget of \$144.098 million for the years 2025-2027.⁶⁸ These budget categories cover any unforeseen infrastructure needs, as well as the portion of the non-specific budget for mains, meters, services, and hydrants. Cal Advocates recommends denying \$200 million in Non-Specific and Unscheduled budgets, arguing they represent redundant funding for undefined needs. Cal Advocates argues that these unexpected projects should be covered by existing asset management programs or addressed in future rate cases to ensure cost efficiency and protect ratepayers.⁶⁹

We do not agree with Cal Advocates that the entire budget should be denied. While planned projects with specified budgets are the most reasonable approach to project management, we recognize that planning for unexpected failures is also part of sound utility management practice. Reducing these budget categories by 10 percent is a balanced approach that manages utility flexibility while protecting ratepayers. Cal Water's current request exceeds the previous GRC's authorized amount of \$136 million by \$64 million.⁷⁰ A 10 percent cut helps limit cost overruns while still providing \$180 million⁷¹ — an increase over typical unexpected expenses. Cal Water is requesting a 17.1 percent revenue increase for 2026 alone. Reducing 10 percent from the unplanned and non-specific category directly supports the goal of keeping total revenue requirements fair and reasonable, and enables the utility to prioritize projects and meet its fiscal obligations.

⁶⁸ CWS OB at 44-48.

⁶⁹ Cal Advocates OB at 37-38.

⁷⁰ D24-03-042.

⁷¹ \$200,000,000 request, minus \$20,000,000 (10 percent), equals an adopted allowance of \$180,000,000.

In light of the foregoing, we evaluate the proposed capital additions individually, distinguishing between compliance-driven, supported projects and those that lack sufficient evidentiary support. The following determinations reflect that project-by-project assessment:

- Treatment-plant expansions required to comply with state and federal water-quality or safety regulations are approved;
- Authorized recovery of 50% of AMI costs in rates for the five-ratemaking areas identified in the record, with the remaining 50% recoverable via Tier 2 Advice Letter, subject to reporting requirements on performance metrics;
- Discretionary office expansions and other non-essential projects are not adopted for this GRC cycle due to lack of sufficient engineering or cost justification and shall not be included in rate base; and
- All other plant additions that are supported by documented engineering need, cost estimates, and regulatory necessity are approved as just and reasonable.

The Commission further clarifies that the capital modeling adopted in this decision relies on project-level data contained in Ex. CWS-27 through Ex. CWS-50 and Ex. CalAdv-07 to classify each project into one of the four categories above. This ensures that the adopted rate base and capital budgets reflect only those plant additions supported by adequate documentation in the evidentiary record.

For approved compliance-driven treatment projects, the projects are approved for inclusion in rates at the forecast amounts. Cal Water may seek to recover any overruns in the next GRC by providing adequate justifications. For purposes of rate recovery, Cal Water shall seek inclusion of completed projects through the advice letter process, including Tier 2 advice letters for projects within adopted cost estimates and Tier 3 advice letters where project costs exceed those estimates. This outcome appropriately balances the need to fund essential infrastructure against the Commission's obligation to protect ratepayers from unsupported or premature capital expenditures.

4.4. Scoped Issue #4: Whether California Water Service Company's Proposed Revenue Requirement Is Just and Reasonable

This issue addresses whether Cal Water's proposed revenue requirements for the TY and EYs are just and reasonable under Pub. Util. Code Sections 451 and 454. Cal Water contends its proposal reflects the reasonable costs necessary to provide safe, reliable, and compliant service, meet regulatory obligations, and maintain financial stability in light of inflationary pressures and market conditions.⁷²

Cal Water asserts that its proposed return and cost forecasts are supported by the governing standards of *Bluefield Water Works & Improvement Co. v. Public Service Commission (Bluefield)*, 262 U.S. 679 (1923), and *Federal Power Commission v. Hope Natural Gas Co. (Hope)*, 320 U.S. 591 (1944), which require that the overall result of ratemaking be fair to investors and ratepayers alike.

Cal Advocates disagrees, asserting that Cal Water's proposal is overstated because it includes inflated forecasts for O&M expenses, plant additions, and escalation factors.⁷³ Cal Advocates contends that adoption of its lower recommended revenue requirement would adequately fund Cal Water's service obligations while reducing ratepayer costs and maintaining safe, reliable service.⁷⁴

NAWC supports Cal Water's proposal, describing it as consistent with industry best practices and necessary to ensure investment in long-lived water infrastructure.⁷⁵ CWA similarly supports Cal Water, arguing that overly restrictive adjustments could underfund critical compliance projects and undermine long-term reliability.⁷⁶

⁷² Cal Water OB at 72-78; Ex. CWS-18 at 3-5.

⁷³ Cal Advocates OB at 65-71; Ex. CalPA-8, Tables 4-6.

⁷⁴ Cal Advocates RB at 46-50; Ex. CalPA-9 at 22.

⁷⁵ NAWC OB at 40-44.

⁷⁶ CWA RB at 18-20.

The revenue requirement from Scoped Issue #4 integrates the outcomes from Scoped Issues #2 (O&M and A&G expenses) and #3 (plant additions), as those components materially affect the overall revenue requirement. Accordingly, the Commission's adopted revenue requirement reflects a sequential implementation in which the adopted TY cost structure is first adjusted to reflect the determinations in Scoped Issues #2 and #3, and only thereafter escalated to the EYs using the escalation indices adopted herein.

4.4.1. Partial Settlement

Several revenue-requirement inputs were resolved through partial settlement and reflected in the Undisputed Issues List, including depreciation, property taxes, and overhead allocations.⁷⁷ What follows is an analysis of the unsettled, disputed elements — O&M, plant additions, and escalation assumptions.

4.4.2. Analysis

The *Bluefield* and *Hope* decisions guide Commission evaluation of overall revenue requirements, emphasizing that the result must provide a fair return sufficient to maintain the utility's financial integrity and attract capital, but not more than is necessary for that purpose. As *Hope* states, “[i]t is the result reached, not the method employed, which is controlling.”⁷⁸ Commission precedent in D.19-05-044 (2018 Cal Water GRC) applies these principles by disallowing revenue-requirement components not shown to be prudently incurred or adequately supported by record evidence.

Cal Water maintains that its proposed revenue requirement is grounded in verifiable cost data, contractual inflation indices, and consistent regulatory methodology.⁷⁹ It asserts that its weighted average cost of capital reflects the

⁷⁷ Motion for Partial Settlement at 9-10.

⁷⁸ *Hope Natural*, 320 U.S. at 602.

⁷⁹ Cal Water OB at 74-77; Ex. CWS-19 at 14.

current capital-market environment and the risk profile of a multi-district water utility.⁸⁰ Cal Water argues that its projections adhere to the Commission's cost-of-service framework and that the proposed level of earnings is consistent with the *Bluefield* and *Hope* standards of financial soundness.⁸¹

Cal Water further states that its revenue requirement incorporates the company's district-level O&M and plant needs adopted in prior cycles, updated for inflation and compliance obligations.⁸²

Cal Advocates contends that Cal Water's revenue requirement should be reduced to reflect the Commission's adjustments in Scoped Issues #2 and #3, and to align the Return on Equity with recent Commission authorizations for similarly situated Class A water utilities.⁸³ Cal Advocates further argues that Cal Water's inflation and escalation assumptions are unsubstantiated, as the utility did not correlate its escalation rates to specific cost drivers or vendor contracts.⁸⁴

Consistent with the determinations in Sections 4.2-4.3, the Commission applies the adopted O&M and plant adjustments to Cal Water's cost of service and rate base here, which reduces the overall revenue requirement relative to the Application.⁸⁵

In addition to the O&M and plant adjustments discussed above, the Commission separately evaluates certain conservation-related cost components embedded within Cal Water's proposed revenue requirement. Among these are Administration and Research expenses associated with conservation programs, which warrant distinct consideration given their role in supporting compliance,

⁸⁰ Cal Water RB at 51-52; Ex. CWS-19 at 15.

⁸¹ Cal Water RB at 53; Ex. CWS-19 at 16.

⁸² Cal Water OB at 72-78; Cal Water RB at 51-53.

⁸³ Cal Advocates OB at 69; Ex. CalPA-8 at 54.

⁸⁴ Cal Advocates OB at 68; Ex. CalPA-8 at 51.

⁸⁵ Cal Advocates RB at 46-50; Cal Water RB at 70-73.

planning, coordination, and implementation of Commission-authorized conservation obligations.

The Commission finds that Administration and Research activities are a legitimate component of conservation programs to the extent they support planning, coordination, compliance tracking, and implementation of ongoing conservation requirements adopted by the Commission. The record demonstrates that Cal Water has historically incurred Administration and Research conservation expenses, and that some level of continued funding is reasonable given evolving water-use efficiency standards, Sustainable Groundwater Management Act (SGMA)-related planning obligations, and statewide conservation mandates.

However, the record does not support approval of the full increase in Administration and Research conservation funding proposed by Cal Water. As shown in Cal Advocates' testimony, Cal Water utilized approximately 68.65 percent of previously authorized Administration and Research conservation funding during the 2020-2022 period. Cal Water does not provide persuasive evidence explaining this underutilization, nor does it demonstrate that the operational or staffing constraints that limited prior spending have been resolved.

In addition, Cal Water's request for a substantial increase in Administration and Research funding — including funding for new full-time equivalent positions — is not supported by sufficiently detailed evidence linking the proposed increase to specific, incremental regulatory compliance obligations that cannot reasonably be addressed within historical spending levels or through existing regulatory mechanisms.

At the same time, the Commission finds that a complete rejection of Administration and Research conservation funding would be inconsistent with the evidentiary record and could undermine effective administration of conservation programs. Accordingly, the Commission adopts a partial approval of Administration

and Research conservation expenses calibrated to Cal Water's demonstrated historical utilization.

The Commission therefore limits recoverable Administration and Research conservation expenses to an amount equal to 68.65 percent of Cal Water's proposed Administration and Research conservation budget, reflecting the level of spending reasonably supported by historical experience and the evidentiary record in this proceeding.

For purposes of implementation, the Commission clarifies that the revenue requirement shall be calculated by starting from Cal Water's TY values as modified by the Partial Settlement Agreement and Undisputed Issues List, incorporating the Commission-adopted adjustments from Scoped Issues #2 and #3, and only then applying the approved escalation factors to derive EY revenue requirements.⁸⁶

For escalation, the Commission gives weight to Cal Advocates' criticism that forward-looking adders are not tied to verifiable cost drivers; therefore, only documented inflation indices and known regulatory adjustments are accepted.⁸⁷ Specifically, EY expenses shall be calculated by applying the adopted escalation indices to the Commission-adopted TY expense levels, rather than to unadjusted Application forecasts.⁸⁸

No expense recorded in a balancing or memorandum account shall be escalated, consistent with Commission precedent and Standard Practice U-27-W.

For the remaining, unsettled components of the revenue requirement, the Commission adopts a balanced determination:

⁸⁶ See Ex. CWS-04, Multi-District Revenue Requirement workpapers, as modified by the Partial Settlement.

⁸⁷ Cal Advocates OB at 68; Cal Advocates RB at 48-49.

⁸⁸ See Ex. CalAdv-09; and Cal Water escalation testimony and workpapers.

- The O&M and A&G expenses adopted in Section 4.2 and the capital investment adjustments adopted in Section 4.3 are incorporated into the overall revenue requirement;
- EY increases shall be limited to demonstrated cost drivers supported by evidence of inflation or regulatory compliance obligations, and shall be applied only after the Commission-adopted TY cost structure is established;
- All other elements of Cal Water's proposed revenue requirement not otherwise addressed are adopted only to the extent they are consistent with the findings and conclusions in this decision; and
- AFUDC shall be applied to eligible construction work in progress at a rate equal to Cal Water's authorized rate of return, consistent with Commission precedent.

The Commission further clarifies that the adopted revenue requirement reflects the following calculation structure: (1) adopted TY expenses and rate base, as modified by this decision; (2) application of approved escalation indices to derive EY values; and (3) calculation of the authorized return using the adopted weighted average cost of capital applied to the adopted rate base and application of AFUDC at the authorized rate of return for eligible construction work in progress.

Consistent with this financing structure, the Commission finds that AFUDC, rather than IDC, is the appropriate mechanism to reflect the cost of capital during construction.

Consistent with Commission precedent, including D.20-12-007 and D.24-03-042, the Commission sets the AFUDC rate equal to Cal Water's authorized rate of return. This approach ensures that the cost of capital reflects the utility's actual financing costs and maintains consistency with established ratemaking principles.

This blended outcome ensures that Cal Water receives revenues sufficient to sustain safe, reliable, and compliant operations, consistent with the statutory standards of Pub. Util. Code Sections 451 and 454 and the judicial principles

articulated in *Bluefield* and *Hope*, while safeguarding ratepayers from unjust or unreasonable charges.

Within 30 days of this decision, Cal Water shall file a compliance workpaper updating its revenue requirement model to reflect: (1) the adopted O&M and plant determinations; and (2) the accepted escalation indices, with a step-by-step reconciliation from Application values to adopted values at each stage of the calculation.⁸⁹

4.5. Scoped Issues #5, #7, and #15

This section discusses interrelated issues of whether Cal Water's proposed rate designs for the TY and EYs are just and reasonable (Scoped Issue #5), whether Cal Water's proposed LUWEP is just and reasonable (Scoped Issue #7), and the special request regarding decoupling (Scoped Issue #15).

Cal Water presents two rate design options: (i) Its first choice is revenue decoupling paired with a new LUWEP rate design; or (ii) continuation of both the Monterey Water Revenue Adjustment Mechanism (M-WRAM) and Incremental Cost Balancing Account (ICBA), and with a modified rate design and sales forecasts, if decoupling is denied.⁹⁰

Cal Advocates opposes both decoupling and LUWEP and recommends continuing the existing M-WRAM, but with more aggressive tier multipliers similar to those in the LUWEP proposal.

The decision rejects Cal Water's decoupling and LUWEP proposals, as well as Cal Advocates' steeper tiers. Instead, the decision authorizes the continuation of Cal Water's M-WRAM with a modified rate design, the ICBA, plus the implementation of a Sales Reconciliation Mechanism (SRM),⁹¹ with modifications,

⁸⁹ Cal Water OB at 74-78; Cal Advocates RB at 46-50.

⁹⁰ Both M-WRAM and ICBA are existing ratemaking mechanisms used by the Commission and currently in effect for Cal Water.

⁹¹ The Commission has previously authorized an SRM for water utilities.

for the current GRC cycle. This is an evolution to the current M-WRAM beyond Cal Advocates' proposal, informed by our consideration of Cal Water's broader proposals for decoupling and a new LUWEP.

The following sections summarize the parties' positions and explain the Commission's decision.

4.5.1. Partial Settlement

These three scoped issues were fully litigated. These interrelated issues were not included in the Partial Settlement Agreement or in the Undisputed Issues List.

4.5.2. Positions of the Parties

4.5.2.1. California Water Service Company's Proposal

Cal Water proposes a LUWEP rate design and a revenue decoupling program which includes: (1) a new Safe Infrastructure Balancing Account (SIBA)⁹² to track the difference between actual and adopted quantity revenues; (2) a Supply Cost Balancing Account (SCBA) to track the difference between actual and adopted water production expenses; (3) Amortization of net decoupling program balances in base rates using the adopted rate design (as opposed to separate surcharges or surcredits⁹³); and (4) Reinstatement of the SRM with slight modification.⁹⁴

If decoupling is not granted, Cal Water proposes: (1) continuation of a modified M-WRAM and ICBA adopted in D.24-03-042,867; and (2) modified rate design and sales forecasts.⁹⁵

⁹² Cal Water already has an unrelated Infrastructure Balancing Account. "The purpose of the Infrastructure Memorandum Account ('IMA') is to comply with Public Utilities Code Section 790 regarding net proceeds from the sale of utility property as interpreted by D.06-05-041 and D.07-09-021." See Cal Water's Preliminary Statement AN. We note the similarity of the names with both using the word "Infrastructure" although the mechanisms are distinctly different.

⁹³ A surcharge is charge paid by the customers, and a surcredit is a repayment from the utility to the customers.

⁹⁴ Cal Water OB at 113.

⁹⁵ Cal Water OB at 114.

Cal Water states that it has implemented a four-tier conservation rate design and an M-WRAM, pursuant to D.24-03-042.⁹⁶ In its opening testimony, Cal Water proposes a new LUWEP, which is a modified four-tier rate design with larger tier differentials and higher breakpoints.⁹⁷ Cal Water asserts this structure will incentivize conservation among high-income, high-use customers while improving affordability for modest- and low-use customers.⁹⁸ Cal Water believes that LUWEP is only feasible if implemented alongside revenue decoupling to mitigate under-collections of the authorized revenue requirement that may result from declining sales.⁹⁹

Cal Water states that if the Commission rejects decoupling, it proposes an alternative M-WRAM with flatter tier differentials and an additional 5 percent of fixed revenues recovered via meter charges compared to its current rate design.^{100,101} Cal Water argues that this alternative M-WRAM, with higher fixed charges, will result in increased usage and higher bills than LUWEP which is why this is a secondary proposal and not its preferred option.¹⁰²

Cal Water states that it already operates under an M-WRAM, which tracks and recovers the difference between revenues from the currently adopted tiered rate structure and those from a uniform rate at an equivalent level of sales.¹⁰³ Cal Water proposes to replace the M-WRAM with a LUWEP Decoupling Program, which is

⁹⁶ Ex. CWS-02 at 51.

⁹⁷ Cal Water OB at 126.

⁹⁸ Ex. CWS-02, Attachment F at 5. Ex. CWS-02, Attachment D at 3. Ex. CWS-50 at 210.

⁹⁹ Ex. CWS-50 at 209-210.

¹⁰⁰ Ex. CWS-02, Attachment F at 10. Ex. CWS-51, Appendix A at 23-24.

¹⁰¹ This means that Cal Water would recover more of its fixed costs through the monthly meter service charge (which also covers fixed costs other than meter-related costs), thereby reducing the fixed costs collected through the volumetric charges.

¹⁰² Cal Water OB at 122-124.

¹⁰³ Ex. CWS-02 at 47-48.

similar to the previous Water Revenue Adjustment Mechanism (WRAM),¹⁰⁴ but includes two new balancing accounts to calculate the revenue impact of deviations from forecasted quantity sales: (1) a SIBA to track the difference between actual and adopted quantity revenues; and (2) a SCBA to track the difference between actual and adopted production expenses.¹⁰⁵ According to Cal Water, the balances of these accounts would net annually to determine the total annual decoupling under- or over-collected revenue balance.¹⁰⁶

In contrast to the WRAM, which recovered over or under-collected balances via meter-based surcharges, Cal Water proposes to now amortize decoupling balances in base rates via an annual Tier 1 advice letter filing.¹⁰⁷ Cal Water argues that amortization preserves the conservation price signals and affordability of the LUWEP compared to a meter-based surcharge, because it collects a larger share of any balances from higher-use customers and avoids confusion about meter charges.¹⁰⁸

Cal Water requests permanent reinstatement of its SRM.¹⁰⁹ Cal Water states that the SRM adjusts future sales forecasts by 50 percent of the recorded variance if actual sales deviate from forecasts by more than five percent. Cal Water also states that SRM will adjust rates in EYs to mitigate large accruals of decoupling balances.¹¹⁰ It further states that, historically, 79 percent of SRM adjustments were triggered by

¹⁰⁴ The WRAM is sometimes referred to as a “full” WRAM whereas, the M-WRAM is a more limited version first adopted for the Monterey district, which gave it the name Monterey WRAM.

¹⁰⁵ Cal Water OB at 120-121.

¹⁰⁶ Ex. CWS-02 at 36-37, 42.

¹⁰⁷ Ex. CWS-02 at 47-48.

¹⁰⁸ Cal Water OB at 124.

¹⁰⁹ Ex. CWS-02 at 56-57.

¹¹⁰ Cal Water OB at 128.

sales falling below projections, which leads to under-collections to be amortized in the next rate period.¹¹¹

Cal Water proposes two modifications to the current SRM: (1) Sales Forecast: if sales are forecast to change by a greater variance than the SRM adjustment, Cal Water proposes to maintain the higher of the two variance values;¹¹² (2) One-way SRM mechanism: the SRM will only trigger when sales fall below forecasted levels, because Cal Water argues that a short-term overshoot of the forecast is not indicative of future trends.¹¹³ Cal Water requests that the Commission authorize the SRM, even if it denies the LUWEP decoupling.¹¹⁴ It argues that while the SRM was designed to accompany a decoupling mechanism, it can also stabilize revenue recovery and smooth rate adjustments under the M-WRAM by ensuring that rates are based on updated sales forecasts.¹¹⁵

Beyond the LUWEP, Cal Water makes a broader argument that decoupling is needed to mitigate the financial risk that Cal Water and other water utilities face from long-term declines in sales combined with rising system costs.¹¹⁶ Cal Water argues that there is a disconnect between its rate structure and its cost structure.¹¹⁷ Cal Water explains that the imbalance stems from the design of rates to support policy goals of affordability and conservation, such as fixed costs recovered through monthly charges and revenue shifted to higher tiers. Cal Water further states that, while helpful for policy purposes, these features increase revenue volatility for the utility. Cal Water estimates that approximately half of its fixed costs, which do not

¹¹¹ Ex. CWS-02 at 54-55.

¹¹² Ex. CWS-02 at 55-56.

¹¹³ Ex. CWS-02 at 56.

¹¹⁴ Ex. CWS-50 at 243.

¹¹⁵ Cal Water OB at 129-130; Ex. CWS-50 at 242.

¹¹⁶ Ex. CWS-02 at 216-217.

¹¹⁷ Ex. CWS-50 at 238-239.

vary with sales, may not be recoverable if sales fall below forecasts.¹¹⁸ It argues that under M-WRAM, only tiered rates are adjusted, not the unrecovered fixed costs due to lower rates.¹¹⁹

4.5.2.2. Cal Advocates' Proposal

Cal Advocates asks the Commission to reject Cal Water's proposal and recommends instead the following rate design changes:

- (a) Renaming tiers in residential rate design to match the tier allocation, intended use, and signaling conservation goals;¹²⁰
- (b) Deny continuation of using 6 CCF¹²¹ as a standardized Tier 1 breakpoint and instead set Monthly Indoor Water Use Allocation per district, ranging between 5-11 CCF, because a Tier 1 breakpoint of 6 CCF across all ratemaking areas is inequitable to districts with residential households that have a higher average number of people per household;¹²² and
- (c) Allocate a standardized water usage of 6 CCF as Monthly Reasonable Discretionary Water Use (Tier 2) across all water districts to promote equitable access to affordable discretionary water uses;¹²³ and (d) Revert the six ratemaking districts back to a three-tier conservation rate design tier widths (rather than the currently authorized four tiers) so that their usage is not less than the monthly indoor water use target.¹²⁴

¹¹⁸ Ex. CWS-50 at 238-239.

¹¹⁹ Ex. CWS-50 at 239.

¹²⁰ Ex. CalAdv-10 at 3-2.

¹²¹ Centum cubic feet.

¹²² Cal Advocates OB at 113; Ex. CalAdv-10 at 3-5.

¹²³ Cal Advocates OB at 113; Ex. CalAdv-10 at 3-7 to 3-9.

¹²⁴ Cal Advocates OB at 113; Ex. CalAdv-10 at 3-9 to 3-11; six Districts are the Bay Area region, Dixon, East Los Angeles, South Bay Region, Stockton, and the Salinas Valley Region.

Cal Advocates argues that its modifications avoid overly narrow tiers and more accurately reflect variations in average household size and reasonable discretionary water use across the different districts.¹²⁵

Cal Advocates argues that because Cal Water did not implement a four-tier rate design until May 2024, it is too early to determine its impact on conservation and average use, which may not materialize for several years.¹²⁶ It requests that the Commission require Cal Water to review the effectiveness and average-use impacts of using a four-tier rate design in its subsequent GRC.¹²⁷

Cal Advocates recommends that the Commission deny decoupling and adopt Cal Water's rate multipliers requested under the LUWEP rate design.¹²⁸ Cal Advocates asserts that modern rate design ensures conservation, provides an affordable option for baseline water use, and is revenue-neutral.¹²⁹

Cal Advocates argues that Cal Water's proposed LUWEP is not just and reasonable because the purported conservation and affordability benefits of the program are inadequate to justify the burden of risk it shifts to ratepayers.

Cal Advocates cites several prior Decisions in which the Commission found that there is no causal link between conservation rate design and WRAMs.¹³⁰

Cal Advocates argues that similar to the WRAM, the LUWEP allows Cal Water to recover the difference between projected and actual revenue, largely eliminates the

¹²⁵ Cal Advocates OB at 112-113; Ex. CalAdv-10 at 3-5 to 3-15.

¹²⁶ Ex. CalAdv-10 at 3-15.

¹²⁷ Ex. CalAdv-10 at 3-15.

¹²⁸ Ex. CalAdv-10 at 3-13 to 3-14.

¹²⁹ Ex. CalAdv-10 at 3-12 to 3-13.

¹³⁰ Cal Advocates OB at 119; *see* Pub. Util. Code § 727.5(d); D.24-12-025 at 42 (stating that "WRAM is at best a minor factor in conservation efforts."); D.25-01-036, *Decision Adopting Settlement Agreement, Resolving Remaining Issues, and Authorizing a General Rate Increase for Golden State Water Company for 2025, 2026, and 2027* (motion for rehearing denied in D.25-05-028) at 74 (stating that "the full WRAM does not incentivize conservation; at most, it does not create a financial disincentive for promoting conservation").

risk of forecasting for investors, and by doing so, shifts risk to ratepayers.¹³¹

Cal Advocates further argues that the Commission has rejected Cal Water's repeated argument that decoupling creates no risk for ratepayers because ratepayers only pay the utility's true-up to the authorized revenue requirement.¹³² It argues that if Cal Water's total adopted costs exceed its actual costs, that a decoupling mechanism that allows recovery of forecasted costs benefits the utility's shareholders.¹³³

Cal Advocates also presents documentation of under collections by Cal Water from ratepayers through the previous WRAM.¹³⁴ Cal Advocates argues that shifting recovery of decoupling balances to high-usage customers does not inherently improve affordability outcomes or address the impact of decoupling balances on customer bills.¹³⁵ Cal Advocates further argues that the LUWEP may pose an even greater risk to ratepayers compared to the WRAM because, unlike the WRAM's meter surcharge, amortizations under the LUWEP are uncapped and not visible to customers.¹³⁶ Cal Advocates notes that Cal Water acknowledges that decreased shareholder risk is a benefit of decoupling when Cal Water states that "the financial stability of a water utility reduces shareholder's investment risk which, in turn, results in access to lower cost capital."¹³⁷ Cal Advocates also argues that Cal Water explicitly rejects imposing an earnings cap on decoupling balances, thereby introducing the risk of overearning.¹³⁸

¹³¹ Cal Advocates OB at 120-121; *see* D.24-12-025 at 56, Finding of Fact 35.

¹³² Cal Advocates OB at 120-121.

¹³³ Ex. CalAdv-09 at 3-9 to 3-10.

¹³⁴ Ex. CalAdv-09 at 3-3 to 3-6.

¹³⁵ Cal Advocates RB at 53.

¹³⁶ Cal Advocates OB at 121-122.

¹³⁷ Ex. CWS-02 at 38:22-23.

¹³⁸ Cal Advocates OB at 121-122.

Cal Advocates recommends that the Commission reject Cal Water's SRM, because the SRM is designed to correct for decoupling balances and is unnecessary if the Commission rejects the LUWEP.¹³⁹

In its Reply Brief, Cal Advocates states that Cal Water's water usage study fails to support Cal Water's conclusions about household size compared to home size and does not consider data for Cal Water customers in multifamily housing. Cal Advocates argues that Cal Water's analysis for Tier 1 breakpoints lacked household size and income data and excluded multifamily housing, whereas Cal Advocates used U.S. Census data and aligned its proposal with Assembly Bill (AB) 1668/Senate Bill (SB) 1557 requirements.^{140,141}

4.5.2.3. National Association of Water Companies and California Water Association's Position

NAWC and CWA support Cal Water's overall design, arguing that it adheres to established cost-causation principles and provides regulatory continuity. Both organizations argue that Cal Advocates' proposals risk undermining the conservation signal and destabilizing revenue recovery.¹⁴² NAWC supports decoupling broadly as a best practice in utility regulation and aligns with Cal Water's reasoning, urging adoption as part of modernizing regulatory

¹³⁹ Cal Advocates OB at 119.

¹⁴⁰ Cal Advocates RB at 50-51.

¹⁴¹ AB 1668, as amended by SB 1157 (Hertzberg 2022), sets the following residential indoor water use targets: (1) The standard for indoor residential water use shall be 55 gallons per capita daily until January 1, 2025; (2) Beginning January 1, 2025, and until January 1, 2030, the standard for indoor residential water use shall be 47 gallons per capita daily; and (3) Beginning January 1, 2030, the standard for indoor residential water use shall be 42 gallons per capita daily.

¹⁴² NAWC OB at 54-57; CWA RB at 21-24.

frameworks.¹⁴³ CWA strongly supports approval, framing decoupling as essential to aligning financial incentives with conservation.¹⁴⁴

4.5.2.4. California Water Service Company's Response to Cal Advocates' Proposal

Cal Water disagrees with Cal Advocates' rate design proposal, arguing in its Reply Brief that the proposal is fundamentally flawed because rate design affects revenue collection and consumption patterns, whereas decoupling stabilizes revenue and ensures timely recovery of fixed costs.¹⁴⁵

Cal Water states that applying decoupling rate multipliers to a non-decoupled rate structure does not address impacts on total revenue needs, revenue distribution among customer classes, or the balance between fixed and volumetric charges.¹⁴⁶

Cal Water rejects Cal Advocates' specific rate design Tier breakpoint adjustments.¹⁴⁷ Cal Water believes that Cal Advocates' proposed Tier 1 breakpoints violate D.20-07-032 by falling below the minimum essential water threshold of 6 CCF per month in several areas and that Cal Advocates misinterprets legislative intent aimed at city-wide water-use goals rather than individual household budgets. Concerning Tier 2 modifications, Cal Water argues that although Cal Advocates recommend basing Tier 2 width on efficient residential outdoor use, Cal Advocates incorrectly set its Tier 2 width based on the State's indoor residential water use standard.

¹⁴³ NAWC OB at 123-125; NAWC RB at 65-67.

¹⁴⁴ CWA RB at 37-41.

¹⁴⁵ Cal Water OB at 115.

¹⁴⁶ Cal Water OB at 115-116.

¹⁴⁷ Cal Water OB at 115-116.

4.5.3. Discussion

Pursuant to Pub. Util. Code Section 451, we reject Cal Water’s first option, proposed decoupling and the LUWEP rate design. We do not find justification to deviate from the continuation of the M-WRAM and ICBA. We also decline to adopt Cal Advocates’ rate design changes and rate multipliers.

The decision adopts Cal Water’s second option, its proposed M-WRAM and authorizes the implementation of SRM, with modifications for this GRC cycle, as detailed below.

Table 5 below lists the various proposals before the Commission.

Table 5
(Rate Design Comparison Summary)

Rate Design Components	Current M-WRAM Rate Design¹⁴⁸	Proposed LUWEP (Decoupling) Rate Design	Proposed M-WRAM (Alternate / Non-Decoupling) Rate Design	Cal Advocates Rate Design Proposal
Fixed charges	Meter charge covers 50-60% of fixed costs in each district (with slight variance)	Down 10% in each district from the current rate design	Up 5% in each district from the current rate design (55-65% fixed costs)	Not specified.
Tiers multipliers (steepness)	<u>Tier 1:</u> 25% of Tier 2 <u>Tier 2:</u> 100% <u>Tier 3:</u> 125% of Tier 2 <u>Tier 4:</u> 187% of Tier 2	<u>Tier 1:</u> 25% of Tier 2 <u>Tier 2:</u> 100% <u>Tier 3:</u> 200% of Tier 2 <u>Tier 4:</u> 400% of Tier 2	<u>Tier 1:</u> 25% of Tier 2 <u>Tier 2:</u> 100% <u>Tier 3:</u> 125% of Tier 2 <u>Tier 4:</u> 150% of Tier 2	Adopt Cal Water’s LUWEP Rate Design tier multipliers.

¹⁴⁸ It is worth noting that Cal Water’s use of rate design terminology can cause confusion; therefore, the decision clarifies that Cal Water’s current rate design is an M-WRAM adopted in D.24-03-042, and the proposed alternative/non-decoupled rate design is also referred to as an M-WRAM.

Rate Design Components	Current M-WRAM Rate Design ¹⁴⁸	Proposed LUWEP (Decoupling) Rate Design	Proposed M-WRAM (Alternate / Non-Decoupling) Rate Design	Cal Advocates Rate Design Proposal
Tier widths (usage breakpoints separating each tier)	<p><u>Tier 1</u>: 6 CCF (essential use)</p> <p><u>Tiers 2-4</u>: varies by district</p>	<p><u>Tier 1</u>: 6 CCF</p> <p><u>Tier 2</u>: end of Tier 1 up to 75th percentile use</p> <p><u>Tier 3</u>: end of Tier 2 to 95th percentile of use</p> <p><u>Tier 4</u>: Use beyond 95th percentile</p>	No change from the current rate design.	<p><u>Tier 1</u>: 5-7 CCF varied by avg. household size</p> <p><u>Tier 2</u>: 6 CCF</p> <p><u>Tier 3</u>: Unclear for districts without Tier 4</p> <p><u>Tier 4</u>: Use beyond the 90th percentile.</p>

*Cal Advocates proposes to consolidate Tiers 3 and 4 for six districts.

4.5.3.1. Adopted Rate Design

We reject Cal Water’s decoupling proposal and LUWEP-based rate design because the evidence fails to demonstrate that the proposed rate design will better support conservation or affordability objectives than the existing M-WRAM. On the contrary, we believe that Cal Water’s proposal raises concerns about the cost of capital that can be addressed in a subsequent cost of capital proceeding, customer bill impacts in the long-term, and alignment with established Commission principles.

Cal Water’s decoupling and LUWEP proposal is internally inconsistent and lacks a logical and evidentiary foundation because, in its opening testimony, Cal Water states that the revenue stability and reduced uncertainty provided by decoupling also help promote utility financial health, which directly lowers the cost of capital.¹⁴⁹ However, in its rebuttal, it argues¹⁴⁹ against its claim that decoupling reduces utility investment risk, asserting that academic studies, based on empirical analyses of the data, confirm that decoupling does not have a statistically significant impact on a utility’s cost of capital.¹⁵⁰ This is an issue to be litigated in a subsequent

¹⁴⁹ Ex. CWS-02 at 38:22-23.

¹⁵⁰ Ex. CWS-50 at 237-238; see footnotes 497-498: 49, available as of this writing at: https://www.brattle.com/wp-content/uploads/2017/10/6081_effect_of_electric_decoupling_on_th
Footnote continued on next page.

cost of capital proceeding. If decoupling has no statistical impact, Cal Water's claim that full decoupling is necessary to protect shareholders from the risk of lost revenue due to long-term sales declines lacks merit. Conversely, if decoupling reduces risk, this should be reflected in a lower return on equity (ROE). However, since ROE is reviewed in the cost of capital proceeding and therefore cannot be adjusted in this proceeding, the actual benefit to shareholders and its fairness to ratepayers cannot be fully evaluated here. These conflicting arguments weaken confidence in Cal Water's full decoupling proposal and the associated LUWEP in this GRC cycle. Therefore, we reject this proposal.

Although we decline to implement decoupling and LUWEP in this GRC cycle, we disagree with Cal Advocates' argument that Cal Water's proposal only benefits shareholders when actual costs are less than the authorized revenues recoverable through any decoupling mechanism. This argument is one-sided because it is possible that Cal Water could bear the full burden of losses if actual costs (not recorded in a balancing account) exceed authorized revenues. We should weigh both sides of the argument and not assume that actual costs will always be lower than the authorized amount. Should Cal Water elect to propose revenue decoupling in a subsequent GRC, it must substantiate its proposal with data illustrating multi-year discrepancies between adopted and collected revenues per district and perform stress tests for both wet and dry years.

We do not find sufficient justification from Cal Water in favor of its first option or Cal Advocates to deviate from continuing the four-tier M-WRAM and ICBA. We believe it is premature to depart from the current M-WRAM and also adopt a more aggressive tiered rate design. Cal Water only recently implemented the four-tier M-WRAM rate design which we will continue with modifications as

[e cost of capital.pdf](#). 498 M. Vilbert et al., The Impact of Revenue Decoupling on the Cost of Capital for Electric Utilities: An Empirical Investigation (March 2014) at 3.

discussed below. Approving either a more aggressive LUWEP version or steeper tiered multipliers and breakpoints, as recommended by Cal Advocates, before the impacts of the existing structure are understood, is not reasonable. We therefore find it reasonable to continue implementing M-WRAM with the limited modifications proposed by Cal Water.¹⁵¹

The first modification is a 5 percent increase in the portion of revenues recovered via fixed charges and the second change modifies the rate for the 4th block, which is adjusted to 150 percent of the rate for the 2nd block, down from 187 percent; the multipliers for the other blocks remain consistent with current rates.¹⁵²

Increasing the portion of fixed revenues to recovered via a fixed charge by 5 percent is reasonable because it still meets the criteria set in D.16-12-026, that no more than 50 percent of a water company's total revenue requirement be collected via fixed charges.¹⁵³ The second modification to the rate multiplier is also reasonable because Cal Water has demonstrated that 66 percent of its revenue requirement consists of fixed costs; therefore, increasing the fixed charge to cover 55 to 65 percent of fixed costs allows Cal Water to collect less than 50 percent of the total revenue requirement via fixed meter charges.¹⁵⁴ These rate design modifications enable Cal Water to shift a greater portion of its fixed costs away from variable rates, thereby reducing its exposure to revenue volatility while avoiding significant rate changes for customers.

We believe that Cal Water's proposed rate design remains substantially unchanged, and the modifications will improve revenue recovery by raising monthly

¹⁵¹ Cal Water OB at 122-124.

¹⁵² Ex. CWS-20 at 221.

¹⁵³ D.16-12-026 at Opening Paragraph 13.

¹⁵⁴ Ex. CWS-50 at 238-239.

meter charges and retaining a moderate tier block structure. The adopted rate design will ensure revenue stability, balancing affordability, conservation, and financial sustainability. Cal Water's proposal should still encourage efficient water use through appropriate price signals.

We reject Cal Water's arguments supporting LUWEP in lieu of its proposed M-WRAM. Cal Water argues that LUWEP's steep tier cost recovery to high-usage customers promotes conservation and lowers bills for lower-usage customers. Conversely, it states that its alternative, M-WRAM, with flatter tiers and higher fixed costs, could increase bills for low-usage customers and boost consumption among high-usage customers. These conflicting proposals make Cal Water's plans to promote conservation and affordability unclear. Because both designs are revenue-neutral, the actual conservation impact of the LUWEP remains unproven. As Cal Advocates notes, Cal Water does not account for the impact of decoupling balances —charges added (or subtracted) later to recover lost revenue (or refund over-collections) — on customer bills. Cal Water's assertion that LUWEP rate design and tiered structure will improve affordability is unknown due to the decoupling process. Any initial bill reductions for low-usage tiers may be offset by subsequent surcharges required to reconcile revenue shortfalls, but equally, subsequent surcredits would refund overcollections. We find insufficient evidence to support Cal Water's assertion that the LUWEP program will, over time, result in lower overall customer bills in total. Therefore, we do not give weight to this claim in our determination.

The impact on affordability is unknown. Cal Water argues that its decoupling proposal allows the utility to implement a rate design that balances affordability and conservation policy while recovering its authorized revenue requirements in a timely manner, aligning with the public interest.¹⁵⁵ However, we agree with

¹⁵⁵ Cal Water OB at 128.

Cal Advocates that it is not appropriate to implement decoupling and LUWEP at this time, because the utility has already made substantial progress in reducing water use even without a conservation rate design.¹⁵⁶ We also find merit in Cal Advocates' argument that amortizations under the LUWEP are uncapped and not visible to customers because they would no longer be a surcharge or surcredit.

Cal Advocates notes that Cal Water implemented M-WRAM's four-tier conservation rate design for the first time just over a year before filing this application, and the conservation impacts of that rate design are not yet known or detailed in the record. By continuing Cal Water's four-tier rate design we will have data in the next GRC which will allow us to evaluate its effectiveness then.

We also decline to accept Cal Advocates' recommendations to rename Tiers, adjust Tier breakpoints, and implement Cal Water's change to the rate multiplier under LUWEP. Cal Advocates' proposal deviates from D.20-07-032 in recommending a change to the 6 CCF minimum essential water threshold. Cal Water's rebuttal testimony convincingly demonstrates discrepancies between Cal Advocates' proposed 6 CCF and the actual residential outdoor standard calculated for each of Cal Water's districts (ranging from 4 CCF to 37 CCF).¹⁵⁷ Furthermore, there is a procedural disconnect between Cal Advocates' recommendation to eliminate the 4th tier and revert to a three-tier rate design in six of Cal Water's 17 rate regions, and its recommendation that an impact study be conducted.

While we agree with Cal Advocates' arguments opposing LUWEP rate design, just as with LUWEP, there is no evidence that steeper tier breakpoints proposed by Cal Advocates would effectively advance conservation or affordability objectives more than the M-WRAM. We find it premature to approve Cal Advocates' more

¹⁵⁶ Ex. CalAdv-09 at 3-8 to 3-9.

¹⁵⁷ Ex. CWS-51, Appendix A at 15.

aggressive version of the four-tier rate design before its impact on customers' usage and bills are better understood.¹⁵⁸

In summary, the decision adopts the following M-WRAM rate design:

Rate Design	Adopted M-WRAM Rate Design
Fixed charges	Up 10% in each district from the current rate design
Tiers multipliers (steepness)	<u>Tier 1</u> : 25% of Tier 2 <u>Tier 2</u> : 100% <u>Tier 3</u> : 125% of Tier 2 <u>Tier 4</u> : 150% of Tier 2
Tier widths (usage breakpoints separating each tier)	No change from the current M-WRAM

4.5.3.2. Monterey Water Revenue Adjustment Mechanism and Sales Reconciliation Mechanism

Regarding sales variance and future trends, while Cal Water falls short of justifying its current decoupling proposal, it demonstrates its sensitivity to unexpected sales variances and a commitment to revenue stability. The purpose of the SRM is to account for inaccuracies in the utility's water-consumption forecasts,¹⁵⁹ thereby reducing revenue imbalances. SRM was also intended to help ratepayers by mitigating surcharges after the fact and, presumably, to induce conservation or changes in usage through annual rate adjustments. It is reasonable to grant Cal Water SRM with M-WRAM because the SRM can align rates with current usage patterns in order to support the utility to collect its revenue requirement.¹⁶⁰

¹⁵⁸ Cal Water OB at 126.

¹⁵⁹ Even the most careful forecasts of sales cannot be expected to perfectly predict actual water consumption because of the numerous uncontrollable influences that unfold during the TY.

¹⁶⁰ Cal Water OB at 129.

Though Cal Water requests both LUWEP and SRM, we find it is reasonable to reinstate SRM with M-WRAM instead. The Commission has previously authorized M-WRAM and SRM in D.25-06-036, as well as in D.12-12-025 for Golden State Water Company and California-American Water Company in D.25-01-036, respectively.¹⁶¹

Though past Commission decisions are not binding, they offer guidance on what is considered just and reasonable in the specific circumstances of that proceeding at that time.

An SRM is reinstated for the current Cal Water GRC cycle, subject to an annual evaluation, with the following modifications. We decline to adopt a one-way SRM that while we find merit in allowing sales adjustments, sales adjustments should be two-way rather than one-way. A one-way SRM biases adjustment in favor of protecting the utility from downward sales while leaving upward sales benefits largely with shareholders. SRM should be used as an authorized revenue requirement recovery-correction tool. Therefore, we adopt a two-way SRM. We grant these modifications to the SRM based on the record in this proceeding.

The SRM will adjust the adopted sales forecast for EYs if recorded aggregate sales for the past year are more than five percent different (higher or lower) than the adopted sales. The SRM will apply for the EYs of the GRC period if triggered. The mechanism will then make a 50 percent adjustment of the variance to the sales forecast and calculate rates that reflect the adjusted consumption.

While the decision acknowledges Cal Advocates' opposition to SRM, it finds that the SRM offers benefits regardless of whether decoupling is in place. The SRM is authorized as a tool to address exogenous events — such as government-mandated drought restrictions or infrastructure failures — that impact sales forecasts beyond Cal Water's control.¹⁶²

¹⁶¹ D.24-12-025 at 46-48; D.25-01-036 at 74-76.

¹⁶² Cal Water OB at 129.

If the SRM is triggered in at least one district, we require Cal Water to report on the impact of the SRM on an annual basis via Tier 1 Advice letter summarizing the variance between actual and adopted sales at each triggered district; the location and level of any SRM adjustments and supporting calculations.

4.6. Scoped Issue #6: Whether California Water Service Company Service Has Complied With Prior Commission Orders

This issue addresses whether Cal Water has complied with prior Commission decisions and directives governing reporting, program implementation, and cost-tracking. Cal Water asserts that it has fully and substantively complied with all Commission orders, citing multiple decisions and advice-letter filings that document completion of required conservation, low-income, and cost-tracking measures.¹⁶³ Cal Water contends that any reporting delays or procedural variances were promptly corrected and did not impair substantive compliance with Commission goals.¹⁶⁴

Cal Advocates disagrees, asserting that Cal Water has not demonstrated complete compliance with certain directives, particularly those related to conservation reporting, balancing-account transparency, and project-timeline documentation.¹⁶⁵ Cal Advocates contends that “the Commission cannot reasonably determine compliance where reports are untimely or omit required data” and urges the Commission to require supplemental filings.¹⁶⁶

¹⁶³ Cal Water OB at 109-112; Ex. CWS-45 at 4-9.

¹⁶⁴ Cal Water RB at 85-87; Ex. CWS-46 at 3-4.

¹⁶⁵ Cal Advocates OB at 120-122; Ex. CalPA-18 at 31-33.

¹⁶⁶ Cal Advocates RB at 60-63; Ex. CalPA-19 at 26-28.

NAWC and CWA support Cal Water's position, stating that the company has achieved substantial compliance and that remaining disputes are interpretive rather than substantive.¹⁶⁷

The Commission must determine whether the record demonstrates substantial compliance and whether any remaining procedural issues warrant additional corrective actions.

4.6.1. Partial Settlement

This scoped issue was not addressed in the Partial Settlement Agreement, nor in the Undisputed Issues List. The entirety of this issue was litigated based on the evidentiary record and the parties' briefing. Accordingly, all compliance matters discussed herein are resolved on the merits of the record presented in this proceeding.

4.6.2. Analysis

Under Pub. Util. Code Section 701, the Commission has authority to supervise and regulate public utilities to ensure compliance with law and prior orders. Under Pub. Util. Code Section 2107, the Commission may impose penalties for violations of its rules or orders. In D.19-05-044 (2018 Cal Water GRC) and D.21-11-018 (Conservation Order Compliance), the Commission imposed continuing obligations on Cal Water to file detailed conservation, low-income, and cost-tracking reports, and to maintain transparent documentation of balancing-account activities.

Cal Water asserts that it has "met or exceeded every substantive requirement" of D.19-05-044 and D.21-11-018, as evidenced by its compliance filings and advice letters confirming implementation of required programs.¹⁶⁸ It argues that any late or revised reports were accepted by Commission staff and did

¹⁶⁷ NAWC OB at 87-88; CWA RB at 44-45.

¹⁶⁸ Cal Water OB at 109-112; Ex. CWS-45 at 5-7.

not compromise transparency or ratepayer protections.¹⁶⁹ Cal Water highlights that Commission staff have not issued any deficiency notices or enforcement actions in the relevant compliance periods, supporting a finding of substantial compliance.

Cal Advocates contends that Cal Water has not fully complied with the procedural requirements of D.19-05-044 or D.21-11-018. It points to multiple examples of reports filed beyond established deadlines or lacking data required for verification of program results.¹⁷⁰ Cal Advocates also identifies several balancing-account filings that did not include reconciliations of prior-year balances or clear cost classifications, asserting that “these omissions hinder staff’s ability to confirm accuracy and completeness.”¹⁷¹ It therefore recommends that the Commission direct Cal Water to submit supplemental compliance reports and consider penalties for repeated procedural deficiencies.

Consistent with Cal Advocates’ concerns, the Commission will require supplemental compliance reporting to improve transparency in balancing-account disclosures and project-timeline documentation. This ensures that procedural completeness accompanies substantive compliance going forward.

To that end, the Commission requires that at time of filing its next GRC, Cal Water shall provide: (1) a consolidated “compliance matrix” mapping each directive in D.19-05-044 and D.21-11-018 to the corresponding filings and completion dates; (2) a balancing-account “data dictionary” defining each account, transaction type, and reconciliation step; and (3) a project-timeline log identifying planned versus actual milestone dates and the reason for any deviations.¹⁷²

¹⁶⁹ Cal Water RB at 85-87; Ex. CWS-46 at 4.

¹⁷⁰ Cal Advocates OB at 120-122; Ex. CalPA-18 at 32.

¹⁷¹ Cal Advocates RB at 60-63; Ex. CalPA-19 at 27.

¹⁷² Cal Advocates OB at 120-122; Cal Advocates RB at 60-63; Cal Water OB at 109-112; Cal Water RB at 85-87.

In addition, for any report previously filed late or amended, Cal Water shall include a brief variance explanation stating the cause, corrective action taken, and measures to prevent recurrence.¹⁷³ Finally, to enhance verifiability without imposing undue burden, Cal Water shall include a management attestation signed by an officer responsible for regulatory compliance, confirming that the supplemental submissions are complete and accurate to the best of the officer's knowledge.¹⁷⁴

The evidence weighs toward substantial compliance by Cal Water, with some procedural lapses noted by Cal Advocates. Based on the record, the Commission finds that Cal Water has achieved substantial compliance with prior Commission orders issued under Pub. Util. Code Section 701 and Section 2107. The evidence demonstrates that Cal Water completed the substantive objectives of prior directives — such as conservation reporting, low-income program implementation, and balancing-account management — though some filings were delayed or procedurally incomplete. These lapses do not constitute material noncompliance and caused no demonstrable harm to ratepayers.

In its next GRC, Cal Water shall provide a compliance report as part of its witness-sponsored testimony. The compliance report shall include: (a) comprehensive reconciliations of all balancing-account activities for the relevant reporting period; (b) updated documentation of infrastructure-project timelines, milestones, and any delays; and (c) a description of improvements made to internal compliance-tracking and data-access processes.

No penalties are warranted at this time because the record supports a finding of substantial compliance. However, continued or repeated procedural deficiencies may subject Cal Water to enforcement actions or penalties under Pub. Util. Code

¹⁷³ Cal Advocates RB at 60-63.

¹⁷⁴ Cal Water RB at 85-87.

Section 701 and Section 2107. This resolution reinforces the Commission's expectation that utilities maintain both substantive and procedural compliance with its orders, while recognizing Cal Water's overall record of responsiveness and good-faith corrective action.

4.7. Scoped Issue #7: Whether California Water Service Company's Proposal for the Low Use Water Equity Program Is Just and Reasonable

This issue is discussed in Section 4.5 above as part of a consolidated discussion and analysis with rate design and decoupling.

4.8. Scoped Issue #8: Whether California Water Service Company's Water Rights Leases Comply with Prior Commission Orders

This issue concerns whether Cal Water's water rights leases comply with applicable Commission decisions and directives. This scoped issue was fully addressed in the Undisputed Issues List, which states: "Parties agree there is no dispute over whether Cal Water's water rights leases are in compliance with Commission orders in this proceeding."¹⁷⁵

Cal Water's opening brief confirms that "all existing water rights leases and transfers are performed in accordance with prior Commission approvals and remain in compliance with applicable decisions and accounting requirements."¹⁷⁶ Cal Advocates' filings do not raise any objection or dispute to this issue, and no testimony or exhibits were introduced challenging Cal Water's compliance. Both parties' treatment of this issue as undisputed aligns with the Joint Motion and Undisputed Issues List submitted under Rule 12.1(d).

Based on the parties' stipulations and the absence of any adverse record evidence, the Commission finds that Cal Water's water rights leases are in full

¹⁷⁵ See Appendix Y.

¹⁷⁶ Cal Water OB at 141-142.

compliance with all applicable Commission orders, including prior approvals governing lease terms, accounting treatment, and reporting obligations under Pub. Util. Code Section 851.

Pursuant to Rule 13.9(b), the Commission incorporates the undisputed resolution of this issue into the record. No further action is necessary.

4.9. Scoped Issue #9: Whether California Water Service Company Is In Compliance with California’s Regulatory Requirements for the Provision of Safe and Reliable Water Service, Including but Not Limited to Adequate Emergency Preparedness Plans, the Low-Income Rate Assistance Program, and Any Other Conservation, Accessibility, and Water Equity Safeguards

This issue was addressed through the Motion for Partial Settlement and the accompanying Undisputed Issues List. The record demonstrates that all parties reached full agreement on the matters encompassed by this scoped issue, and no disputed sub-issues remain for adjudication.

4.10. Scoped Issue #10: Whether California Water Service Company’s Water Quality Meets All Applicable Local, State, and Federal Drinking Water Standards and Other Provisions of General Order 103-A

This issue addresses whether Cal Water’s water quality meets applicable requirements under local, state, and federal law, as well as the Commission’s GO 103-A.

All parties generally agree that Cal Water is currently in compliance with applicable drinking-water standards. Cal Water asserts that it maintains a strong compliance record, meets or exceeds all maximum contaminant levels, and invests proactively in treatment facilities and water-quality monitoring infrastructure.¹⁷⁷

¹⁷⁷ Cal Water OB at 135-140; Ex. CWS-45 at 7-9.

Cal Water cites its annual Consumer Confidence Reports, Division of Drinking Water inspection results, and its Water Quality Assurance Program as evidence of ongoing compliance and proactive management. Cal Water also emphasizes that it has installed 35 new monitoring stations, completed voluntary PFAS and manganese sampling across all districts, and upgraded 18 wells since 2023 to meet anticipated standards.¹⁷⁸

Cal Advocates concurs that Cal Water is in basic compliance with GO 103-A and applicable drinking-water standards but recommends additional transparency measures. Cal Advocates raises concerns about the timeliness of certain consumer notifications and emphasizes that the Commission should require forward-looking compliance reporting on contaminants of emerging concern, particularly PFAS, manganese, and hexavalent chromium.¹⁷⁹

Cal Water has implemented a systemwide Emerging Contaminants Task Force, established district-level response protocols, and participates in the SWRCB early-adoption testing program for PFAS.¹⁸⁰ Cal Water reports that 100 percent of its active sources currently meet state and federal standards and that it maintains blending and treatment plans for wells with detectable but below maximum-contaminant-level concentrations.

NAWC supports Cal Water's position, asserting that Cal Water's compliance record exceeds industry norms and that the company maintains one of the most robust water-quality testing programs among Class A water utilities in California.¹⁸¹

¹⁷⁸ Cal Water OB at 137-139.

¹⁷⁹ Cal Advocates OB at 120-125; Ex. CalPA-14 at 20-21; Cal Advocates RB at 60-61; Ex. CalPA-15 at 6.

¹⁸⁰ Cal Water RB at 85-86; Ex. CWS-47 at 3.

¹⁸¹ NAWC OB at 130-132.

CWA similarly supports Cal Water, cautioning that expanding this scoped issue into broader policy oversight could duplicate the jurisdiction of the SWRCB.¹⁸²

4.10.1. Partial Settlement

Portions of this scoped issue were resolved through the Partial Settlement Agreement and the accompanying Undisputed Issues List. The Partial Settlement Agreement stipulates that Cal Water is currently in compliance with all applicable local, state, and federal drinking-water standards, as well as the requirements of GO 103-A. The parties further agree that there are no material deficiencies requiring Commission-imposed remediation. What follows is an analysis of the unsettled portions of this scoped issue.

4.10.2. Analysis

Under Pub. Util. Code Section 451, utility service must be “adequate, efficient, just, and reasonable.” GO 103-A requires Class A and Class B water utilities to meet all applicable state and federal drinking-water standards, maintain monitoring and reporting programs, and take prompt corrective action upon detection of violations. Compliance with state and federal maximum-contaminant-level standards, as incorporated into GO 103-A, is presumptively sufficient to satisfy Pub. Util. Code Section 451 when supported by the evidentiary record.

Cal Water represents that it currently meets all applicable maximum contaminant levels and GO 103-A requirements and that its compliance is verified by annual Division of Drinking Water inspections and its Consumer Confidence Reports.¹⁸³ Cal Water points to its Water Quality Assurance Program and continuing investment in treatment facilities, laboratory testing, and monitoring technology as evidence of sustained compliance.¹⁸⁴ Cal Water further explains that it has

¹⁸² CWA RB at 55-56.

¹⁸³ Cal Water OB at 135-140; Ex. CWS-45 at 7-9.

¹⁸⁴ Cal Water OB at 135-140; Ex. CWS-45 at 8.

undertaken proactive testing and operational responses related to PFAS and other emerging contaminants, including well replacements and blending strategies, and that these steps demonstrate prudent forward planning consistent with GO 103-A's requirements for continuous quality assurance.¹⁸⁵ In addition, Cal Water details district-level source testing and contingency actions (*e.g.*, standby treatment designs and interties) as part of its ongoing risk management, and reports no outstanding Division of Drinking Water enforcement actions during the relevant period.¹⁸⁶

Cal Advocates concurs that Cal Water is presently in compliance but recommends additional transparency measures to ensure continued compliance as new contaminants are regulated. Cal Advocates raises concerns regarding the adequacy of Cal Water's flushing practices.¹⁸⁷ Cal Advocates recommends that the Commission require that Cal Water follow the Division of Drinking Water's (DDW) best management practices on flushing.

The record and the Partial Settlement Agreement establish that Cal Water is presently in compliance with all applicable local, state, and federal drinking-water standards, consistent with GO 103-A. The record, including Cal Water's documented sampling data and SWRCB inspection summaries,¹⁸⁸ contains no evidence of unresolved violations or deficiencies. Additionally, we received the Water Quality Report dated August 2024, prepared by the Commission's Water Division, which indicates that Cal Water has no water quality issues.

The Commission finds that Cal Water's current operations demonstrate full compliance with GO 103-A's substantive requirements for monitoring, reporting, and corrective action, and that the company's proactive measures — such as PFAS

¹⁸⁵ Cal Water RB at 85-86; Ex. CWS-47 at 3.

¹⁸⁶ Cal Water OB at 135-140; Ex. CWS-45 at 7-9.

¹⁸⁷ Cal Advocates OB at 122.

¹⁸⁸ Ex. CWS-45 at 7-9.

testing, blending strategies, and well replacements — exceed the minimum expectations of prudent utility practice.¹⁸⁹ No evidence in this record suggests any ongoing or material violation of state or federal drinking-water standards.

4.11. Scoped Issue #11: Whether California Water Service Company’s Application Supports the Goals and Objectives of the Commission’s Environmental and Social Justice Action Plan

This issue concerns whether Cal Water’s Application supports the goals and objectives of the Commission’s ESJ Action Plan.

Cal Water asserts that its Application advances the ESJ Action Plan by expanding equitable access to safe, reliable, and affordable water service, targeting infrastructure investment in disadvantaged communities (DACs), and integrating climate resilience into its operations.¹⁹⁰ Cal Water emphasizes that more than half of its priority main replacement and water quality projects are located in or adjacent to census tracts identified by CalEnviroScreen as DACs, and that its Customer Assistance Program (CAP) and Arrearage Management Program (AMP) provide customer-assistance mechanisms consistent with Commission policy applicable at the time of filing.¹⁹¹ Cal Water further references community engagement and bilingual outreach efforts — such as targeted notifications, public workshops, and coordination with local governments — as evidence of its alignment with Goal 1 (access to safe and affordable services) and Goal 3 (community participation) of the ESJ Action Plan.

Cal Water’s reply brief further highlights that its district-level affordability programs and outreach initiatives are developed in partnership with local nonprofit organizations and municipalities, including translation of notices into Spanish,

¹⁸⁹ Cal Water RB at 85-86; Ex. CWS-47 at 3.

¹⁹⁰ Cal Water OB at 131-132; Ex. CWS-57 at 2-3.

¹⁹¹ Cal Water OB at 132; Ex. CWS-58 at 5.

Tagalog, and Mandarin, to enhance participation among linguistically isolated households.¹⁹² It asserts that these efforts directly operationalize Goal 3 of the ESJ Action Plan regarding community participation and access to information.

Cal Advocates' brief notes that the Commission should find that approximately 50 percent of Cal Water's capital projects are within ESJ communities as designated by CalEnviroScreen 4.0.¹⁹³

While neither NAWC nor CWA directly litigated this issue in their briefs, both organizations support Cal Water's general efforts to align ratemaking with equity and affordability principles. NAWC states that water utilities inherently advance ESJ outcomes by maintaining universal service obligations, and CWA emphasizes that Commission recognition of DAC-focused investment promotes consistency across Class A water utilities.¹⁹⁴

4.11.1. Partial Settlement

This scoped issue was not addressed in the Partial Settlement Agreement or the Undisputed Issues List. The entirety of this issue was litigated based on the record and the parties' briefs.

4.11.2. Analysis

The Commission's ESJ Action Plan, most recently updated in 2022, outlines 12 goals for incorporating equity and community participation into Commission proceedings. Relevant goals include:

- Goal 1: Ensure access to safe, clean, affordable, and reliable utility services for ESJ communities;
- Goal 3: Improve participation of ESJ communities in CPUC decision-making; and

¹⁹² Cal Water RB at 86-87; Ex. CWS-58 at 5-6.

¹⁹³ Cal Advocates OB at 124.

¹⁹⁴ NAWC RB at 47-48; CWA RB at 56.

- Goal 5: Enhance investment in infrastructure that serves low-income and disadvantaged populations.

Under Pub. Util. Code Section 451, utilities must provide safe and reasonable service at just and reasonable rates, and under Pub. Util. Code Section 321.1, the Commission must consider safety, reliability, and public health in its regulation of utilities. These statutory obligations complement the ESJ Action Plan's goals.

Commission precedent has integrated ESJ considerations into ratemaking. In D.20-08-046 (San Gabriel Valley Water Company GRC), the Commission held that a utility must demonstrate "specific, measurable outcomes" that directly benefit DACs and low-income ratepayers. Likewise, in D.18-08-013 (PG&E Wildfire Safety OIR), the Commission required that utilities demonstrate how their plans advance ESJ principles through data-supported evidence rather than general policy assertions.

More recently, the Commission's 2022 update to the ESJ Action Plan reemphasized that progress reporting must include both qualitative and quantitative data to assess whether utilities' investments reduce disparities in service quality and affordability across ESJ communities. In addition, the Commission adopted D.25-12-044 on December 18, 2025, which establishes a comprehensive, statewide framework for assessing affordability for regulated utilities, including standardized metrics, reporting requirements, and implementation timelines applicable on a prospective basis. Affordability metrics and reporting obligations for water utilities are now governed by that decision.

The record demonstrates that Cal Water's Application includes affordability, infrastructure, and community-outreach elements that are broadly consistent with ESJ goals. Cal Water identifies infrastructure projects in DACs — including the Selma Water Quality Improvement Project, Willows main replacement program, and Dominguez District storage and resiliency upgrades — as examples of targeted

investment in vulnerable areas.¹⁹⁵ In addition, Cal Water maintains that its low-income CAP and AMP programs provide direct affordability relief consistent with ESJ Goal 1, noting that more than 25,000 customers participate across its districts.¹⁹⁶

Cal Water also references partnerships with local governments in DACs to identify critical service gaps, such as unserved mobile-home communities, and states that these collaborations inform its capital project prioritization process.¹⁹⁷ The company indicates that such outreach is integral to ensuring that disadvantaged and linguistically isolated customers can meaningfully participate in Commission proceedings and water-quality consultations.

Cal Advocates does not dispute the existence of these programs but asserts that Cal Water's ESJ claims lack quantifiable metrics to evaluate progress. Cal Advocates further argues that district-level disaggregation of CAP and AMP participation data would allow for better understanding of geographic disparities in affordability outcomes and would strengthen the evidence of ESJ consistency.¹⁹⁸

To avoid duplicative or inconsistent affordability requirements, and consistent with D.25-12-044, the Commission declines to impose separate affordability metrics or ratios in this proceeding. Future affordability-related reporting shall be governed by the requirements adopted in D.25-12-044.

The record supports a finding that Cal Water's Application is generally consistent with the goals and objectives of the Commission's ESJ Action Plan. Cal Water demonstrates clear alignment through its affordability programs, arrearage-management efforts, and targeted infrastructure investments in

¹⁹⁵ Cal Water OB at 131; Ex. CWS-57 at 2-4.

¹⁹⁶ Ex. CWS-58 at 5.

¹⁹⁷ Cal Water RB at 86-87; Ex. CWS-58 at 5-6.

¹⁹⁸ Cal Advocates RB at 61-62.

disadvantaged communities. However, the Commission agrees with Cal Advocates that measurable and verifiable outcomes are required to demonstrate full compliance with the intent of the ESJ Action Plan and D.20-08-046.

Accordingly, the Commission directs Cal Water to include in its next GRC filing a dedicated ESJ Implementation Summary that: (1) provides district-level DAC infrastructure investment data; (2) reports participation levels in customer-assistance programs and outreach initiatives; and (3) describes community engagement efforts undertaken to promote participation by disadvantaged and linguistically isolated customers. Any affordability metrics, ratios, or eligibility analyses included in that summary shall be consistent with, and derived from, the framework adopted in D.25-12-044.

This approach ensures continued integration of ESJ principles into water-utility regulation while promoting transparency and accountability, without imposing affordability requirements that duplicate or conflict with the Commission's statewide affordability framework.

The Commission further encourages Cal Water to collaborate with Cal Advocates and Commission staff to standardize ESJ metrics for Class A water utilities, consistent with the ESJ Action Plan and D.25-12-044, thereby facilitating comparative assessment across future GRCs.

4.12. Scoped Issue #12 and Issues #20-#23

Scoped Issue #12 addresses whether Cal Water's proposed BAMAs are reasonable and in the public interest. This issue also encompasses specific sub-issues and Special Requests analyzed in greater detail below: Scoped Issue #20 (Catastrophic Event Memorandum Account (CEMA)), Scoped Issue #21 (Conservation Expense Balancing Account (CEBA)), Scoped Issue #22 (Liability Insurance Balancing Account (LIBA)), and Scoped Issue #23 (Water Contamination Remediation Memorandum Account (WCRMA)).

Cal Water requests authorization to continue or establish several BAMAs to track volatile or uncontrollable costs that it asserts are beyond management control. These accounts include both existing mechanisms — such as the Conservation Expense, Pension Cost, and Health Cost Balancing Accounts — and new or modified accounts, such as LIBA and WCRMA. Cal Water argues that these accounts are necessary to maintain regulatory consistency, protect ratepayers and shareholders from unforeseen volatility, and comply with Commission policy regarding uncontrollable cost categories.¹⁹⁹

Cal Water emphasizes that continuation of existing accounts such as the Pension Cost Balancing Account (PCBA) and Health Cost Balancing Account (HCBA) has proven effective in prior GRCs, preventing deferred rate-case adjustments and ensuring symmetrical treatment of over- and under-collections.

Cal Advocates opposes several of the proposed accounts, arguing that Cal Water has not demonstrated that all the underlying cost categories are both material and beyond management control. Cal Advocates contends that the proliferation of such accounts — sometimes referred to as “memo creep” — risks duplicating existing ratemaking mechanisms, weakening cost-control incentives, and complicating future regulatory review.²⁰⁰ Cal Advocates argues that where expenses can be forecasted with reasonable accuracy or are already reflected in the adopted revenue requirement, new balancing or memorandum accounts are unnecessary.

NAWC and CWA generally support Cal Water’s positions, citing Commission precedent in D.19-12-057 (California-American Water GRC) and D.20-08-046 (San Gabriel Valley Water Company GRC), which authorize balancing accounts for volatile, externally driven costs. Both organizations emphasize that well-structured

¹⁹⁹ Cal Water OB at 118-126; Ex. CWS-40 at 3-6; Cal Water RB at 78-82; Ex. CWS-42 at 2-4.

²⁰⁰ Cal Advocates OB at 112-119; Cal Advocates RB at 52-57; Ex. CalPA-15 at 10-12.

BAMAs protect ratepayers as much as utilities by avoiding large, deferred cost adjustments at the next rate case.

The Commission's determinations in this section establish the overarching framework for evaluating Cal Water's BAMAs. The detailed adjudication of each individual account — covering authorization, scope, and conditions of operation — is provided in Sections 4.20-4.23 of this decision. Together, these sections implement the Commission's policy that BAMAs must be narrowly tailored, supported by record evidence of volatility or external causation, and operated symmetrically to protect both ratepayers and shareholders.

4.12.1. Partial Settlement

Portions of these issues were resolved through the Partial Settlement Agreement and the Undisputed Issues List. What follows is an analysis of the unsettled portions of this scoped issue.

4.12.2. Scoped Issue #12: Whether California Water Service Company's Proposed Balancing and Memorandum Accounts Are Reasonable and In the Public Interest

Commission precedent in D.02-08-054 and D.09-03-025 establishes that balancing or memorandum accounts are appropriate when:

- Costs or revenues are uncertain and largely beyond the utility's control;
- The event or market condition is unforeseen or extraordinary; and
- Ratepayer protection requires cost tracking prior to the next GRC.

Subsequent decisions — including D.19-12-057 (Cal-Am GRC), D.20-08-046 (San Gabriel GRC) — reaffirm that balancing accounts should be narrowly tailored, supported by clear evidence of volatility, and structured symmetrically to ensure both upward and downward rate adjustments.

The record demonstrates that certain Cal Water accounts — such as the CEMA, CEBA, PCBA, and HCBA — have well-established precedent and continue to provide a reasonable means of managing costs that are externally driven or policy-mandated. Cal Water provides examples of how the CEBA and PCBA have operated over multiple GRC cycles to stabilize customer rates while allowing for symmetrical cost recovery.²⁰¹ These mechanisms protect ratepayers by enabling timely tracking of unforeseen or volatile expenses that would otherwise require deferred recovery through future rate cases.

However, the Commission remains cautious about expanding such mechanisms beyond clearly uncontrollable cost categories. As Cal Advocates correctly observes, duplicative or broadly defined accounts can obscure accountability, create risk of double recovery, and reduce management incentives for cost containment. Cal Advocates points specifically to the proposed LIBA, arguing that insurance premiums are forecastable based on market trend data and therefore do not meet the “external volatility” test.²⁰² Cal Advocates also notes that the WCRMA could duplicate existing CEMA and pollution-control mechanisms unless limited to specific non-rate-base remediation costs.²⁰³

Based on the record, the Commission finds that Cal Water’s proposed BAMAs are reasonable in part. The record supports continuation of established accounts such as the CEMA, CEBA, PCBA, and HCBA. Cal Advocates’ concerns regarding the proliferation of new accounts are well-taken, and proposed accounts lacking sufficient evidentiary support — such as overbroad infrastructure or wildfire-related mechanisms — are denied or modified. Each remaining BAMA is addressed individually in Sections 4.20-4.23 of this decision.

²⁰¹ Cal Water OB at 118-121; Cal Water RB at 78-79.

²⁰² Cal Advocates OB at 110-113; Cal Advocates RB at 50-53.

²⁰³ Cal Advocates OB at 115-118.

This approach ensures regulatory consistency, protects ratepayers from speculative or duplicative recovery, and preserves utility flexibility to manage uncontrollable costs.

**4.12.3. Scoped Issue #20: Special Request #8:
Amortizing Balancing Accounts**

This issue addresses whether Cal Water's Special Request #8 — to amortize the balances in its BAMAs, including the CEMA — is reasonable.

Cal Water requests authority to amortize within 90 days of a final decision the balances in its CEMA, CEBA, PCBA, Healthcare Cost Balancing Account, General District Balancing Account, Asbestos Litigation Memorandum Account (ALMA), Public Safety Power Shut-Off Memorandum Account (PSPS MA), and Drinking Water Fees Balancing Account (DWFBA).²⁰⁴

Cal Water states that its request is procedural and consistent with longstanding Class A practice, allowing timely disposition of reviewed balances through advice letter filings. It argues that CEMA and similar accounts are vital for tracking extraordinary costs outside the company's control and that recovery remains subject to reasonableness review.²⁰⁵

Cal Advocates does not oppose amortization of the CEMA, PSPS MA, or ALMA, but cautions against expanding CEMA's scope or shortening its review intervals. It maintains that CEMA must remain limited to costs directly associated with disaster events declared by competent authorities, consistent with D.09-03-025, and that Cal Water has not demonstrated extraordinary risk requiring departure from standard practice.²⁰⁶ Cal Advocates further argues that accelerated amortization

²⁰⁴ Cal Water OB at 120-126; Ex. CWS-61 at 2-4; Ex. CWS-62 at 5.

²⁰⁵ Cal Water OB at 125-126; Cal Water RB at 73-75; Ex. CWS-63 at 3.

²⁰⁶ Cal Advocates OB at 142-144; Cal Advocates RB at 57-59.

may reduce the transparency and public oversight that the existing framework provides.

Under GO 96-B, amortization of balancing accounts requires a Tier 1 advice letter, whereas amortization of memorandum accounts requires a Tier 3 advice letter. The record shows broad agreement that timely amortization of approved balances reduces carrying costs and promotes regulatory efficiency without compromising ratepayer protections. No party disputes that CEMA, PSPS MA, and ALMA serve legitimate ratemaking functions. However, the record does not support broadening CEMA eligibility beyond disaster-related costs verified through state or federal emergency declarations, nor shortening the interval for review below the standard Tier 3 advice letter timeline.

Commission precedent in D.09-03-025 establishes that CEMA treatment is appropriate only when: (1) the event is declared a disaster by a competent authority; (2) costs are incremental to those authorized in rates; and (3) recorded amounts are subject to subsequent reasonableness review. Cal Water's proposal meets these criteria and aligns with Commission practice permitting amortization within 90 days of a final decision through a Tier 3 advice letter process.²⁰⁷

Cal Advocates' recommendation to maintain current CEMA parameters is persuasive and supported by precedent. While Cal Water's timing proposal is reasonable to avoid unnecessary carrying costs, there is no evidentiary basis to extend CEMA eligibility or to accelerate review beyond standard practice.

The Commission finds Cal Water's Special Request #8 reasonable as it relates to the CEMA, PSPS MA, ALMA, and General District Balancing Accounts. Cal Water may amortize verified balances for balance accounts through Tier 1 advice letter filings and may amortize memorandum accounts through Tier 3 advice letter filings within 90 days of this decision, subject to subsequent reasonableness review. No

²⁰⁷ Cal Water OB at 127; Ex. CWS-64 at 6.

expansion of CEMA eligibility is authorized. All claimed catastrophic event expenditures remain subject to verification under D.09-03-025.

This outcome maintains consistency with Pub. Util. Code Sections 451 and 701, ensuring that balancing-account amortizations remain just, reasonable, and in the public interest.

4.12.4. Scoped Issue #21: Special Request #9: Reauthorizing Balancing Accounts

This issue addresses whether Cal Water's Special Request #9 to reauthorize three existing balancing accounts — the CEBA, PCBA, and HCBA — for the 2026-2028 rate case cycle is reasonable and consistent with Commission policy.

Cal Water contends that these accounts are essential for tracking cost categories that are volatile, policy-driven, or otherwise beyond management's direct control. It argues that reauthorization will promote regulatory consistency, mitigate rate volatility, and ensure continued alignment with Commission precedent governing balancing accounts for uncontrollable expenses.²⁰⁸

For the CEBA, Cal Water explains that this account records Commission-mandated conservation program costs — such as rebates, outreach, and technical assistance — required under state conservation statutes and the Water Action Plan. The company cites D.07-05-062 and D.19-12-057 (California-American Water GRC) as precedent establishing conservation balancing accounts as necessary to promote transparent, predictable, and stable funding for conservation programs that advance statewide policy goals.²⁰⁹

For the PCBA and HCBA, Cal Water maintains that these accounts protect both shareholders and customers from unanticipated cost swings arising from market conditions, investment performance, and health-care inflation. It emphasizes

²⁰⁸ Cal Water OB at 126-129; Ex. CWS-55 at 2-4.

²⁰⁹ Cal Water OB at 128; Ex. CWS-56 at 3.

that the accounts function symmetrically — providing recovery when costs exceed forecasts and refunds when costs are lower than projected — ensuring equitable treatment across rate cycles.²¹⁰ Cal Water further asserts that pension and health benefits are contractual obligations determined by independent actuarial studies and governed by federal law, not discretionary costs. These cost drivers, it contends, meet the Commission’s established criteria for balancing-account treatment because they are significant in magnitude, volatile in timing, and largely outside management’s control.

Cal Advocates does not oppose reauthorization of the CEBA and PCBA but proposes two important limitations. First, Cal Advocates argues that costs associated with the Supplemental Executive Retirement Plan (SERP) are executive-compensation expenses that should not be tracked in the PCBA or recovered from ratepayers. Second, it recommends that any overcollections be promptly refunded to customers each year rather than deferred to the end of the three-year GRC cycle.²¹¹ Cal Advocates also urges stronger annual reporting requirements and a requirement for Tier 1 advice letters documenting account activity, to prevent these balancing accounts from becoming long-term cost-recovery mechanisms without timely Commission review.

NAWC and CWA support Cal Water’s proposal, emphasizing that these balancing accounts are widely used among Class A water utilities and that retaining them promotes consistency, transparency, and balanced risk-sharing between utilities and ratepayers. Both organizations stress that abrupt policy changes could increase regulatory uncertainty and create asymmetrical risk exposure inconsistent with prior Commission decisions.

²¹⁰ Cal Water OB at 128-129; Cal Water RB at 75-77; Ex. CWS-57 at 2-3.

²¹¹ Cal Advocates OB at 144-146; Ex. CalPA-25 at 4-6; Cal Advocates RB at 59-61.

Balancing accounts are an established regulatory tool that promotes equitable risk-sharing between ratepayers and utilities by tracking the difference between authorized and actual costs for categories that are either volatile or subject to external control. Commission precedent — D.08-02-036 (Water Conservation Decision), D.10-12-056 (Golden State Water GRC), and D.19-12-057 (Cal-Am GRC) — establishes that balancing-account treatment is appropriate when the expense category is significant, difficult to forecast accurately, and influenced by market or policy conditions rather than utility discretion.

The CEBA remains a necessary and appropriate ratemaking mechanism for tracking conservation costs mandated under state and Commission policy. The record demonstrates that Cal Water continues to implement extensive water-efficiency programs, rebates, and outreach initiatives in partnership with the California Water Efficiency Partnership and local agencies. These programs vary annually in both cost and participation, driven by external conditions such as drought declarations, new appliance standards, and customer application.²¹²

The Commission further finds that an increased conservation budget of \$13.8 million is reasonable for this GRC cycle, as reflected in Cal Water's modified proposal, where such funding is targeted to districts facing non-compliance with applicable conservation requirements or mandates. This targeted approach ensures that conservation funding is directed to areas of greatest need while maintaining ratepayer protections.

Cal Advocates' suggestion that the CEBA overlaps with WRAM/Modified Cost Balancing Account (MCBA) functions is not supported by the record. The WRAM and MCBA track volumetric sales and purchased-water cost differentials, whereas the CEBA exclusively records programmatic conservation expenditures. Maintaining this separation preserves transparency, ensures proper cost allocation, and is

²¹² Cal Water OB at 128; Cal Water RB at 75-76; Ex. CWS-62 at 7-8.

consistent with D.08-02-036's directive to track conservation costs distinctly from sales-revenue mechanisms.

The Commission clarifies, however, that CEBA entries shall be limited to incremental, Commission-approved conservation programs and shall not include routine marketing or discretionary outreach expenses that are stable and forecastable. Such routine outreach, education, and marketing expenses are predictable and are properly recovered through base rates rather than tracked in the CEBA, because they do not exhibit the volatility or external cost drivers that justify balancing-account treatment.

The CEBA is reauthorized as a one-way balancing account, consistent with party agreement, to allow recovery of incremental, Commission-approved conservation program costs without the risk of over-collection. In its next GRC, Cal Water shall provide a status report on the CEBA by providing this status report as part of its witness-sponsored testimony, and the status report shall include a summary of authorized versus recorded expenditures, requests to amortize over- and under-collections, program-participation metrics, and supporting documentation of costs and conservation outcomes.

The PCBA continues to be justified given the volatility of pension obligations, which depend on market performance and actuarial adjustments beyond the company's control.

Although less disputed, the HCBA serves an analogous function by tracking fluctuations in employer health-care premiums and benefit costs. These costs remain volatile due to inflation, insurance-market conditions, and federal policy changes. Reauthorization of the HCBA maintains parity among Class A utilities and ensures that ratepayers and shareholders share equally in upward or downward cost trends.

Based on the record, the Commission authorizes Cal Water to continue its CEBA, PCBA, and HCBA for the 2026-2028 GRC cycle. The CEBA shall remain limited

to incremental conservation program expenditures consistent with Commission policy and is authorized as a one-way balancing account for this GRC cycle. The PCBA shall exclude SERP costs and continue to reconcile actual versus authorized pension expenses at the close of each GRC cycle. The HCBA shall remain in place to track employer health-care cost volatility.

The CEBA shall operate as a one-way balancing account, while the PCBA and HCBA shall remain subject to reasonableness review and symmetrical treatment of over- and under-collections. This outcome maintains regulatory consistency, transparency, and fairness across Class A water utilities.

4.12.5. Scoped Issue #22: Special Request #10: Request for Liability Insurance Account

This issue addresses whether Cal Water's proposal to establish a LIBA is reasonable. Cal Water requests authorization to create a two-way balancing account to track the difference between forecast and actual liability-insurance expenses, including premiums for general-liability, excess-liability, and umbrella policies.²¹³ Cal Water asserts that liability-insurance costs are volatile and driven primarily by external market conditions, litigation trends, and carrier risk assessments — factors outside management's control.

Cal Water explains that the LIBA would function symmetrically: if actual insurance costs exceed forecast levels, Cal Water may seek recovery through amortization; if costs fall below forecasts, the difference would be refunded to ratepayers. In rebuttal, Cal Water modified its proposal so that only 85 percent of any balance (over- or under-collection) would be amortized as a surcharge or sur-credit, mirroring the approach approved for the HCBA.²¹⁴

²¹³ Cal Water OB at 120-124; Ex. CWS-65 at 2-3.

²¹⁴ Cal Water OB at 122-123; Ex. CWS-66 at 4.

Cal Water cites D.19-12-057 (California-American Water GRC) and D.16-12-026 (San Gabriel Valley Water GRC) as precedent for allowing balancing accounts when expenses are substantial and beyond utility control. According to Cal Water, the volatility of the commercial-insurance market — particularly for wildfire and liability coverage — justifies such protection for both ratepayers and shareholders.²¹⁵

Cal Water further explains that statewide wildfire exposure has produced double-digit premium increases even for utilities with minimal claims history, reflecting reinsurance constraints rather than company performance. It asserts that establishing a LIBA would provide transparency, ensure symmetrical sharing of unexpected cost swings, and prevent rate lag in recognizing unavoidable market shifts.

Cal Advocates opposes the proposed LIBA, arguing that insurance premiums can generally be forecast with reasonable accuracy and that Cal Water has not demonstrated significant historic deviation between authorized and actual costs.²¹⁶ Cal Advocates contends that the proposal would shift normal business risk to ratepayers and weaken incentives for Cal Water to negotiate competitively priced coverage. It also warns that the 85 percent cost-sharing proposal could still require ratepayers to shoulder part of any premium increase resulting from management choices such as deductible levels or coverage limits. Cal Advocates further asserts that existing balancing mechanisms already provide adequate risk mitigation and that a new account could complicate oversight.²¹⁷

NAWC and CWA support Cal Water's request, emphasizing that liability-insurance markets have tightened considerably following catastrophic-loss

²¹⁵ Cal Water OB at 123-125; Ex. CWS-67 at 2-3.

²¹⁶ Cal Advocates OB at 115-118; Ex. CalPA-26 at 6-7.

²¹⁷ Cal Advocates RB at 50-53.

events. They note that premium growth has outpaced inflation and that the LIBA would provide needed regulatory flexibility consistent with other Class A utility mechanisms.

In D.19-12-057 (Cal-Am GRC) and D.16-12-026 (San Gabriel GRC), the Commission approved balancing accounts for cost categories — such as insurance, healthcare, and pensions — whose volatility results from external market or regulatory conditions. Those decisions emphasize the symmetrical nature of such accounts and the requirement for after-the-fact reasonableness review to preserve ratepayer protection.

The record demonstrates that liability-insurance premiums for California water utilities have fluctuated markedly in recent years due to market hardening, wildfire-related risk adjustments, and changes in global reinsurance pricing.²¹⁸ Cal Water provided evidence that its actual premiums have deviated from forecasts by up to 20 percent in some years, largely driven by external factors.

While Cal Advocates argues that insurance costs are predictable, the Commission finds that liability-insurance premiums exhibit substantial volatility and cannot be forecast precisely at the time of a GRC. Utilities must maintain continuous coverage to protect customers and shareholders, and premiums are set by third-party carriers based on industry-wide risk models, not internal decisions. Accordingly, the record supports Cal Water's claim that premium variability is largely exogenous.

The proposed 85 percent amortization structure appropriately balances risk between ratepayers and shareholders. This risk-sharing approach is consistent with that approved for the HCBA in D.19-12-057 and ensures that both parties retain a financial stake in controlling premium volatility while maintaining adequate coverage. By limiting recovery (and refunds) to 85 percent of the balance, the

²¹⁸ Cal Water OB at 121-124; Ex. CWS-66 at 3-4.

mechanism preserves incentives for Cal Water to negotiate cost-effective insurance contracts and to pursue risk-mitigation strategies.

The Commission clarifies that only direct, third-party premium payments may be recorded in the LIBA. Self-insured reserves, deductible losses, and internal risk-management administration costs shall remain part of ordinary O&M and may not be tracked in the account. All entries are subject to reasonableness review before any amortization request.

The record supports creation of a LIBA for the 2026-2028 period, limited to third-party premium expenses for general-liability, excess-liability, and umbrella coverage. The LIBA is justified by external market volatility and aligns with Commission precedent authorizing balancing accounts for uncontrollable cost categories. The 85 percent risk-sharing framework ensures balanced incentives for cost control and symmetrical treatment of over- and under-collections while preserving ratepayer protection through reasonableness review

The 85 percent sharing mechanism balances risk between ratepayers and shareholders and preserves incentives for prudent cost control. In its next GRC, Cal Water shall provide a status report on the LIBA by providing this status report as part of its witness-sponsored testimony, and the status report shall include a summary of recorded entries, year-end balances, requests to amortize over- and under-collections, and explanations for any material deviations between forecast and actual values.

**4.12.6. Scoped Issue #23: Special Request #11:
Request for Water Contamination
Remediation Memo Account**

This issue addresses whether Cal Water's proposal to establish a WCRMA is reasonable and in the public interest. Cal Water seeks authority to consolidate multiple contaminant-specific memorandum accounts into a single, unified account

that would record incremental costs associated with the investigation, remediation, and treatment of water contamination caused by third parties.

Cal Water argues that a consolidated WCRMA would simplify regulatory administration, improve transparency, and reduce the proliferation of multiple single-contaminant accounts.²¹⁹ Cal Water notes that its current portfolio includes separate memorandum accounts for contaminants such as PFAS, 1,2,3-TCP, and chromium-6, each requiring frequent Commission filings and duplicative reporting. It asserts that a single WCRMA would enhance efficiency while retaining Commission oversight through sub-accounting and reasonableness review.

Cal Water maintains that its proposal is consistent with Commission policy and prior authorizations, citing D.19-12-057 (Cal-Am GRC) and D.16-12-026 (San Gabriel Valley GRC), which approved memorandum accounts to track remediation expenses for emerging contaminants. Cal Water emphasizes that the WCRMA would not grant automatic cost recovery but would allow interim recording of extraordinary and unforeseeable contamination-related expenses pending review.²²⁰

Cal Water adds that the WCRMA would provide a consistent framework for documenting cleanup costs mandated by state or federal regulators and for tracking third-party reimbursement litigation. By standardizing accounting across districts, Cal Water argues the mechanism would enhance auditability and reduce regulatory lag without diminishing transparency.

Cal Advocates opposes creation of a single WCRMA, arguing that Cal Water has not demonstrated a specific administrative inefficiency from maintaining contaminant-specific accounts.²²¹ It contends that a broad, umbrella account could

²¹⁹ Cal Water OB at 126-130; Ex. CWS-69 at 2-4.

²²⁰ Cal Water OB at 129-130; Ex. CWS-70 at 3.

²²¹ Cal Advocates OB at 119-122; Ex. CalPA-28 at 5-6.

reduce clarity by pooling unrelated costs and complicating Commission review. Cal Advocates also maintains that remediation activities are a regular part of utility operations and should generally be funded through base rates rather than new memorandum accounts. It warns that consolidation could create an open-ended mechanism lacking clearly defined eligibility criteria and might expand the scope of costs recorded without showing that they are unforeseeable or extraordinary.

Cal Advocates further cites the Commission's repeated concerns about "memo creep" — the gradual expansion of memorandum accounts without clear evidence of new or uncontrollable risks — and argues that Cal Water failed to document any instances where multiple contaminant accounts caused regulatory delay.²²²

Cal Water responds that the WCRMA would not weaken oversight but rather streamline it by establishing a single account with sub-accounts for each contaminant and district. Each sub-account would retain detailed work-order and cost tracking, ensuring that Commission staff can audit individual entries.²²³ Cal Water asserts that this approach is fully consistent with existing practice and does not expand recovery authority without further Commission approval.

In D.19-12-057 (Cal-Am GRC), the Commission approved a contamination-remediation memorandum account limited to specific emerging contaminants (PFAS and 1,2,3-TCP) and conditioned recovery on clear documentation of regulatory or third-party cost drivers. Similarly, D.16-12-026 (San Gabriel GRC) reaffirmed that such accounts are appropriate only where the magnitude, timing, and cause of expenses are unforeseeable and beyond management control.

Cal Water's proposal to consolidate its PFAS, TCP, and other contaminant accounts into a single WCRMA has administrative merit and is supported by the

²²² Cal Advocates RB at 55-57.

²²³ Cal Water RB at 86-88; Ex. CWS-71 at 2.

record as a means to reduce duplicative reporting and improve efficiency while preserving Commission oversight.²²⁴ The record demonstrates that Cal Water has been required to maintain multiple nearly identical memorandum accounts, each requiring individual annual filings and data requests for costs arising from similar remediation activities.

At the same time, Cal Advocates raises valid concerns that consolidation could reduce cost transparency if Cal Water fails to maintain contaminant-specific sub-records. The Commission agrees that a pooled structure without detailed sub-accounting would obscure the nature, magnitude, and causation of individual remediation costs and could hinder audit trails for future reasonableness reviews.

The record supports establishment of a WCRMA to replace multiple contaminant-specific memorandum accounts, subject to strict reporting and sub-accounting requirements.

The WCRMA shall record only incremental, unforeseeable, and externally driven remediation costs related to water contamination caused by third parties or new regulatory mandates. Cal Water must maintain separate sub-accounts for each contaminant and district to ensure transparency and enable future reasonableness review. The memorandum account may be recovered through Cal Water's next GRC. Specifically, in its next GRC, Cal Water shall provide a status report on the WCRMA by providing this status report as part of its witness-sponsored testimony, and the status report shall include a summary of recorded entries, contaminant categories, district locations, requests to amortize under-collections, and the status of any ongoing third-party recovery actions.

²²⁴ Cal Water OB at 126-130; Ex. CWS-69 at 2-3.

**4.13. Scoped Issue #13: Special Request #1:
Enhancing Affordability Through
Consolidation**

This scoped issue addresses Cal Water’s Special Request #1, which proposed to enhance affordability in the Dixon District by removing the existing RSF subsidy embedded in Dixon’s rates and instead addressing affordability through consolidation of Dixon’s revenue requirement with that of the Livermore District. This issue was fully resolved through the Partial Settlement Agreement’s accompanying Undisputed Issues List, and no party identified any remaining dispute for adjudication.

**4.14. Scoped Issue #14: Special Request #2:
Updating the Rate Support Fund**

This scoped issue addresses whether Cal Water’s proposal to update the RSF — including retaining RSF subsidies for the Kern River Valley and Willows Districts, eliminating the Dixon District subsidy, and applying a new annual subsidy for the Selma District — is reasonable. This issue was fully resolved in the Partial Settlement Agreement and its accompanying Undisputed Issues List, which collectively defines the updated RSF structure and methodology.

**4.15. Scoped Issue #15: Special Request #3:
Authorizing Decoupling and Sales
Reconciliation Mechanism**

This issue is discussed in Section 4.5 above as part of a consolidated discussion and analysis with rate design and LUWEP.

**4.16. Scoped Issue #16: Special Request #4:
Authorizing Annual Sales and Services
Forecasts**

This scoped issue concerns whether Special Request #4 is reasonable. Special Request #4 would provide discrete annual sales and services forecasts over the GRC period. The Partial Settlement Agreement does not include a separate provision directly addressing this request; however, the accompanying Undisputed Issues List

confirms that the issue is not contested. Cal Advocates does not oppose Cal Water's proposal to forecast sales and services over the GRC period to reflect expected changes in water use. Both parties' proposed methodologies recognize that water demand will vary across the test and escalation years and that updated annual forecasts improve accuracy in revenue requirement calculations and rate design.

**4.17. Scoped Issue #17: Special Request #5:
Incorporating Subsequent Rate
Changes into Final Rates**

This scoped issue concerns whether Special Request #5 is reasonable. Special Request #5 would incorporate rate changes due to other proceedings or the advice letter process into the calculations of final rates in this proceeding.)

This scoped issue was entirely addressed in the Undisputed Issues List, which provides that final rates implemented pursuant to this decision will reflect both the GRC-authorized rates and any other Commission-approved revenue or rate changes issued through separate proceedings or advice letter processes.

This treatment is routine and consistent with established ratemaking practice. Incorporating subsequent authorized rate changes into the final rates ensures that the utility's total authorized revenue requirement remains current and consistent with the Commission's most recent decisions, while also preventing duplicative or conflicting rate adjustments.

This approach is undisputed, reflects standard ratemaking procedure, and is consistent with the Commission's authority under Pub. Util. Code Sections 451, 454, and 701. Final rates implemented under this decision shall therefore include both: (1) the rates adopted in this GRC; and (2) any other Commission-authorized changes approved through advice letters or other ratemaking proceedings.

**4.18. Scoped Issue #18: Special Request #6:
Updating Escalation Factors for Final Rates**

This scoped issue concerns whether Special Request #6 is reasonable. Special Request #6 asks that Cal Water apply updated escalation factors for expenses and

capital when calculating the final revenue requirement and rates for the decision in this proceeding.

This issue was fully addressed in the Undisputed Issues List, which provides that the Commission should use the escalation factors provided as part of this proceeding. Moreover, the evidentiary record officially closed on January 5, 2026, upon the issuance of the ALJ's Ruling Setting Submission Date. Accordingly, when calculating Cal Water's final revenue requirement and rates, the escalation factors adopted in this decision, and based on the evidence submitted prior to the submission date, shall be applied.

**4.19. Scoped Issue #19: Special Request #7:
Payroll Escalation Based on Union Contract**

This issue concerns whether Cal Water's Special Request #7 — proposing that payroll escalation for escalation- and attrition-year step filings be calculated using the company's actual union-contract annual wage increases — is just and reasonable under Pub. Util. Code Section 451. Cal Water contends that basing payroll escalation on wage adjustments established under its collective bargaining agreement (CBA) more accurately reflects actual labor costs than applying the escalation indices traditionally used in past GRCs. Cal Water further emphasizes that the CBA wage increases are binding contractual obligations and represent known and measurable costs the company must pay during the rate cycle.

The Commission finds that a uniform escalation methodology is warranted in this proceeding. While Cal Water's CBAs establish binding, contractually specified wage increases that represent known and measurable labor costs for the Test Year, escalation and attrition year adjustments must be consistent with the Rate Case Plan, which requires the use of inflation indices rather than utility-specific cost forecasts.

4.19.1. Partial Settlement

This scoped issue was not addressed in the Partial Settlement Agreement or the Undisputed Issues List. The entirety of this issue was litigated through testimony and briefing; therefore, the Commission adjudicates it based on the evidentiary record presented.

4.19.2. Analysis

Under Pub. Util. Code Section 451, utilities are entitled to recover only just and reasonable costs, and the burden rests on the utility to demonstrate that its proposed method produces rates that meet that standard. Escalation methodologies are determined in each GRC based on the record of that proceeding; however, such methodologies must remain consistent with applicable Commission policy, including the Rate Case Plan. In prior Cal Water GRCs, the Commission has used escalation indices prepared by the Water Division as forecasting tools for post-test-year labor costs.

Cal Water argues that the proposal aligns with cost-of-service principles by reflecting contractually binding labor costs the company is obligated to pay under its CBA.²²⁵ It maintains that the CBA was negotiated at arm's length, applies uniformly to represented employees, and specifies wage increases that are known, measurable, and verifiable, and that using CBA wage escalation would remain subject to audit.

The record shows that approximately 68 percent of Cal Water's workforce is covered by CBAs, making CBA-specified wage increases the dominant and most representative driver of forward-year labor cost escalation for the company.²²⁶

Cal Advocates counters that substituting company-specific escalation for the Commission's standardized indices could undermine consistency and comparability

²²⁵ Cal Water OB at 109-112; Cal Water RB at 58-60.

²²⁶ Cal Water RB at 19; Ex. CWS-50 at 166.

among utilities.²²⁷ Cal Advocates does not dispute the validity or binding nature of Cal Water's CBAs but argues that Cal Water has not demonstrated that CBA escalators provide more accurate or reasonable forecasts for forward-year ratemaking in this proceeding. It contends that the Water Division's indices reflect prevailing labor-market and inflation trends, providing a neutral benchmark that prevents cross-utility disparities. Cal Advocates further argues that CBA-based escalation would effectively lock in above-market wage growth without a separate reasonableness showing, contrary to D.19-05-044 (2018 Cal Water GRC) and D.20-08-046 (San Gabriel Valley Water GRC), both of which reaffirm that utilities seeking deviations from standard escalation methods bear a heightened evidentiary burden.

The Commission finds that while Cal Water's CBA-based wage increases are appropriate for establishing Test Year labor costs, Cal Water has not demonstrated that applying those increases to escalation and attrition years is consistent with the Rate Case Plan or results in more reasonable forecasts than the Commission's established inflation-based methodology. Accordingly, escalation and attrition year payroll expenses shall be calculated using the adopted inflation indices.

The Commission grants Cal Water's Special Request #7 in part. Cal Water may use CBA-based wage increases to establish Test Year payroll expenses where supported by the record; however, Cal Water shall calculate escalation and attrition year payroll expenses using the adopted inflation indices, consistent with the Rate Case Plan.

This determination is based on the evidentiary record in this proceeding and ensures that forward-year payroll escalation remains just, reasonable, and consistent with Pub. Util. Code Section 451.

²²⁷ Cal Advocates OB at 94-96; Cal Advocates RB at 40-41.

**4.20. Scoped Issue #20: Special Request #8:
Amortizing Balancing Accounts**

This issue is discussed in Section 4.12 above.

**4.21. Scoped Issue #21: Special Request #9:
Reauthorizing Balancing Accounts**

This issue is discussed in Section 4.12 above.

**4.22. Scoped Issue #22: Special Request #10:
Request for Liability Insurance Account**

This issue is discussed in Section 4.12 above.

**4.23. Scoped Issue #23: Special Request #11:
Request for Water Contamination
Remediation Memo Account**

This issue is discussed in Section 4.12 above.

**4.24. Scoped Issue #24: Special Request #14:
Attrition Year Normalization**

This issue concerns Cal Water's Special Request #14 (Attrition Year Normalization), in which the company seeks authorization to update its practice for applying deferred taxes during the attrition year of the GRC cycle to prevent a normalization violation under federal tax law. The Partial Settlement Agreement fully addressed this request, and this issue is not contested. Accordingly, Cal Water's Special Request #14 (Attrition Year Normalization) is approved as reflected in the Rebuttal Results of Operations Model.

**4.25. Scoped Issue #25: Special Request #15:
Deferred Tax Liability with Current Year
Capital Additions**

This issue concerns Cal Water's Special Request #15 (Deferred Tax Liability with Current-Year Capital Additions), through which the company seeks authorization to modify its practice for prorating deferred-tax liabilities associated with current-year capital additions to ensure full compliance with federal normalization-proration rules under the Internal Revenue Code. The Partial Settlement Agreement fully addressed this request, and this issue is not contested.

Accordingly, Cal Water's Special Request #15 (Deferred Tax Liability with Current-Year Capital Additions) is approved as reflected in the Rebuttal Results of Operations Model.

5. Summary of Public Comment

Rule 1.18 allows any member of the public to submit written comment in any Commission proceeding using the "Public Comment" tab of the online Docket Card for that proceeding on the Commission's website. Rule 1.18(b) requires that relevant written comment submitted in a proceeding be summarized in the final decision issued in that proceeding.

As of the end of October 2025, 72 public comments appear on the Docket Card for A.24-07-003. Most commenters oppose California Water's proposed rate increases, asserting that recent bills have already doubled or tripled despite little or no change in usage. Many San Carlos residents argue that their rates are substantially higher than those in neighboring cities such as Redwood City, Atherton, and Menlo Park, and they object to what they view as inequitable or punitive tier structures that disadvantage families, multi-unit households, and properties with accessory dwelling units. Several commenters cite affordability concerns for seniors, low-income customers, and small businesses, and request greater transparency in Cal Water's public notices and billing practices. A few comments, including from the Hermosa Beach Chamber of Commerce and the NAACP Butte County Branch, support the Application on the grounds that system upgrades and infrastructure investments are necessary to maintain water quality and reliability.

On May 30, 2025, the assigned ALJ issued a ruling requesting additional information from the parties, including responses to certain issues raised in the public comments appearing on the Docket Card. Those party responses are available on the Docket Card. Overall, public sentiment recorded on the docket is

overwhelmingly opposed to the proposed magnitude and structure of the rate increases.

6. Procedural Matters

This decision affirms all rulings made by the ALJ and assigned Commissioner in this proceeding. All motions not ruled on are deemed denied.

7. Comments on Proposed Decision

The proposed decision of ALJ Alberto T. Rosas in this matter was mailed to the parties in accordance with Pub. Util. Code Section 311 and comments were allowed under Rule 14.3. Per an ALJ ruling, the deadline for reply comments was extended. Comments were filed on April 2, 2026, and reply comments were filed on April 13, 2026, by Cal Water, Cal Advocates, NAWC, and CWA.

Cal Water generally supports the proposed decision forward-looking, evidence-based framework but requests targeted modifications that it believes will better reflect operational realities and cost recovery principles. Cal Water believes that the proposed decision in several areas adopts overly restrictive or inconsistent standards, particularly with respect to capital project treatment, AMI deployment, labor escalation, and conservation funding. It suggests greater flexibility in recovering capital costs through advice letter processes, clarification of cost caps and project categorizations, and the use of AFUDC at the authorized rate of return. Cal Water still advocates for approval of its AMI proposal and increased conservation funding targeted to compliance needs. In general, Cal Water's comments emphasize what it believes would be better alignment with cost-of-service principles, administrative efficiency, and consistency with prior Commission precedent.

Cal Advocates generally supports the proposed decision's efforts to constrain unsupported cost increases but believes the proposed decision departs from established Commission policies or lacks sufficient evidentiary support. Cal Advocates objects to the use of utility-specific escalation methods, including Cal

Water's proposal to apply collective bargaining agreement-based wage increases to escalation years, arguing that these approaches are inconsistent with the Rate Case Plan. It also challenges the inclusion of contingency allowances and certain capital expenditures as insufficiently supported by the record. Cal Advocates believes the decision should use standardized methodologies, rely on what it believes are the historical ratemaking trends, and, where appropriate, limiting recovery to costs that are clearly demonstrated to be reasonable and necessary. Based on the record of this proceeding we have made various changes based on these comments.

CWA, representing smaller and mid-sized water utilities, raises broader policy concerns regarding the implications of the proposed decision beyond this proceeding. CWA cautions against adopting overly rigid or prescriptive standards that could limit utility flexibility or create unintended precedent for future general rate cases. Its comments focus on ensuring that the proposed decision does not establish policies that would unduly constrain capital investment, cost recovery mechanisms, or operational decision-making across the industry. CWA generally urges the Commission to clarify that determinations in this proceeding are based on the specific record and should not be interpreted as broadly applicable policy changes. We agree and emphasize that the outcomes adopted herein are applicable only to Cal Water based on the record for this proceeding.

NAWC similarly focuses on broader regulatory and policy implications, emphasizing the importance of maintaining stable and predictable ratemaking frameworks. NAWC expresses concern that certain aspects of the proposed decision could introduce uncertainty or discourage infrastructure investment if applied more broadly. NAWC advocates for clear articulation that the proposed decision's determinations are grounded in the specific evidentiary record and should not be construed as establishing new Commission-wide standards absent a more comprehensive policy proceeding. We agree that this decision is not a policy-changing decision applicable beyond this proceeding.

In response to party comments, we have made several targeted revisions to the proposed decision to improve clarity, ensure consistency with established policy, and better align outcomes with the evidentiary record. Most notably, the Commission revises its treatment of labor escalation to limit the use of collective bargaining agreement-based wage increases to the Test Year, with escalation and attrition years calculated using inflation indices consistent with the Rate Case Plan. The Commission also removes the proposed 10 percent contingency cap and now excludes contingency allowances from the rate base due to insufficient record support. With respect to capital project treatment, the Commission clarifies compliance and advice letter processes, including the use of Tier 1, Tier 2, and Tier 3 advice letters in appropriate circumstances, and refines language regarding project categorization and budgeted costs. The Commission further revises its treatment of conservation funding by increasing the authorized budget, reauthorizing the Conservation Expense Balancing Account as a one-way mechanism, and clarifying eligible expenditures. In addition, the Commission adopts AFUDC at the authorized rate of return for construction work in progress, consistent with prior decisions. These revisions collectively enhance the internal consistency of the proposed decision, respond to stakeholder concerns, and ensure that the adopted outcomes remain just, reasonable, and supported by the record.

The revised decision authorizes Cal Water to recover \$2,037,650 of capital costs in 2026 (50% of \$4,482,831) and \$15,413,917 in capital costs in 2027 (50% of \$32,721,122) in rates. The revised decision makes it clear that Cal Water may request the remaining 50 percent in its next GRC. Cal Water is also authorized to recover \$1,893,288 for necessary meter replacements for those districts which are not in the AMI program.

Finally, in the proposed decision, the revenue requirement increase was overstated at 11.1 percent due to modeling errors; the correct figure should have been 10.8 percent. The revised decision, even with an additional revenue

requirement, reflects a corrected increase of 10.9 percent. The prior modeling errors account for the apparent rate decrease notwithstanding the additional revenue requirement.

8. Assignment of Proceeding

Matthew Baker is the assigned Commissioner and Alberto T. Rosas is the assigned ALJ in this proceeding.

Findings of Fact

General Findings

1. On August 4, 2025, Cal Water, Cal Advocates, NAWC, and CWA filed a Motion for Partial Settlement, which included an accompanying Undisputed Issues List.

2. The Partial Settlement Agreement and Undisputed Issues List reasonably resolves many of the material issues within the scope of this proceeding, including rate base, revenue requirement, rate design, accounting procedures, BAMAs, and several special requests; and they incorporate methodologies reflected in Cal Water's RO Model, which form the basis for the TY and EY revenue requirements.

Scoped Issue #1 — Overview of Requested Rate Increases

3. The evidentiary record supports moderate rate increases that are sufficient to fund essential infrastructure and compliance obligations while balancing affordability concerns.

4. As to the Commission's reliance on the two monthly memorandums prepared by Cal Advocates per the Commission's Water Rate Case Plan, D. 07-05-062, the use of current Commission labor and non-labor escalation memo factors on the adjusted test-year O&M and A&G expense levels, combined with the capital additions and IDC rate adopted in Scoped Issue #3, yields lower revenue requirements providing sufficient revenues to support safe and reliable service.

5. Production-related costs that are tracked in balancing accounts or recovered through purveyor tariffs are more accurately recovered when modeled using the

adopted balancing-account and tariff mechanisms, rather than by applying generic O&M escalation factors to forecast unit prices.

Scoped Issue #2 — O&M and A&G Expenses

6. Cal Water's O&M and A&G forecasts were developed using internal budgeting processes and incorporate inflation, labor cost escalators, and regulatory compliance requirements, supported in part by external actuarial analyses.

7. Historical averages provide a useful benchmark for evaluating expense forecasts, but they do not alone reflect current operating conditions.

8. The record supports adopting Cal Water's forward-looking forecasts, with adjustments to O&M and A&G categories (where escalations above inflation or historical norms are not justified).

9. The record supports adoption of the M.Cubed Unrestricted sales forecast for the TY and both EYs, and that Escalation-Year sales forecasts should reflect changes in water use over time rather than simply repeating the TY forecast.

10. Cal Water's actuarial forecasts for pension and healthcare costs reflect prudently incurred and reasonable expenses, supported by external analyses and industry-standard actuarial methods.

11. The evidentiary record establishes that the appropriate Test Year O&M and A&G expense levels vary by category, and that a category-specific approach is necessary to determine reasonable expense forecasts for the disputed sub-issues under Scoped Issue #2, as reflected in the adopted amounts summarized in Table 2.

Scoped Issue #3 — Plant Additions

12. Cal Water's capital forecasts include treatment-plant expansions, distribution system replacements, AMI deployment, and facility improvements.

13. Cal Water provided credible documentation for projects tied to regulatory mandates and safety standards, and the record supports implementation of AMI in five ratemaking areas, subject to performance-based standards and staged cost recovery tied to infrastructure that is installed and used and useful.

14. Several projects are premature, lack sufficient documentation, or exceed Cal Water's demonstrated construction capacity; Table 4 lists those projects (PIDs) that are either adopted, adopted with modification, deferred, or denied.

15. The district-level documentation in Ex. CWS-03 (Att. E-G), Ex. CWS-27 through Ex. CWS-50 and Ex. CalAdv-07 identifies, for each proposed capital project, whether the record contains engineering reports, regulatory citations, cost estimates, construction schedules, or other documentation sufficient to support inclusion in rate base.

16. Projects included in Cal Water's forecast that lack updated construction-readiness evidence or that remain unbuilt and deferred from prior GRC cycles are not adequately supported for inclusion in rate base at this time. Deferred projects completed within the previously authorized scope can be included in rates, up to the authorized budget cap, via a Tier 2 Advice Letter.

17. The Commission's determinations regarding Common Plant programs and district-level plant projects, including approvals, modifications, deferrals, and denials, are set forth in Table 2 and Table 3 and are intended to govern ratemaking treatment of those projects for purposes of the RO Model and Appendices A through X.

18. Contingency allowances may be used as a project management tool to address uncertainties in capital forecasting; however, the record in this proceeding does not demonstrate that the proposed contingency amounts are supported by sufficiently specific, project-level evidence or tied to identifiable and measurable cost drivers to warrant inclusion in rates.

Scoped Issue #4 — Revenue Requirement and Return

19. An adjusted revenue requirement that incorporates adopted O&M expenses, adopted plant additions, and escalation applied to adopted TY values enables Cal Water to provide safe and reliable service at just and reasonable rates.

20. Administration and Research activities support planning, coordination, and compliance functions associated with Commission-authorized conservation programs.

21. During the 2020-2022 period, Cal Water utilized approximately 68.65 percent of previously authorized Administration and Research conservation funding.

22. The record does not demonstrate that Cal Water's proposed increase in Administration and Research conservation funding, including funding for new full-time equivalent positions, is supported by demonstrated need or expected utilization beyond historical levels.

23. The Commission's Uniform System of Accounts for Class A water utilities includes both interest on borrowed funds and a reasonable return on utility equity funds as a component of construction cost. Allowance for Funds Used During Construction (AFUDC) compensates a utility for the financing costs it incurs during construction of new facilities.

Scoped Issue #5, #7 & #15 — Rate Design, LUWEP & Decoupling

24. Cal Water's proposed decoupling Option 1 (LUWEP rate design) would have steeper tier multipliers (difference between tiers) and higher breakpoints compared to the current M-WRAM rate design.

25. There is no supporting evidence that a steeper tier will lower bills for low-use customers if there are decoupling surcharges later.

26. Cal Water implemented its current M-WRAM, with a four-tiered conservation rate design in most districts, in 2024.

27. The current M-WRAM was implemented specifically to provide a strong conservation signal.

28. Cal Water has demonstrated that 66 percent of its revenue requirement consists of fixed costs; and that increasing the fixed costs in the service charge by 5 percent to recover 55 to 65 percent of those fixed costs would result in a higher

percent of the total revenue requirement being collected through fixed meter charges.

29. The record does not demonstrate that Option 1 will produce superior conservation or lower overall customer bill outcomes compared to Option 2.

30. Cal Water failed to meet its burden to show that Option 1 decoupling reduces shareholder risk and lowers the cost of capital, or has no statistically significant cost-of-capital effect.

31. Cal Advocates opposes decoupling, asserting Cal Water's conservation and affordability benefits are unsubstantiated and that it shifts sales forecast risk from shareholders to ratepayers.

32. Cal Water's current rate design has a uniform Tier 1 breakpoint of 6 CCF for all districts.

33. Cal Water does not use household size and income data and excludes multifamily housing.

34. Cal Advocates' proposal on setting tier breakpoints uses U.S. Census household size data.

35. Cal Water's one-way SRM proposal includes adjusting future sales forecasts by 50 percent of the recorded variance when actual sales vary by more than five percent from adopted sales forecasts. Cal Water suggests: (a) applying the larger of the SRM variance or forecasted change when forecasts exceed the SRM threshold; and (b) operating SRM as a one-way mechanism triggered only when sales fall below forecast.

36. A two-way SRM that adjusts forecasts when sales are more than five percent above or below adopted sales forecasts functions better as a forecast-correction tool than a one-way mechanism that only protects against downward sales and not increased sales as well.

37. If SRM adjustments occur, annual reporting via Tier 1 advice letter on recorded versus adopted sales, SRM adjustments by district, and supporting calculations is necessary for transparency and oversight.

Scoped Issue #6 & #10 — Regulatory and Water-Quality Compliance

38. Cal Water's compliance filings demonstrate substantial completion of required conservation reporting and Commission required actions.

39. Cal Water is in compliance with all applicable state and federal drinking-water standards and with GO 103-A and has undertaken proactive testing and operational responses to contaminants of emerging concern, including PFAS, consistent with prudent utility practice.

Scoped Issue #9 & #13-#14 — Regional Consolidation and RSF

40. The Partial Settlement Agreement consolidates the Dixon and Livermore Districts into a new Diablo Ranch Region for ratemaking purposes; this consolidation provides gradual subsidy reductions over time, mitigating bill impacts and promotes long-term affordability.

41. The Partial Settlement Agreement updates the RSF to implement a three-tier discount structure in the Kern Valley District and apply offsets to the Willows and Selma Districts.

42. The updated RSF structure provides a balanced approach to affordability, regional equity, and rate stability for economically disadvantaged communities.

Scoped Issue #11 — ESJ Considerations

43. The Commission's ESJ Action Plan promotes equitable access to safe, clean, and affordable water service and encourages measurable outcomes benefiting disadvantaged communities.

44. Cal Water's Application demonstrates alignment with ESJ principles through customer-assistance, bilingual outreach, and targeted infrastructure projects but lacks measurable performance metrics.

Scoped Issue #12 & #20-23 — Balancing and Memorandum Accounts

45. Commission precedent authorizes BAMAs to track costs that are volatile or outside management control only when costs are substantially uncertain, largely outside management control, and tracking serves a demonstrable ratepayer benefit. Long-standing accounts such as CEMA, CEBA, PCBA, and HCBA meet these criteria and are supported by the record.

46. CEBA does not duplicate the functions of WRAM or MCBA, and amortizing CEBA balances at the end of the three-year tracking period avoids unnecessary rate volatility.

47. Routine conservation outreach, education, and marketing expenses are stable, predictable, and reasonably forecastable.

48. The record supports timely amortization of verified balances in existing accounts through Tier 1 and 3 advice letter filings, subject to reasonableness review. The record further supports that Cal Water should provide CEBA, LIBA, and WCRMA status reports, as part of its witness-sponsored testimony in its next GRC.

49. Cal Water demonstrated that liability-insurance costs have fluctuated due to external market conditions; establishing LIBA with an 85-percent sharing mechanism appropriately allocates risk.

50. Consolidating contamination-related memorandum accounts into a single WCRMA with contaminant-specific sub-accounts improves administrative efficiency while maintaining transparency and oversight.

51. A balanced approach that approves proven mechanisms, adopts new accounts where adequately supported, and denies or modifies duplicative proposals provides just and reasonable outcomes consistent with Commission policy.

52. Cal Water timely sought and was granted authority to file a tariff to implement interim rates, effective on the first day of the Test Year, and to establish a memorandum account to track the difference between the interim rates and final rates. The first day of the Test Year for this proceeding was January 1, 2026.

Scoped Issues #16-#19 — Forecasting and Escalation

53. Annual sales and services forecasts better reflect changing water-use patterns over the GRC cycle, and applying the escalation factors adopted in this proceeding — based on the record and the utility’s supported forecasts — ensures that the revenue requirement reflects prevailing cost conditions.

54. Cal Water’s CBAs establish binding and measurable wage increases that represent known and non discretionary labor costs for the Test Year; however, the Rate Case Plan requires that escalation and attrition year labor cost forecasts be based on adopted inflation indices rather than utility-specific cost projections.

Scoped Issues #24 -25 — Tax Normalization Adjustments

55. Cal Water requests authorization to update deferred tax treatments and proration methods to prevent normalization violations under federal tax law; this proposed adjustments maintain compliance with federal requirements, ensure revenue neutrality, and align with Commission ratemaking practices.

56. The proposed tax-related treatments are procedural in nature, have no material rate impact, and are reasonable in light of the record.

Conclusions of Law

General Conclusions

1. Cal Water’s revenue requirements and rate increases are, as set forth in this decision, just and reasonable.

2. Under Pub. Util. Code Section 451, all utility rates, charges, and practices must be just and reasonable.

3. Under Pub. Util. Code Section 454(a), a utility must obtain Commission authorization before changing any rate and bears the burden of proving that the change is justified.

4. The Commission applies a preponderance-of-the-evidence standard to proposed revenue requirements, rate changes, plant additions, ratemaking mechanisms, and accounts.

5. Under Pub. Util. Code Section 701, the Commission has broad authority to regulate public utilities, require compliance filings, and adopt ratemaking mechanisms in the public interest.

6. The Commission may rely on recorded historical data, objective benchmarks, and inflation indices to assess the reasonableness of forecasts and variances.

7. The Commission requires that capital projects included in rate base be supported by evidence of need and cost reasonableness and projects lacking adequate documentation be deferred or denied.

8. BAMAs are authorized only when costs are material, largely outside utility control, and narrowly defined; they must remain subject to reasonableness review prior to recovery or refund.

9. The Commission may require forward-looking plans or reports where necessary to ensure continued adequacy, safety, reliability, affordability, or compliance.

10. The Commission may require forward-looking plans or reports where necessary to expedite and improve subsequent ratesetting proceedings.

Conclusions Related to the Partial Settlement Agreement

11. The Partial Settlement Agreement is supported by the record, satisfies Rule 12.1(d), is reasonable in light of the whole record and in the public interest, and its adoption avoids further litigation, conserves administrative resources, and facilitates efficient implementation of adopted rates.

12. Each of the issues resolved in the Partial Settlement Agreement is supported by evidence in the record.

13. The Partial Settlement Agreement is consistent with applicable law, including Pub. Util. Code Section 451, Section 454, and Section 701, and relevant Commission decisions and policies governing just and reasonable rates, prudent cost recovery, conservation, affordability, and compliance; and, therefore, the Commission should approve it.

14. The Partial Settlement Agreement is in the public interest because it advances safe and reliable service at just and reasonable rates, enhances administrative efficiency, reduces litigation costs and uncertainty, and provides a transparent and implementable framework for ratemaking and compliance.

15. The process by which the Partial Settlement Agreement was developed complied with Rule 12.1(b), and adoption of the agreement is binding on all parties to this proceeding.

16. Consistent with Rule 12.5, the adoption of a settlement does not constitute approval of, or precedent regarding, any principal or issue in the proceeding or in a future proceeding.

17. The Partial Settlement Agreement should be adopted.

Scoped Issue #1 — Overall Revenue Requirement Framework

18. The Partial Settlement Agreement resolving general office expenses, depreciation, property taxes, and overhead allocations is reasonable, consistent with law, and in the public interest, and should be approved.

19. Adjustments adopted in this decision are necessary to yield just and reasonable rate increases that balance ratepayer protection with investment in safe and reliable service.

20. It is reasonable and consistent with the Rate Case Plan and prior Commission practice to calculate escalation-year O&M and A&G expenses using the most recent Commission labor and non-labor escalation memo factors, applied to the adjusted test-year expense levels adopted in this decision.

21. It is reasonable and consistent with cost-causation and prior Commission decisions to recover production-related costs that are subject to balancing-account treatment or purveyor tariffs through those mechanisms, rather than by applying generic O&M escalation factors to those costs.

Scoped Issue #2 — O&M and A&G

22. It is reasonable to evaluate Cal Water's O&M and A&G forecasts using historical averages as a benchmark, but not as a prescriptive methodology; the Commission may adopt Cal Water's forward-looking forecasts where supported by specific evidence and apply targeted adjustments only where the company has not sufficiently justified increases above inflation or historical trends.

23. It is reasonable and consistent with Pub. Util. Code Section 451 and Section 454 to: (a) adopt the M.Cubed Unrestricted sales forecast for the TY and EYs and use that forecast to derive production-related O&M; (b) rely on tariff-based wholesale unit costs for purchased water; (c) adopt Cal Advocates' five-year historical unit-rate proposals for purchased power and chemical expenses; and (d) adopt the lower of competing forecasts for non-settled O&M and A&G accounts where Cal Water's forecast exceeds 110 percent of the five-year inflation-adjusted historical average without adequate evidentiary support for the higher level.

24. It is reasonable and consistent with Pub. Util. Code Section 451 and Section 454 to adopt the Test Year O&M and A&G expense levels for the disputed sub-issues under Scoped Issue #2 as determined on a category-specific basis and summarized in Table 2, reflecting the Commission's evaluation of historical data, inflation-adjusted benchmarks, documented cost drivers, and the parties' competing proposals.

25. For production-related O&M expenses, it is reasonable and consistent with Commission precedent to: (a) adopt the M.Cubed Unrestricted sales forecast for the TY and EYs; (b) compute purchased-water expense using tariff-based wholesale unit costs applied to that sales forecast; (c) compute purchased-power and chemical expenses using Cal Advocates' adopted five-year historical unit-rate proposals applied to the same sales forecast; and (d) apply these methodologies in lieu of unsupported higher unit-cost assumptions.

26. It is reasonable and consistent with Pub. Util. Code Section 451 and Section 454 to exclude from Test Year O&M and A&G recovery any costs attributable to district-level or common-plant capital projects that are denied, deferred, or not adopted for cost recovery in this decision.

Scoped Issue #3 — Plant Additions and Capital Projects

27. It is reasonable to approve Cal Water's proposed treatment-plant expansions and other regulatory compliance projects which are supported by documented engineering need and cost evidence.

28. It is reasonable to defer or deny certain plant additions that are lacking sufficient documentation, including discretionary office expansions.

29. It is reasonable to authorize recovery of 50 percent of the 2026 and 2027 AMI system deployment costs through rates; and it is also reasonable to require the remaining 50 percent be recorded in a new 2026-2027 AMI Implementation Memorandum Account for recovery in the next GRC, subject to the AMI system being successfully completed and performing its intended functions.

30. It is reasonable to authorize recovery of \$1,893,288 for necessary meter replacements for the remaining districts, which are not in the AMI program.

31. It is reasonable to categorize each capital project based on the evidentiary support, and to include in rate base only those projects for which the evidentiary record demonstrates engineering need, regulatory justification, reasonable cost estimates, and construction readiness, or, for projects such as AMI deployment, to allow staged cost recovery either through the advice letter process as infrastructure becomes used and useful, or for AMI in the next GRC through a memorandum account.

32. It is reasonable to deny without prejudice Cal Water's request to include unbuilt, previously authorized deferred capital projects, while allowing Cal Water the opportunity to seek approval to add a deferred project into rates via a Tier 2 advice letter, up to the budgeted cap, if it is consistent with the proposed scope.

33. It is reasonable to implement the Commission's determinations regarding Common Plant programs and district-level plant projects, as summarized in Table 2 and Table 3, as the controlling ratemaking instructions for purposes of the RO Model and Appendices A through X.

34. It is unreasonable to authorize insufficiently justified contingency allowances for Cal Water's forecasted capital budgets. This determination does not preclude Cal Water from seeking recovery of reasonable, documented cost increases in a future proceeding or through the advice letter process.

Scoped Issue #4 — Overall Revenue Requirement Components

35. Escalation-year increases should be limited to credible estimates of inflation indices and regulatory cost drivers and applied only to Commission-adopted TY cost levels to ensure rates remain just and reasonable.

36. It is reasonable to authorize Administration and Research conservation expenses that are supported by record evidence and demonstrated historical utilization.

37. Cal Water's conservation and water-efficiency programs have demonstrated cost-effectiveness, avoided duplication, and produce measurable outcomes.

38. Where the record does not support full approval of a proposed increase in Administration and Research conservation funding, it is reasonable to limit recovery of those expenses to a level reflecting demonstrated historical utilization.

39. It is reasonable to apply AFUDC rather than IDC to construction work in progress, and to set the AFUDC rate equal to Cal Water's authorized rate of return, consistent with Commission precedent, including D.20-12-007 and D.24-03-042, as this approach reasonably reflects the cost of capital incurred during construction and ensures consistency with established ratemaking principles.

Scoped Issue #5, #7 & #15 — Rate Design, LUWEP & Decoupling

40. It is reasonable to adopt a modified Option 2, which includes modifications to the existing four-tiered rate design, including a flatter tier differential for Tier 4 and

an increase of 5 percent in fixed costs recovery in the fixed charge, to promote revenue and rate stability and maintain a conservation signal until the impacts of a four-tier conservation rate design are better understood.

41. It is reasonable to adopt a two-way SRM that adjusts adopted sales forecasts in EYs when recorded sales deviate by more than five percent (up or down), applying an adjustment of 50 percent of the variance.

42. It is reasonable to require an annual SRM reporting through a Tier 1 advice letter, if the SRM is triggered, to ensure transparency, enable staff review, and maintain oversight of district-level sales variances and rate impacts.

Scoped Issue #6 — Compliance and Reporting

43. Cal Water has achieved substantial compliance with prior Commission orders.

44. It is reasonable to require that Cal Water, in its next GRC, provide a compliance report as part of its witness-sponsored testimony, which includes: (a) comprehensive reconciliations of all balancing-account activities for the relevant reporting period; (b) updated documentation of infrastructure-project timelines, milestones, and any delays; and (c) a description of improvements made to internal compliance-tracking and data-access processes.

Scoped Issue #8 — Water Rights Leases

45. Cal Water's water rights leases comply with applicable Commission orders.

Scoped Issue #9 — RSF/Compliance Matters

46. Agreed modifications to the RSF methodology, district offsets, and surcharge updates are consistent with applicable law and Commission policy.

47. Cal Water's compliance with AB 1650 and the American Water Infrastructure Act of 2018 meets applicable requirements.

Scoped Issue #10 — Drinking-Water Standards; PFAS/Emerging Contaminants Plan

48. Cal Water's current compliance with applicable drinking-water standards and GO 103-A constitutes adequate and safe service.

Scoped Issue #11 — ESJ

49. Cal Water is in compliance with the Commission's current ESJ policy and has measurable and verifiable outcomes that reflect tangible benefits for disadvantaged and low-income communities.

50. Cal Water's current programs (CAP, targeted DAC infrastructure) are consistent with ESJ principles, independent of the prospective affordability framework adopted in D.25-12-044.

51. It is reasonable to require Cal Water to include, in its next GRC, an ESJ Implementation Summary that meets ESJ requirements to show measurable and verifiable benefits; and, similarly, it is reasonable to require that such an ESJ Implementation Summary include reports of district-level DAC infrastructure investments, participation rates in customer-assistance and arrearage-management programs, and community-engagement activities, with any affordability metrics and reporting governed prospectively by D.25-12-044.

Scoped Issue #12 — Balancing and Memorandum Accounts

52. It is reasonable to reauthorize established balancing and memorandum accounts including CEMA, CEBA, PCBA, and HCBA.

Scoped Issue #17 — Consistency with Other Proceedings

53. Incorporating Commission-approved rate changes from other proceedings or advice letters into final rates adopted here is reasonable and within Commission authority.

Scoped Issue #18 — Updated Escalation Factors

54. Using the escalation factors adopted in this proceeding, as supported by the evidentiary record and consistent with Pub. Util. Code requirements for just and reasonable rates, is reasonable for calculating the final revenue requirement and rates.

Scoped Issue #19 — Labor Escalators

55. It is reasonable to calculate Test Year payroll expenses using the binding contractual wage increases specified in Cal Water's CBAs because those increases represent known, measurable, and non-discretionary labor costs. It is further reasonable to calculate escalation and attrition year labor expenses using the adopted inflation indices, consistent with the Rate Case Plan.

Scoped Issue #20 — Amortization of Existing Accounts

56. Recovery of CEMA costs is authorized only for incremental expenditures associated with declared disasters and remains subject to reasonableness review.

57. General Order 96-B requires Tier 1 advice letters for amortization of memorandum accounts and Tier 3 advice letters for amortization of balancing accounts. Cal Water's proposed amortization of verified balances in CEMA, PSPS MA, ALMA, and DWFBA through Tier 3 advice letters, and the PCBA, HCBA, and General District Balancing Account through Tier 1 advice letters, within 90 days of a final decision is reasonable and in the public interest.

Scoped Issue #21 — CEBA Reauthorization

58. Limiting the CEBA to incremental, externally mandated conservation program expenditures is reasonable.

59. Reauthorizing CEBA for 2026-2028 with clarified scope and reporting requirements is just, reasonable, and in the public interest.

60. It is reasonable to exclude routine, predictable conservation outreach, education, and marketing expenses from the CEBA because such costs are forecastable and should be recovered through base rates rather than through balancing-account treatment; and it is also reasonable to require Cal Water to provide a CEBA status report as part of its witness-sponsored testimony in its next GRC.

Scoped Issue #22 — LIBA

61. Establishing the LIBA is reasonable where costs are largely outside utility control and materially uncertain.

62. It is reasonable to require that the LIBA will record only third-party liability insurance premium expenses and exclude internal administrative or self-insured reserve costs.

63. It is reasonable to require that the LIBA operate symmetrically, with both under- and over-collections amortized at 85 percent of the recorded balance; and it is also reasonable to require Cal Water to provide a LIBA status report as part of its witness-sponsored testimony in its next GRC. Authorizing the LIBA under these conditions is in the public interest.

Scoped Issue #23 — WCRMA

64. Establishing the WCRMA is reasonable for unforeseen, externally driven contamination-remediation costs; and it is also reasonable to require Cal Water to provide a WCRMA status report as part of its witness-sponsored testimony in its next GRC.

65. The WCRMA is limited to incremental costs for investigation, cleanup, treatment, and third-party recovery efforts and does not itself authorize recovery absent a subsequent filing and review.

66. Requiring sub-accounts by contaminant and district preserves transparency and proper cost allocation and protects ratepayers.

67. The Commission should approve the WCRMA when it is determined, upon review, that such incremental costs were unforeseen, externally driven contamination-remediation costs.

Additional Conclusions of Law

68. A.24-07-003 should be closed.

O R D E R

IT IS ORDERED that:

General Orders

1. California Water Service Company is granted \$923,651,400 (a rate increase of \$90,503,500 or 10.9 percent) in total revenue requirement for Test Year 2026 in this General Rate Case and \$966,839,000 (a rate increase of \$43,187,600 or 4.7 percent) and \$1,015,749,250 (a rate increase of \$48,910,300 or 5.1 percent) for attrition years 2027 and 2028, respectively. The Adopted Revenue Changes by district are attached hereto as Appendix A and incorporated herein by reference. As to how these Adopted Revenue Changes will impact customer bills, the attached Appendix X contains details of the average bill impacts per district.

2. The joint motion filed by California Water Service Company, Public Advocates Office, California Water Association, and National Association of Water Companies on August 4, 2025, for adoption of their Partial Settlement Agreement (attached as Appendix Y) is granted.

3. California Water Service Company shall implement the adopted methodologies, accounting treatments, assumptions, and ratemaking determinations contained in this decision — and which are listed in the attached Results of Operations Model (RO Model) for each district — for the duration of the 2026-2028 General Rate Case cycle, unless modified by subsequent order of the California Public Utilities Commission. The RO Models for each district are attached hereto and incorporated herein by reference:

- Appendix A — Adopted Revenue Changes, Escalation Rates, Adopted Pensions and Healthcare Benefits, and Subsequent Offsets
- Appendix B — Bakersfield District
- Appendix C — Bay Area Region
- Appendix D — Bear Gulch District
- Appendix E — Diablo Ranch Region
- Appendix F — East Los Angeles District

- Appendix G — Kern River Valley District
- Appendix H — Los Altos District
- Appendix I — Los Angeles County Region
- Appendix J — Marysville District
- Appendix K — North Valley Region
- Appendix L — Palos Verdes Pipeline
- Appendix M — Salinas Valley Region
- Appendix N — Selma District
- Appendix O — South Bay Region
- Appendix P — Stockton Region
- Appendix Q — Travis District
- Appendix R — Visalia District
- Appendix S — Westlake District
- Appendix T — Willows District
- Appendix U — Customer Support Services
- Appendix V — Depreciation Tables
- Appendix W — Plant Tables

4. Within 60 days of the issuance of this decision, California Water Service Company (Cal Water) shall submit a Tier 1 advice letter implementing all adopted revenue requirement, capital budget, and rate design determinations.

Scoped Issue #1 — General Office Expenses, Depreciation, Property Taxes, and Overhead Allocations

5. California Water Service Company shall apply escalation factors and inflation assumptions that reflect verified indices and historical averages and adopted in Section 4.1. of the decision above and consistent with the methodology proposed by the Public Advocates Office of the California Public Utilities Commission (Commission). The Commission will use the most recent Commission labor and non-labor escalation memorandum factors (*i.e.*, the memo factors prepared pursuant to the Commission’s Water Rate Case Plan, Decision 07-05-062) available at the time the Results of Operations Model is finalized to calculate escalation-year operation and maintenance (O&M) and administrative and general expenses and capital-related costs, except that production-related costs subject to balancing-account treatment or purveyor tariffs shall be modeled using the adopted

balancing-account structures and tariff-based unit prices rather than generic O&M escalation factors, as shown in the relevant appendices, attached hereto and incorporated herein by reference.

Scoped Issue #2 — Operation and Maintenance and Administrative and General Expenses

6. For all remaining disputed operation and maintenance and administrative and general expense categories not covered by the Partial Settlement Agreement (Appendix Y), California Water Service Company (Cal Water) shall apply the forecasted expense levels adopted in this decision, as summarized in Table 2 of this decision (Adopted Scoped Issues #2 Contested Sub-Issues), which reflect a category-specific evaluation using historical averages as a benchmark but not a default methodology. Cal Water shall use the California Public Utilities Commission-adopted adjustments only for those categories where the record did not sufficiently substantiate increases above inflation or historical trends. Pension and healthcare expenses shall be escalated using the forward-looking actuarial factors supported by external analyses. For production-related operation and maintenance (O&M), Cal Water shall: (a) compute purchased-water expenses using tariff-based wholesale unit rates applied to the adopted M.Cubed Unrestricted sales forecasts; (b) compute purchased-power and chemical expenses using the Public Advocates Office at the California Public Utilities Commission (Cal Advocates) adopted unit-rate proposals applied to the same sales forecast; and (c) for any other non-settled O&M or administrative and general account for which Cal Advocates provides a competing forecast and Cal Water's forecast exceeds 110 percent of the five-year inflation-adjusted historical average without additional documented cost drivers, adopt the lower competing forecast.

Scoped Issue #3 — Capital Additions and Plant Improvements

7. California Water Service Company (Cal Water) shall include in rate base only those plant additions that are supported by documented engineering need,

regulatory compliance requirements, and reasonable cost estimates.

Treatment-plant expansions necessary to comply with state or federal water-quality and fire-flow standards are approved, and shall be subject to the Tier 2 advice letter process for purposes of rate recovery. Discretionary office expansions and other non-essential projects lacking the documentation described in this ordering paragraph are not adopted and shall not be included in rate base in this proceeding.

8. California Water Service Company (Cal Water) is authorized a \$17,451,567 budget to deploy Advanced Metering Infrastructure (AMI) in the five ratemaking areas, namely Bay Area Region, Bear Gulch, Los Altos, Los Angeles County Region, and Westlake. Cal Water is authorized to recover \$2,037,650 of capital costs in 2026 (50% of \$4,482,831) and \$15,413,917 in capital costs in 2027 (50% of \$32,721,122) in rates. For the recovery of the remaining 50 percent budget (\$17,451,567), Cal Water shall file a Tier 1 Advice Letter to implement a 2026-2027 AMI Implementation Memorandum Account. This account will record the deferred 50 percent of costs forecast for 2026 and 2027, with recovery pending a reasonableness review in the subsequent General Rate Case. To recover these funds, Cal Water must demonstrate that the costs were prudently incurred, the completed project is used and useful, and the system is correctly reading meters and generating accurate customer billings. Furthermore, Cal Water is also authorized to recover \$1,893,288 for necessary meter replacements for the remaining districts, which are not in the AMI program.

9. For purposes of implementing this decision, the determinations summarized in Table 3 (Common Plant Program Determinations) and Table 4 (Summary of District-Level Determinations) shall govern the ratemaking treatment of capital projects for the Results of Operations Model and Appendices A through X.

10. For the approved compliance-driven treatment projects, the projects are approved for inclusion in rates at the forecast amounts. California Water Service Company (Cal Water) may seek to recover any overruns in the next General Rate

Case by providing adequate justifications. For purposes of rate recovery, Cal Water shall seek inclusion of completed projects through the advice letter process described in this decision, including Tier 2 advice letters for projects within adopted cost estimates and Tier 3 advice letters where project costs exceed those estimates.

11. California Water Service Company (Cal Water) shall not include contingency amounts in rate base or recover such amounts in rates in this proceeding. Any contingency amounts embedded within adopted district or Common Plant capital programs are disallowed. Cal Water may seek recovery of reasonable, documented cost increases through the applicable advice letter process or in a future proceeding, where such costs are supported by the evidentiary record and shown to be prudent and used and useful.

12. California Water Service Company's (Cal Water) request to include previously deferred capital projects that were not completed by the end of 2024 is denied without prejudice. Instead, Cal Water may seek approval by submitting a Tier 2 advice letter to add those projects into rates, up to the budgeted amounts, if the projects are consistent with the proposed scope. Cal Water may seek recovery for previously approved but deferred projects whose final costs exceed budgeted amounts or diverge from approved scope by submitting a Tier 3 advice letter.

Scoped Issue #4 — Depreciation, Property Taxes, Overhead Allocations, and Cost of Capital

13. Escalation-year increases for California Water Service Company shall be limited to demonstrated cost drivers supported by documented inflation indices or regulatory compliance requirements and shall be applied only after incorporating the California Public Utilities Commission-adopted adjustments from Scoped Issues #2 and #3.

14. For purposes of establishing the adopted revenue requirement, California Water Service Company's conservation expenses of \$13,807,856 are approved.

15. California Water Service Company (Cal Water) shall apply Allowance for Funds Used During Construction (AFUDC), rather than Interest During Construction (IDC), to construction work in progress, using a rate equal to its authorized rate of return. Cal Water shall reflect this treatment in its revenue requirement, rate base calculations, and supporting workpapers submitted in its advice letter filing requirements.

Scoped Issues #5, #7 & #15 — Rate Design, LUWEP & Decoupling

16. California Water Service Company's proposed decoupling program with Low-Use Water Equity Program that would decouple revenue from water sales, including the Safe Infrastructure Balancing Account, Supply Cost Balancing Account, annual netting of balances, and amortization of decoupling balances in base rates via Tier 1 advice letters is denied.

17. California Water Service Company is authorized to continue implementing a modified Monterey Water Revenue Adjustment Mechanism and Incremental Cost Balancing Account consistent with D.24-03-042, with the following modifications for the General Rate Case (GRC) cycle:

- (a) Maintain a four-tier volumetric structure, including a reduction of the tier multiplier for Tier 4 from 187 percent to 150 percent and an increase in fixed charges to recover an additional five percent of fixed costs in higher fixed charge.
- (b) Reinstate a two-way Sales Reconciliation Mechanism (SRM) for the Escalation Years (EYs) in this GRC cycle. The SRM will trigger if, for any individual district, the recorded aggregate sales for the most recent year deviate by more than five percent (either higher or lower) from the adopted sales forecast. The SRM will apply an adjustment equal to 50 percent of the recorded variance to the adopted sales forecast for the upcoming EY.

18. California Water Service Company shall submit a Tier 1 advice letter no later than 60 days after the effective date of this decision to update its preliminary

statement for the Monterey Water Revenue Adjustment Mechanism and Incremental Cost Balancing Account to reflect final rates that include modifications to the existing four-tier volumetric structure, including a reduction of the tier multiplier for Tier 4 from 187 percent to 150 percent and a five percent increase in fixed cost recovery through the fixed service charge, and reinstatement of a two-way Sales Reconciliation Mechanism for the escalation years.

19. California Water Service Company shall submit a Tier 1 advice letter no later than 30 days from the escalation year's effective date, if the Sales Reconciliation Mechanism (SRM) is triggered. The advice letter shall include:

- (a) The calculated variance and the 50 percent adjustment, and provide supporting calculations and explanations for each district in which the SRM is triggered;
- (b) The resulting rate impact reflecting the adjusted consumption forecast, with supporting calculations; and
- (c) Identification, and no implementation of, of any overlapping relief mechanisms.

Scoped Issue #6 — Compliance and Reporting Requirements

20. In its next General Rate Case, California Water Service Company shall provide a compliance report as part of its witness-sponsored testimony. The compliance report shall include:

- (a) Comprehensive reconciliations of all balancing-account activities for the relevant reporting period;
- (b) Updated documentation of infrastructure-project timelines, milestones, and any delays; and
- (c) A description of improvements made to internal compliance-tracking and data-access processes.

Scoped Issue #9 and Scoped Issue #14 — RSF

21. This decision adopts a three-tier discount structure for the Rate Support Fund for the Kern River Valley District as follows:

- (a) For the first six (6) hundred cubic feet of usage per month, the discount shall equal the difference between the test-year

single-quantity rate and 100 percent of the systemwide average test-year residential quantity rate.

- (b) For usage from seven (7) to ten (10) hundred cubic feet per month, the discount shall equal the difference between the test-year single-quantity rate and 150 percent of the systemwide average test-year residential quantity rate.
- (c) For all usage above ten (10) hundred cubic feet per month, the discount shall equal \$175,000 divided by the adopted sales for the test year above ten (10) hundred cubic feet.

22. Rate Support Fund offsets shall apply as follows:

- (a) The Willows District shall receive an offset of \$700,000.
- (b) The Selma District shall receive an offset of \$500,000.
- (c) The Dixon District shall have its offset removed upon consolidation with the Livermore District.

23. The Rate Support Fund index rates and the company-wide surcharge shall be updated by California Water Service Company to reflect the final adopted revenues and rates approved in this decision.

24. California Water Service Company shall implement the settlement terms related to the Rate Support Fund as part of its next compliance advice-letter filing effectuating the final revenue-requirement and rate-design determinations adopted by this decision.

Scoped Issue #11 — Environmental and Social Justice Considerations

25. In its next General Rate Case, California Water Service Company shall include a dedicated Environmental and Social Justice (ESJ) Implementation Summary providing:

- (a) District-level data identifying infrastructure investments made in disadvantaged communities;
- (b) Information on participation in customer-assistance and arrearage-management programs, with any affordability metrics and reporting governed prospectively by Decision (D.) 25-12-044; and

- (c) Customer-participation statistics for the Customer Assistance Program and the Arrearage Management Program, including outreach and enrollment efforts targeting disadvantaged communities.

The ESJ Implementation Summary shall describe how the reported information aligns with the ESJ Action Plan and shall demonstrate progress toward equitable access to safe and reliable service. Any affordability metrics, thresholds, or reporting requirements shall be implemented consistent with, and subject to, the Commission's affordability framework adopted in D.25-12-044.

Scoped Issue #12 — Balancing and Memorandum Accounts

26. The Balancing and Memorandum Accounts (BAMAs) proposed by California Water Service Company (Cal Water) are approved, modified, or denied consistent with the determinations made in Sections 4.20-4.23 of this decision. Within 60 days of the effective date of this decision, Cal Water shall submit a Tier 1 advice letter to update their Preliminary Statement for these BAMAs. Specifically:

- (a) The Catastrophic Event Memorandum Account, the Conservation Expense Balancing Account, the Pension Cost Balancing Account, and the Health Cost Balancing Account are authorized to continue for the 2026-2028 general rate-case cycle under existing terms and conditions.
- (b) Newly authorized or modified BAMAs, including the Liability Insurance Balancing Account and the Water Contamination Remediation Memorandum Account, shall operate only as expressly authorized and subject to the conditions, limitations, and review processes described in this decision.

27. Unless otherwise specified, California Water Service Company shall submit a Tier 1 advice letter for any proposed amortization of a balancing account, and shall submit a Tier 3 advice letter for any proposed amortization of a memorandum account.

Scoped Issue #13 — District Consolidation

28. California Water Service Company (Cal Water) is authorized to consolidate the Dixon District and the Livermore District into the Diablo Ranch Region for

ratemaking purposes, consistent with the Partial Settlement Agreement and Undisputed Issues List filed on August 4, 2025 (Appendix Y).

Within 60 days of the issuance of this decision, Cal Water shall submit a Tier 1 advice letter implementing these adjustments consistent with the adopted revenue requirements and tariff schedules approved by the California Public Utilities

Commission:

- (a) *Diablo Ranch Region*. Within the Diablo Ranch Region, Cal Water shall maintain separate tariffs for the Dixon District and the Livermore District such that the Dixon District partially subsidizes the consolidated Diablo Ranch Region rates, consistent with the existing structure in the North Valley Region between the Chico District and the Oroville District. The revenue assessment to the Diablo Ranch Region — Dixon District shall equal 4.0 percent of consolidated revenues in 2026, 3.5 percent of consolidated revenues in 2027, and 3.0 percent of consolidated revenues in 2028.
- (b) *North Valley Region — Oroville District*. The revenue assessment to the North Valley Region — Oroville District shall equal 5.7 percent of consolidated revenues in 2026, 5.2 percent in 2027, and 4.7 percent in 2028.

Scoped Issue #17 — Incorporation of Subsequent Rate Changes (Special Request #5)

29. Special Request #5, seeking authorization to incorporate subsequent rate changes into final rates adopted in this General Rate Case, is approved.

Scoped Issue #18 — Updating Escalation Factors for Final Rates (Special Request #6)

30. Special Request #6, seeking authorization to update escalation factors for final rates, is approved.

Scoped Issue #19 — Payroll Escalation Based on Union Contract (Special Request #7)

31. Special Request #7 is granted in part. California Water Service Company (Cal Water) shall use the binding wage increases specified in its collective bargaining agreements to calculate Test Year payroll expenses. Cal Water shall calculate

escalation- and attrition-year payroll expenses using the adopted inflation indices, consistent with the Rate Case Plan.

Scoped Issue #20 — Amortization of Balancing Accounts and Memorandum Accounts

32. California Water Service Company (Cal Water) is authorized to amortize verified balances in its Catastrophic Event Memorandum Account, Public Safety Power Shut-Off Memorandum Account, Asbestos Litigation Memorandum Account (ALMA) through Tier 3 advice letter filings. Cal Water is authorized to amortize verified balances in its General District Balancing Accounts, Drinking Water Fees Balancing Account, and Conservation Expense Balancing Account through Tier 1 advice letter filings. Cal Water is authorized to amortize verified balances in its Pension Cost Balancing Account, Health Cost Balancing Account, and General District Balancing Account through Tier 2 advice letter filings. These advice letters shall be submitted to the California Public Utilities Commission (Commission) within 90 days of the effective date of this decision. These amortization filings shall reflect balances recorded in each account as of the date of filing. The ALMA shall remain open through December 31, 2028, consistent with the Undisputed Issues List attached to the Partial Settlement Agreement (Appendix Y).

33. California Water Service Company (Cal Water) shall establish a memorandum account to track the difference between the interim rates authorized by ruling on October 3, 2025 and final rates. Cal Water shall amortize this memorandum account via a Tier 1 advice letter, as required in this decision and the October 3, 2025 ruling. The first day of the Test Year for this proceeding was January 1, 2026.

Scoped Issue #21 — Conservation Expense Balancing Account

34. California Water Service Company (Cal Water) is authorized to continue the Conservation Expense Balancing Account (CEBA) for the 2026-2028 General Rate Case period to track unused conservation funds. The CEBA is authorized as a one-way balancing account for this GRC cycle. Cal Water shall amortize balances recorded in the CEBA at the end of the three-year tracking period through a Tier 1

advice letter filing, subject to reasonableness review and approval before any refund to ratepayers.

35. In its next General Rate Case, California Water Service Company (Cal Water) shall provide a status report on the Conservation Expense Balancing Account. Cal Water shall provide this status report as part of its witness-sponsored testimony, and the status report shall include a summary of authorized versus recorded expenditures, requests to amortize over- and under-collections, program-participation metrics, and supporting documentation of costs and conservation outcomes.

Scoped Issue #22 — Liability Insurance Balancing Account

36. California Water Service Company (Cal Water) is authorized to establish a Liability Insurance Balancing Account (LIBA) to track the difference between forecast and actual third-party premium expenses for general liability, excess liability, and umbrella insurance policies. The LIBA shall function as a two-way balancing account that records both over-collections and under-collections of liability-insurance expenses relative to the amounts authorized in rates. Cal Water shall submit a Tier 1 advice letter within 30 days of the effective date of this decision to establish the LIBA in its Preliminary Statement. Cal Water shall subsequently amortize only 85 percent of the recorded balance in the LIBA — whether the balance results in a surcharge or a sur-credit — through a Tier 1 advice letter filing following the end of the three-year tracking period, subject to reasonableness review and approval by the California Public Utilities Commission. Cal Water shall exclude from the LIBA all internal administrative expenses, self-insurance reserves, or other cost categories that do not represent payments of third-party insurance premiums.

37. In its next General Rate Case, California Water Service Company (Cal Water) shall provide a status report on the Liability Insurance Balancing Account. Cal Water shall provide this status report as part of its witness-sponsored testimony, and the

status report shall include a summary of recorded entries, year-end balances, requests to amortize over- and under-collections, and explanations for any material deviations between forecast and actual values.

Scoped Issue #23 — Water Contamination Remediation Memorandum Account

38. California Water Service Company (Cal Water) is authorized to establish a Water Contamination Remediation Memorandum Account (WCRMA) to replace multiple contaminant-specific memorandum accounts previously maintained for per- and polyfluoroalkyl substances and other water-quality contaminants. The WCRMA shall record incremental, unforeseen, and externally driven costs associated with the investigation, remediation, and treatment of water contamination caused by third parties or new regulatory mandates imposed by local, state, or federal agencies. Cal Water shall maintain separate sub-accounts within the WCRMA for each contaminant and for each affected district. Each sub-account shall identify the nature of the contamination, the regulatory basis for remediation, and any recovery efforts or cost contributions received from third parties. Cal Water shall file a Tier 1 advice letter within 30 days of the effective date of this decision to establish the WCRMA in its Preliminary Statement. Cal Water may not recover any costs recorded in the WCRMA without prior authorization from the California Public Utilities Commission. Any such request for recovery shall be submitted through a Tier 3 advice letter filing or as part of a subsequent General Rate Case and must include a detailed showing demonstrating the reasonableness and necessity of the recorded costs.

39. In its next General Rate Case, California Water Service Company (Cal Water) shall provide a status report on the Water Contamination Remediation Memorandum Account. Cal Water shall provide this status report as part of its witness-sponsored testimony, and the status report shall include a summary of recorded entries, contaminant categories, district locations, requests to amortize under-collections, and the status of any ongoing third-party recovery actions.

Scoped Issue #24 — Attrition Year Normalization (Special Request #14)

40. Special Request #14, seeking authorization to apply the attrition year normalization methodology reflected in its Results of Operations Model for each district (Appendices A through X), is approved. The adopted methodology for applying deferred taxes during the attrition year shall be implemented by California Water Service Company (Cal Water) in accordance with the Partial Settlement Agreement and the Undisputed Issues List (Appendix Y). Cal Water shall apply the attrition year normalization methodology consistently across all of its operating districts in future attrition year filings unless otherwise directed by the California Public Utilities Commission.

Scoped Issue #25 — Deferred Tax Liability with Current-Year Capital Additions (Special Request #15)

41. California Water Service Company's Special Request #15, for its deferred-tax-liability methodology for current-year capital additions is approved.

Additional Orders

42. The motion of California Water Service Company (Cal Water) filed June 13, 2025, for leave to file its Confidential Version of Attachment A to Cal Water's Response to ALJ Ruling Requesting Additional Information its under seal, per Rule 11.4 of the California Public Utilities Commission's (Commission) Rules of Practice and Procedure, is granted for a period of three years after the date of this decision. During this three-year period, this information shall not be publicly disclosed except on further Commission order or Administrative Law Judge ruling. If Cal Water believes that it is necessary for the information to remain under seal for longer than three years, Cal Water may file a new motion showing good cause for withholding the information from public inspection. The motion shall be filed no later than 30 days before the expiration of this order.

43. All rulings made by the Presiding Officer are affirmed and all other outstanding motions not otherwise ruled upon in this decision are denied.

44. Application 24-07-003 is closed.

This order is effective today.

Dated _____, at San Francisco, California.

APPENDIX A - X

APPENDIX Y