Exhibit H

Cost of Capital

Direct Testimony of Greg Milleman

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I. INTRODUCTION

Q. What is the purpose of this testimony?

A. The purpose of this testimony is to outline operational and regulatory risks that California Water Service Company ("Cal Water") faces and to request that the Commission increase its rate of return to compensate for those risks.

II. QUALIFICATIONS

Q. What is your current position?

A. I am Vice President, California Rates for California Water Service Company.

Q. What is your educational background?

A. I received a Bachelor of Science degree in Business Administration from California State University Northridge in 1986.

Q. Do you hold any professional certifications?

A. Yes. I am a licensed Certified Public Account in California and a California State Water Resources Control Board Water Grade 2 Distribution Operator and Grade 2 Treatment Operator.

Q. Please summarize your business experience.

A. I joined California Water Service Company in April 2013 as Manager of Special Projects and was promoted to Director of Field Operation in January 2014. In August

2017 I became the Interim Director of Rates. In January 2019 I was promoted to Vice President, California Rates. Prior to joining California Water Services, I was at Valencia Water Company for 21 years and was Senior Vice President of Administration at the end of my tenure. At Valencia Water Company I was responsible for all filings made before the California Public Utilities Commission ("Commission"). I was also responsible for all regulatory, financial, administrative, contracting, customer service and conservation activities of the Company. I have served on the California Water Association Board of Directors for 29 years and was President of the Association in 2015/2016.

III. RISKS ASSOCIATED WITH OPERATING SMALL SYSTEMS

Q. Please provide a background on Cal Water's operations of small water systems.

A. Cal Water operates a series of differently sized water systems, ranging from large urban operations in Bakersfield and Stockton serving 44,000 or more service connections to districts, to very small communities such as Dillon Beach (251 connections) and Fremont in Kern County (79 connections). In addition, the Company's operations are distributed across the state, making it difficult to obtain the economies of scale across small districts that can be obtained entirely within a larger district with the same total number of connections.

Q. What ratemaking mechanisms has the Commission employed for small water utilities?

A. The Commission has employed simplified, expedited, and supportive ratemaking practices for small utilities.[1] In addition to a number of administratively expedited processes, the Commission generally provides a higher rate of return for small systems. For instance, the Commission's compliance division developed a "short-form" filing method for Class D utilities in the 1990's that is used today. Commission staff performs "outreach" to Class C and D water systems to ensure that owners take advantage of opportunities for rate adjustments. Rate cases are processed by a Tier 3 advice letter, not an application, and annual Consumer Price Index ("CPI") increases are granted to utilities who have submitted annual reports. Finally, small utilities can submit rate base offsets without prior approval in a General Rate Case ("GRC"). The Commission has also recognized the need for higher returns for these smaller water systems.[2]

Q. Is Cal Water allowed to make use of the same regulatory mechanisms?

A. Generally, no. Cal Water operations are treated as part of a single Class A water company, even though there are many systems that could be classified individually as Class B, Class C, or Class D.

[1] Standard Practice U-4-SM, Depreciation Procedures for Small Water and Sewer System Utilities, Standard Practice U-5-SM, Standard Practice for Determining Fixed Capital and Rate Base of Class B, C and D Water Utilities, and Standard Practice U-9-SM Processing Informal General Rate Cases of Small Water and Sewer Utilities .

[2] The annual rates of return for the Class C and Class D companies are from the annual letter to the Commission from Bruce Deberry, Program Manager of Water Division, dated March 3, 2021, and titled Rates of Return and Rates of Margin for Class C, Class D Water and Sewer Utilities.

Q. What are some reasons the Commission has allowed higher returns to small water companies?

A. First, there are operational risks in running a small system in that expenses can be more volatile than those of a large system. When something does go wrong, such as a pump failure or main leak, the cost of the repair could be quite large as a percentage of total revenue requirement as compared to a large system. The second reason for higher returns for small companies is their challenge in financing system improvements. In fact, due to the difficult time small systems have qualifying for bank loans, the Commission generally assumes these are 100% equity financed operations. While a small system as part of Cal Water does not face the same financing difficulties, it will have similar operating risks as an independent utility of the same size. The Commission's ratemaking process for multi-district utilities sets rates on a local cost of service basis, so the burden of extraordinary expenses still falls with customers of the (often small) system.

Q. How would each of Cal Water's water systems be classified if they were "stand-alone" companies?

A. The following chart shows how the Commission currently classifies regulated water and sewer utilities:[3]

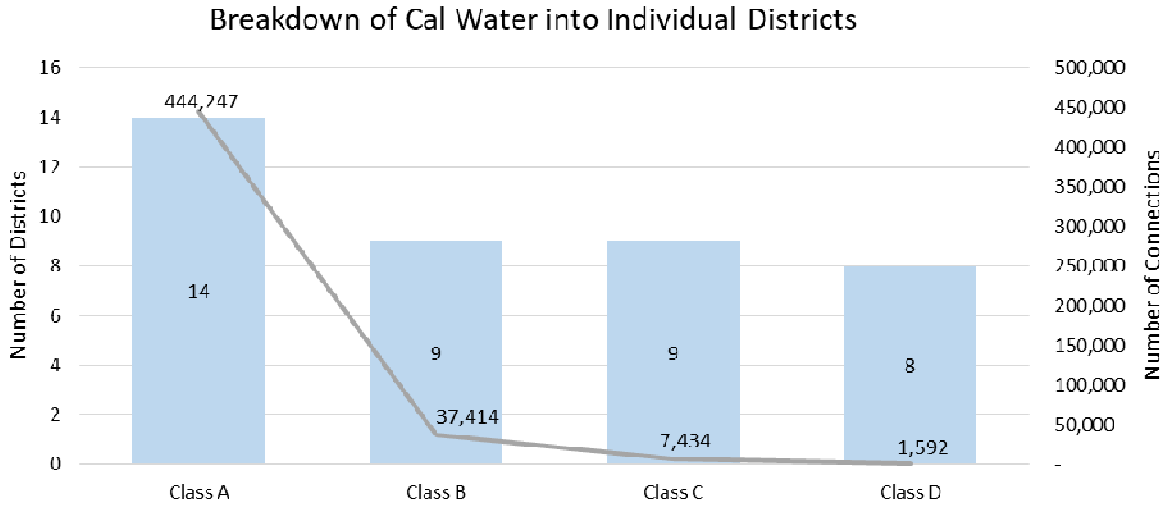
[3] From GO-96-A Water industry Rule 1.2 and from Decision D. 85-04-076

Company Designation	Number of Services
Class A	Over 10,000
Class B	2000 - 10,000
Class C	500 – 1,999
Class D	Less than 500

Cal Water's districts are composed of differently-sized, non-contiguous operating systems. Each of these non-contiguous water systems is recognized as a separate Department of Drinking Water ("DDW") water system, with a unique system identification number, specific source and storage requirements, and independent water quality reporting requirements. Each system is essentially independent from a water quality perspective. In addition, from a ratemaking perspective, many of these systems are regulated by the Commission with their own separate rate base, expenses, and revenue requirement. If Cal Water were to be broken down into individual companies based on these systems using the Commission's classifications for water companies, the result would be a group of 40 companies comprised of 14 Class A companies, 9 Class B companies, 9 Class C companies, and 8 Class D companies. The following chart shows the breakdown of Cal Water by individual water operating system:

District	2020 Connections
AV – Leona Val/Lake Hughes	644
AV - Lancaster	675
AV - Fremont	79
Bakersfield	73,490
Bayshore - Mid Peninsula	36,887
Bayshore - So. San Francisco	17,153
Bear Gulch	18,963
Chico	30,836
Dixon	3,084
Dominguez	34,327
East Los Angeles	26,906
Hermosa Redondo	27,165
KRV - Kern River Valley	868
KRV - Arden	1,215
KRV - Bodfish	750
KRV - Kernville	600
KRV - Lakeland	209
KRV - Squirrel Mountain	397
KRV - Grand Oks	45
King City	2,819
Livermore	18,922
Los Altos Suburban	18,973
Marysville	3,798
Oroville	3,668
Palos Verdes	24,294
RDV - Lucerne	1,242
RDV - Armstrong Valley	379
RDV - Coast Springs	251
RDV - Hawkins	51
SLN - Salinas	24,828
SLN - Las Lomas	623
SLN - Oak Hills	817
SLN - Bolsa Knolls	2,310
SLN - Buena Vista	181
Selma	6,499
Stockton	44,789
Visalia	46,714
Westlake	7,081
Willows	2,432
Travis	5,723
TOTAL	490,687

The following chart shows the corresponding summary of systems by the Commission's classifications if Cal Water were broken down by water operating system:



Q. How does Cal Water's currently authorized rate of return compare to what the Commission believes is appropriate for water utilities of different sizes?

A. According to the Commission's Water Division in its annual memorandum, dated March 3, 2021, Cal Water's rate of return is below the average of Class A, and Class B water utilities, and below the Commission's recommended rate of return for Class C and Class D water utilities.

System Type	ROR[4] [5]
Cal Water Authorized	7.48%
Class A Average	7.77%
Class B Average	9.54%
Class C Recommended	9.0% - 10.0%
Class D Recommended	9.4% - 10.4%

As an earlier table indicates, classifying the Company separately by operating system size would result in 7.6% of its operating systems classified as Class B water utilities, 1.5% of its operating systems classified as Class C water utilities, and 0.3% of its operating systems classified as Class D water utilities. All of these smaller operating systems would be able to earn a higher rate of return than Cal Water is now earning, if operated separately. The following chart shows the effect of including the rates of return for Class B, Class C and Class D companies on Cal Water's similarly sized systems. Taking into account Cal Water's currently authorized rate of return, this would have a 20 basis point increase in the authorized rate of return on a company-wide basis. This translates to a correspondingly higher return on equity.

Cal Water System Type	Percent	ROR	Weighting by System
A Systems	90.6%	7.48%	6.78%
B Systems	7.6%	9.54%	0.73%
C Systems	1.5%	9.50%	0.14%
D Systems	0.3%	9.90%	0.03%
Total	100.0%		7.68%

[4] Cal Water's current authorized Rate of Return for Class A company is 7.48% which is a weighted factor based on 9.20% return on equity, and 5.51% cost of long-term debt as determined in D.18-03-035 and subsequently modified by Advice Letter 2341.

[5] The annual rates of return for the Class C and Class D companies are from the annual letter to the Commission from Bruce DeBerry, Program Manager of Water Division, dated March 3, 2021, and titled Rates of Return and Rates of Margin for Class C, Class D Water and Sewer Utilities.

Q. Are smaller water systems really any more difficult to operate than larger water systems?

A. Yes. Smaller systems have complications associated with them that are not frequently encountered in larger districts. Smaller systems often do not have the redundancy in storage and supply that larger systems have, making them more susceptible to system failures, water outages, and other upsets. The smaller systems are also often located in remote areas, leading to reduced economies of scale, where fewer specialized vendors are available. Further, operations are often complicated by large distances between systems, leading to extended travel times for the certified water system operators. Alternative supplies such as imported surface water are also usually not economically feasible in small water systems.

Q. Does having smaller districts complicate Cal Water's General Rate Case filings?

A. Yes definitely**.** Different cost-of-service calculations for each district result in a significantly more complex set of supporting workpapers. For each district, and sometimes for each operating system, there will be separate capital projects and justifications, unique workforce needs, more granular cost allocations, different customer growth, and different consumption patterns. In addition, the need for multiple district workshops, tours, public participation hearings, and customer notices add complexities.

Cal Water has also experienced a higher number of rate case intervenors in Cal Water's smaller districts versus its larger districts. While having input from the

community is generally a good thing, often there is a lack of understanding of the process by representatives from smaller system, having intervenors involved in a rate case generally increases the workload on the Company because the utility must respond to additional data requests, and substantially increases the settlement time because settlement discussions and negotiations include not only the California Public Advocates Office ("Cal PA"), but generally also include intervening parties.

The following chart shows Cal Water's recent experience with intervenors in its 2007, 2009, 2012, 2015 and 2018 GRCs. As the chart shows, approximately 77% of the intervenors for Cal Water's last five GRCs were attributable to small water systems.

Intervenor	System 2020 Services	System CPUC Class	2018 GRC	2015 GRC	2012 GRC	2009 GRC	2007 GRC
City of Bakersfield	73,490	A	73,490	73,490			
City of Chico	30,836	A		30,836			
City of Lancaster[6]	1,398	D	1,398		1,398		
City of Marysville	3,798	B		3,798			
City of Selma	6,499	B		6,499	6,499		
City of Thousand Oaks	7,081	B		7,081			
Coast Springs	251	D		251	251	251	251
County of Butte[7]	34,504	A		34,504			
Fremont Valley	79	D				79	
Kern County[8]	4,084	C&D		4,084	4,084		
Kern County Taxpayers Association	4,084	C&D					
Lake County[9]	1,242	C		1,242	1,242		
Leona Valley Town Council	644	C		644	644	644	644
Los Altos	18,973	A					18,973
Residents Against Water (RAW)[8]	4,084	C&D			4,084		
San Mateo[10]	36,887	A					36,887
Town of Portola Valley[11]	18,963	A	18,963				
City of Visalia	46,714	A	46,714	46,714	46,714	46,714	
Total Customers			140,565	209,143	64,916	47,688	56,755
Number of Intervenors over GRCs		31	4	11	8	4	4
Percent of Class B, C, and D Intervenors		77%					

Q. What is your experience with the CAP program in small systems?

A. Customer Assistance Program[12] ("CAP") participation in the smaller Cal Water systems tends to be much higher than in larger systems, and demands more resources

[6] Within Antelope Valley.
[7] Representing Chico and Oroville districts.
[8] Representing Kern River Valley, Arden, Bodfish, Kernville, Lakeland, and Squirrel Mountain.
[9] Representing Lucerne.
[10] Within Mid-Peninsula district.
[11] Within Bear Gulch district.
[12] In D20-08-047 the Commission change the name of the Low Income Ratepayer Assistance (LIRA) program to Customer Assistance Program

to manage. Under the Commission's CAP program, Cal Water tracks and reports on a variety of performance objectives. A CAP account requires more initial set-up time, and time to process CAP documentation. The table below shows the CAP participation by Cal Water's system sizes.

System Type	Percent of Customers enrolled in CAP
A Systems	20.2%
B Systems	27.9%
C Systems	28.2%
D Systems	18.5%
Overall	20.8%

Q. Are small water systems more difficult to manage from a water quality perspective?

A. Yes, small systems require more water quality management time and effort than large systems. While DDW reporting requirements for small water systems are similar to those for large water systems, there are added complexities. As mentioned earlier in my testimony, many small systems lack the redundancy and reliability to seamlessly handle operational challenges, such as a power outage, pump repair or main repair. This leads to more frequent water outages, and potentially boil water notices for customers. Many of the small systems are in remote and hilly terrain; systems can have multiple zones across which to supply customers according to recommended pressure levels. Having many small pressure zones often means that a system requires more small tanks and boosters than a more level system would, and since the systems are small, there is not sufficient redundancy at many sites.

Because of geologic conditions found underneath many of the small water system areas, such as fractured rock that results in low well yields, it is often very difficult to construct wells that produce high quantities of good quality water. Even in small water systems, where there are fewer customers, multiple wells can often be required to simply meet the average day demand of the small system. In contrast to large water systems, where a single well may serve hundreds of customer connections, the small water systems often present water supply challenges.

No matter the size of the system, DDW requires annual reports, inspections, and consumer confidence reports for every system. This requires almost the same level of effort for a large system as a small system. Permitting a small well or small treatment system requires a similar amount of time as a larger facility. For a small system, this cost is not spread across as many customers. All of these issues lead to a much higher workload per customer connection for smaller systems compared to larger systems.

Q. What additional comments do you have about the costs of operating small water systems?

A. Smaller systems tend to be located in areas with struggling economies. Local governments in these smaller systems often become more involved and interested in the water system with regard to conservation, review of capital projects, rate impacts, and community involvement on the part of the company, all leading to more intensive management needs in the small system. Accordingly, the potential for condemnation attempts or threats also tends to be higher in smaller systems.

Q. Is Cal Water at risk for involuntary consolidation with a small, troubled water system?

A. Yes. The State Water Resources Control Board ("SWRCB") has the authority to require public water systems such as Cal Water to consolidate with, or provide an extension of service to, certain water systems that consistently fail to provide safe drinking water. Although for many years the SWRCB has encouraged voluntary consolidations of public water systems (and will continue to do so), it now has the authority will allow it to mandate consolidation of water systems where appropriate. Since it was granted this authority in Senate Bill 88 in 2015, the SWRCB has completed one mandatory consolidation and currently has seven active mandatory consolidation projects.

Q. If Cal Water were ordered to consolidate with a small, troubled system, would it also be liable for claims related to provision of water through that system?

A. In certain circumstances, yes. Although the California Health & Safety Code provides some limitation of liability for mandatory consolidations, the liability limitations would only apply if Cal Water was able to install a temporary potable service pipeline to provide water to the troubled system that meets or exceeds federal and state drinking water quality standards[13]. This may not be possible in all circumstances. Therefore, Cal Water could be liable until it is able to install facilities that enable it to supply water to the troubled system that meet drinking water and water quality

[13] Health & Safety Code (§116684(c)(3), (e).)

standards, a process that could take months or even years. Furthermore, mandatory consolidation would not relieve Cal Water from the obligation to comply with federal and state laws pertaining to drinking water quality, and would not prevent or prohibit any action or proceeding with respect to water quality brought by or on behalf of a regulatory agency.

The risks and liability associated with involuntary consolidation would be in addition to the other challenges associated with operation of a small system that I previously discussed.

Q. What is your recommendation in this proceeding with regard to operating small water systems?

A. Because Cal Water operates a series of differently-sized water districts across the state, and since it is often difficult and costly to obtain the same economies of scale for small water systems as compared to larger water systems, the Commission should recognize the additional burdens and risks presented by Cal Water's small systems, as the Commission already does for Class B, C, and D companies. It should therefore consider adding 20 basis points to Cal Water's overall return on equity to compensate for the additional risks and challenges involved in operating a series of smaller districts that are not present for larger districts.

IV. RISKS ASSOCIATED WITH IMBALANCE IN REGULATORY MECHANISMS

Q. Does setting a reasonable rate of return ensure a reasonable ability for a company to achieve that rate of return?

A. No. Generally, setting a cost of capital that is “fair” assumes that the utility has an equal opportunity to earn above or below its authorized rate of return. Many asymmetric regulatory mechanisms at the Commission, however, have made it almost impossible for a utility like Cal Water to earn above its authorized rate of return while simultaneously increasing the risk that a utility will earn below its authorized rate of return. Specifically, "advice letter” rate base offsets, the earnings tests, one-way balancing accounts, and the 3-year General Rate Case plan, all contribute to the likelihood that a utility will earn below its rate of return.

Q. What are the positive attributes of the Commission’s regulatory scheme?

A. The Commission utilizes the use of a future test year for expense forecasting, multiple future test years for plant additions, use of memorandum and balancing accounts, and providing interim rates if a rate case cannot be processed in a timely fashion.

Q. Is expense estimating a concern under the Rate Case Plan?

A. Yes, Cal Water must estimate expenses before filing, approximately 24-30 months in advance of the test year, and use a historical average for forecasting. The standard GRC procedural schedule under the Rate Case Plan allows the utility to update

the recorded data submitted, but not allow the utility to change its estimating methodology to account for new data. So if for instance the utility estimated costs using a five-year historical average in its GRC application, but its subsequent data shows a divergence from this trend, there is no opportunity in the procedural schedule for the utility to modify its methodology to achieve a more accurate forecast of its future expenses. In addition, legitimate historic expenses are often disputed by Cal PA as non-recurring expenses and eliminated from the average, notwithstanding that other non-recurring expenses are likely to occur in the future. Cal PA and other intervenors in the proceeding face no such restriction, so when updated data comes in, they are free to lower estimates where data so indicates, but they are under no obligation to increase estimates when the data would support a higher expense than the utility originally forecast.

In addition to this, the utility is not allowed to forecast expenses beyond the first test year. Expenses for the second and third year of the rate case cycle are escalated by CPI and other indices that often do not account for the utility's actual expenses.

Q. How is the mechanism of "Advice Letter" Rate Base Offsets biased?

A. Rate Base Offsets that only allow capital projects to be reflected in rates via an "Advice Letter" after project completion are often used in rate cases as a means of pre-approving projects whose scope or timing is uncertain at the time of the GRC filing. The main reason for uncertainty in these instances, however, is that Cal Water is required to prepare its general rate case 3-4 years in advance of the expected completion date of a

large project.[14] Cal PA, the primary reviewer of Class A utility filings, has an incentive to reduce the immediate impact on rates by proposing that many projects be handled by advice letter rather than reflecting them in adopted rates. Cal PA reports annually to the legislature and measures its success in terms of dollar and percentage reductions of utility requests.[15] Further complicating this trend is the Commission's General Order 96-B, which allows for "capped" advice letters to be processed as Tier 2 (30-day administrative approval by Commission staff), while uncapped advice letters are Tier 3 (requiring approval by Commission resolution with an indefinite timeline). Since these advice letters can only be filed after project completion, the utility has an incentive to accept a "capped" amount because it can begin to recover its costs sooner. This leads to a situation where either the costs come below the cap and customers pay only the final cost of the project (minus the regulatory lag), or the costs come in above the cap, wherein the utility receives no consideration of additional revenue requirement until the next GRC test year. Furthermore, this "advice letter" process has a material impact on Cal Water's revenue requirement, as demonstrated by Cal Water's agreement to give advice letter treatment to $148 million in projects, potentially generating $17 million annual revenue requirement, in its 2018 GRC and to give advice letter treatment to

[14] For example, if Cal Water forecasts the need for a well in 2021, the second rate base "test year," Cal Water has to estimate the costs and completion date for the project in 2017 in order to request the project in the May 2018 "Proposed Application" of its 2018 General Rate Case.

[15] See California Public Advocates 2020 Annual Report to the Legislature, "The Public Advocates Office successfully saved customers more than $3.3 billion in lower utility revenues and avoided rate increases last year."

$197 million in projects, potentially generating $30 million annual revenue requirement, in its 2015 GRC.

Q. Why does the escalation earnings test inhibit a water utility's ability to earn its authorized return?

A. The escalation earnings test is filed before the second escalation year and the third escalation year of a triennial rate case filing cycle. If the Company does not pass the earnings test, prior authorized rate increases may not be implemented. Only the water industry is required to "pass" an earnings test in order to obtain an inflation or rate base adjustment in an escalation year. Energy utilities in California are allowed to implement post-test-year changes to revenues without filing or passing an earnings test. To make matters worse, each of Cal Water's regulated districts must pass their own individual earnings test, rather than having one earnings test for the whole utility.

While the test for escalation years is called an "earnings test" it is actually not a test of earnings at all. The mechanics of the test only incorporate changes in weighted average rate base, as compared to rate base authorized in the rate case, and changes in customer count. Other changes that could affect earnings, such as changes in expenses beyond CPI indexes, are excluded from the calculation. The net result is that it is extraordinarily difficult for Cal Water to actually earn its authorized rate of return because (1) Cal Water must pass individual "earnings tests" in each of its 21 ratemaking areas in order to achieve the full authorized escalation year increase for the utility, and

(2) any changes in expenses beyond CPI and other Commission approved indexes is excluded in calculating rates for the escalation year.

Q. Is the earnings test biased against utilities?

A. Yes. As I have just described, in the case of a large multi-district water utility such as Cal Water, the earnings test represents a one-way adjustment that creates a downward bias in the Commission's ratemaking process. No extra revenue is given for ratemaking areas which under-earn in a given year. Operating expenses and capital improvements can be outside the utility's control, for instance if materials prices change, if permitting costs are beyond those forecasted, or if governmental agencies interfere with timing of projects. While these changes are obviously risks the utility has undertaken, the earnings test makes those risks asymmetric by penalizing one deviation from normal while not commensurately rewarding the other deviations.

While the earnings test measures historical variables such as capital project completion and customer count in order to apply a reduction to future revenue escalation, "excess earnings" as calculated by the earnings test ignores any cost increases above CPI that the utility has incurred and therefore most likely are not "excess earnings" at all. Moreover the earnings test assumes that any "excess earnings" as compared to authorized for a past period will uniformly continue to occur in future periods. The adjustment to revenue recovery is permanent until the next general rate case. There is no make-up provision if a later period reflects earnings at or below authorized. Customer numbers can, at a later point, return to normal levels if a

development occurred more quickly or slowly than anticipated. Rate base can "catch up" if projects were delayed but completed at a later point. In fact, since the earnings test uses weighted average rate base, it is possible that all authorized plant improvements were actually placed into service, but later in the year than anticipated in the rate case.

Q. Please describe the limitations of the earnings test as it relates to the accounting classification of used and useful capital projects.

A. When a capital project is initiated, it is designated as construction work in progress ("CWIP"). Upon completion, the project is closed and dollars are transferred to the appropriate fixed asset accounts as utility plant in service ("UPIS"). This is done only after all invoices are submitted and paid for in compliance with internal accounting controls along with various other record keeping and administrative processes.

The movement of costs from CWIP to UPIS is a particular challenge for Cal Water's earnings tests in each step year. The earnings test examines recorded weighted UPIS and CWIP to assess how closely a utility met the projections approved for in its rate case decision. The result, in concert with other metrics, determines the utility's eligibility for a step rate increase in the next year. Most Class A water utilities include CWIP in ratebase and earn a return on investment while the project is built. They are permitted to include CWIP in their earnings tests and thus the timing between project completion and transfer of costs to UPIS is inconsequential.

Cal Water is different. In lieu of including CWIP in rates, Cal Water calculates an allowance for funds used during construction ("AFUDC") throughout the construction period. It is only recovered when the project is complete and in service and all dollars are transferred to UPIS for recovery. Once a project is in service, AFUDC is no longer accrued.

Where the earnings test is significantly flawed for utilities with AFUDC is for capital projects that are operationally live (*i.e.*, they are used and useful), but have not yet been moved out of CWIP to UPIS for accounting purposes. Part of this delay is due to the inherent lag from the time work is completed to the receipt of invoices and payment for services. For example, a newly installed pump can be fully operational and used and useful months before final invoices are paid. In other instances, the delay is related to pending work that does not interfere with the capital project's primary purpose. The same pump can be up and running while the fencing, paving, painting and other necessary improvements that do not impact the used and useful nature of the pump station are completed. Regardless, customers are already receiving the full benefit of the investment even as residual work or invoices remain outstanding.

By ignoring this timing gap, the earnings test suppresses Cal Water's completed capital investment and gives the illusion Cal Water has fallen short of projections when the opposite could be true. Cal Water is hit twice in terms of recovering the costs of and on its investment. It has ceased accruing AFUDC because the project is in service, but cannot count that capital spending towards recorded weighted rate base in the earnings test, despite its used and useful status. The result can be a partial or full denial of its

step increases. Delay in recovery could be upwards of a year or longer until Cal Water's next step filing or general rate case.

Q. Please describe memorandum and balancing accounts and how they work.

A. A memorandum account is a mechanism that allows the utility to track charges and credits related to a specific activity or event. Details governing the memorandum account, such as the purpose of the account, applicable parties involved, accounting procedures, and the rate component are stipulated in the Preliminary Statement of the utility's tariff. The balance of the account will be recovered or refunded upon approval by the Commission after the utility provides a showing of reasonableness for the entries into the account. The ratemaking treatment of a balancing account is similar to a memorandum account, except that recovery of a balancing account does not require Commission disposition through a resolution.

Q. Why are memorandum and balancing accounts considered to be beneficial?

A. Rate case revenue is largely based on a utility's projection of future costs using historical data, as determined during a general rate case proceeding. Many costs, such as local taxes and fees, are fairly stable and predictable. Other costs are more difficult to predict, and an incorrect estimation of those costs will result in the under- or over-collection of revenue from a utility's customers in the absence of a memo or balancing account. The best example is if wholesale water prices rise or fall dramatically, the Commission's balancing accounts can ensure that customers only pay the actual

amount, not an estimate made three years earlier. Memorandum and balancing accounts benefit customers by allowing utilities to only collect in rates the actual costs they have incurred.

Q. How many memorandum and balancing accounts does Cal Water have?

A. Cal Water currently has 26 memorandum and balancing accounts as listed in **Attachment 1** to my direct testimony.

Q. Who are the beneficiaries of these accounts?

A. In some accounts, the beneficiary is the customer. In other accounts, the beneficiary is both Cal Water and the customer.

Q. How did you determine whether or not Cal Water benefits from a particular memorandum account?

A. Cal Water benefits from a memorandum or balancing account if there is the potential for Cal Water to recover costs it otherwise would not be able to collect. As an example, Cal Water maintains a Catastrophic Event Memorandum Account ("CEMA") in which to capture extraordinary costs associated with an earthquake, dam failure, pandemic or other catastrophic event beyond its control. At the time of Cal Water's next rate case, or through a separate filing with the Commission, Cal Water can seek approval to recover those costs even though they may be classified as non-recurring under normal ratemaking practices.

One type of memorandum or balancing account in which Cal Water does not benefit is the one-way balancing account. This is a memorandum account in which Cal Water must refund an over-collection, but is not authorized to recover from an under-collection. An example of this is the Conservation Expense One-Way Balancing Account ("CEBA") that has been adopted in every general rate case since Cal Water's 2009 GRC. This account tracks the differences between the actual costs associated with specified conservation efforts and the projected, or authorized costs. If Cal Water spends less than the authorized amount, it will refund the difference to the ratepayers. However, if Cal Water spends more than what was authorized the company will absorb the difference.

Another type of memorandum or balancing account Cal Water does not benefit from would be an account that tracks a public purpose program such as the CAP account or Rate Support Fund ("RSF") account. Public purpose programs are set up to assist a group or classification of Cal Water's customers usually in the form of a discount or credit. The costs of these programs are spread out among Cal Water's customers through a nominal surcharge. If the revenues supporting the programs are less than the costs of the programs, Cal Water will request to raise the surcharge. If the revenues collected exceed the cost of the programs, Cal Water will refund the over-collected portion. While Cal Water appreciates the benefits of these programs, Cal Water does not directly benefit from these programs.

Q. Are there memorandum accounts that only serve to benefit the utility?

A. No. According to Standard Practice U-27-W, upon filing to establish a memorandum account, the utility must address the following four factors:[16]

- The expense is caused by an event of an exceptional nature that is not under the utility's control,
- The expense cannot have been reasonably foreseen in the utility's last GRC and will occur before the utility's next schedule rate case,
- The expense is of a substantial nature in the amount of money involved, and
- The ratepayers will benefit by the memorandum account treatment.

In the instances where Cal Water receives Commission approval to recover an under-collection in a memorandum account, our customers are not harmed for three main reasons. First, they are paying for the true cost of the service associated with the account. Second, the utility is required to adhere to specific guidelines in determining what costs should be included in a memorandum account. Finally, in order for a utility to recover or refund the balances of the memorandum accounts, the Commission must scrutinize and deem the costs reasonable.

Q. Do you have any additional concerns regarding the use of memorandum and balancing accounts?

A. Yes. While memorandum and balancing accounts have the potential to mitigate some risk to the utility and ensure that rates reflect the true cost associated with a particular event or circumstance, Cal Water has concerns regarding the number of

[16] Standard Practice U-27-W, Section 44.

memorandum and balancing accounts, and the lag time between when the costs are incurred as compared to when the utility is able to recover those costs.

As mentioned above, Cal Water has 26 active memorandum or balancing accounts. When Cal Water filed its last Cost of Capital application in 2017, it had 36 active memorandum or balancing accounts. The large number of memorandum accounts places a significant demand of Cal Water's resources to establish, track, maintain, periodically report on and ultimately attempt to recover the balance in each memorandum account. Also memorandum accounts do not adequately compensate Cal Water for the time-value of the funds it has recorded in the accounts until authorized to recover these costs, often years into the future.[17] As mentioned before, recovery of the balance of memorandum accounts is not guaranteed, as the Commission must review and determine whether the costs associated with each memorandum account are prudent before Cal Water is able to recover its costs.

Q. What are you requesting in the Cost of Capital proceeding regarding the imbalance in regulatory mechanisms?

A. The Commission should conclude that the implementation of the earnings test, the use of capped rate base offset advice letters, and the use of numerous memorandum and balancing accounts, along with the Commission's other ratemaking practices, do not provide a uniformly supportive regulatory structure for water utilities.

[17] While Cal Water accrues interest on its balances at the standard 90-day commercial paper rate, it does not compensate Cal Water for the actual cost of debt and equity necessary to finance them until the company is authorized to recover them.

In fact, many of these mechanisms are designed specifically by the Commission to restrict the earnings of water utilities, not to benefit them. Therefore the Commission should consider adding basis points to Cal Water's overall return on equity to compensate for the additional risks and challenges associated with the asymmetrical regulatory mechanisms.

V. RISKS ASSOCIATED WITH THE ELIMINATION OF THE WATER REVENUE ADJUSTMENT MECHANISM ("WRAM")/MODIFIED COST BALANCING ACCOUNT ("MCBA")

Q. Is there any recent changes to the Commissions Regulatory Mechanisms that increase the Company's financial risk?

A. Yes, in the Low Income Rulemaking proceeding decision issued in August 2020 (D.20-08-047), the Commission prohibited Cal Water from proposing to continue its existing WRAM/MCBA in its next GRC here, effectively eliminating Cal Water's WRAM/MCBA mechanisms as of January 1, 2023, the effective date of Cal Water's next general rate increase.

Q. Before addressing the financial impact related to the termination of WRAM please discuss what it is and how it works.

A. WRAM is a ratemaking mechanism adopted by the Commission in D.08-08-030 that breaks the link between water sales and revenues to encourage utilities to promote conservation in accordance with California's objective to make conservation a way of life. The WRAM works with the MCBA to balance changes in revenue collection

(through WRAM) and changes in variable production expenses (through MCBA)[18]. Cal Water recovers a set amount of revenue to cover its fixed and variable operating expenses. When sales go down, Cal Water collects less in revenue, but it also incurs lower variable production expenses. Conversely, when sales go up Cal Water collects more in revenue, but it also incurs higher variable production expenses. To ensure that Cal Water does not under or over collect fixed costs, the changes in variable production expenses are adjusted from the authorized revenues. The difference between the actual revenue collected and the authorized revenue, after removing the changes in variable production expenses, is the shortfall/over collection in recovering fixed costs. Surcharges or surcredits on future water sales true-up any annual revenue deviations.

The adoption of the WRAM in the late 2000s by the Commission for Cal Water and other Class A water utilities went hand in hand with then-newly adopted increasing block rates (tiered rates) for metered customers intended to promote water conservation. Tiered rates are designed to produce the same amount of revenues as a single block rate would produce. As a result, high-water-using customers pay a higher rate and low-water-using customers pay a lower rate. The quantity charge is lowest for the first several units of water a customer uses, and the quantity charge goes up in steps as usage increases.

Specifically, the Commission authorized the WRAM to address differences between the adopted sales forecasts and actual sales. In the early 1980s the PUC implemented ERAMs for energy utilities to decouple sales from revenues to promote

[18] All references to the WRAM in this testimony are inclusive of the cost saving from the MCBA.

conservation and remove the financial incentive to sell more energy. Likewise, the Commission authorized WRAMs in 2008, for water utilities to promote conservation and remove the financial incentive to sell more water. WRAM records the difference between actual water sales and the adopted water sales. The WRAM and MCBA balancing accounts ensure that the recovery of the fixed cost component in revenues collected from water bills matches the amount authorized by the Commission. Temporary surcharges recover under-collections and temporary surcredits return revenues to customers that exceeds the authorized amount.

To understand WRAM, one needs to understand water rate design. Approximately, 70% of a water utility's costs are referred to as fixed costs (labor, billing, taxes, depreciation, PUC authorized return, etc). Variable water production costs (purchased water, pump taxes, and electricity) make up the other 30% of water utility costs. Fixed costs are not directly related to the amount of water sold. Customer bills include a fixed component (monthly service charge) and a quantity consumption component (quantity rates). However, while most of a water utility's costs are fixed, most of these fixed costs are recovered through quantity rates. In fact, historically the Commission prefers conservation based rates with 70% of the utilities' revenues recovered through the quantity rate. For this reason, decoupling water and energy revenues from sales is important to remove the incentive for utilities to sell more water or energy to increase earnings.

Additionally, there are a few of other things to consider to better understand WRAM. First, sales and revenues could be decoupled by establishing fixed utility

monthly service charge rates that recover 100% of the utility's fixed costs. However, the quantity rates would be so low that it would encourage wasteful use because the amount of water used would not significantly impact a customer's bill. Furthermore, this would be contrary to the State's water policy, which promotes water conservation. Also if adopted sales forecasts could accurately and timely predict future sales there would not be a need for WRAM. Neither of these two alternatives are feasible.

Q. How does elimination of WRAM affect Cal Water?

A. WRAM ensures that Cal Water will recover the fixed costs that the Commission has reviewed and adopted in its rate case decisions as just and reasonable. Without it actual sales and adopted sales in Cal Water's rate case need to identical for Cal Water to fully recover the adopted fixed costs. Moreover, the actual sales and the adopted sales for each rate tier also need to be the same over each three year rate case cycle. From a practical and historic perspective, this is impossible. Since the Commission authorized Cal Water's WRAM, Cal Water's sales have been lower than the adopted sales in every year. The table below shows Cal Water's sales deficiency (actual versus adopted) by year.

2009-2020 Actual vs Adopted Consumption (Ccf)

Year	Actual	Adopted	Actual / Adopted Percent
2009	126,225,445	138,224,371	91%
2010	119,762,780	141,952,971	84%
2011	124,295,174	146,107,405	85%
2012	133,478,249	147,593,020	90%
2013	136,967,752	148,774,954	92%
2014	129,608,379	132,086,167	98%
2015	111,792,013	132,583,619	84%
2016	108,745,037	133,493,977	81%
2017	116,012,086	140,690,167	82%
2018	121,821,266	128,473,701	95%
2019	117,743,132	136,675,817	86%
2020	123,497,712	128,211,608	96%

As the above table demonstrates without WRAM Cal Water would not have fully recovered the fixed costs included in its authorized quantity rates. The table below shows the annual net revenue deficiency (annual revenue deficiency minus water production cost savings). The average annual net revenue deficiency is $27.5 million. To calculate the impact on Cal Water's return on equity the revenue deficiency is reduced by 30% or $8.3 million to reflect income taxes included in rates. Using Cal Water's last adopted rate base of $1,625 million from Decision (D.) 20-12-007 a $19.2 million net revenue deficiency equates to a decrease in Cal Water's return on equity of 119 basis points or 1.19%.

WRAM/MCBA REVENUE DEFICIENCY

Year	WRAM	MCBA	WRAM + MCBA
2009	$21,131,473	($9,180,479)	$11,950,994
2010	$41,194,651	($22,729,024)	$18,465,627
2011	$57,070,092	($23,795,527)	$33,274,565
2012	$42,752,149	($23,046,155)	$19,705,994
2013	$43,220,264	($9,159,851)	$34,060,413
2014	$18,515,529	$7,206,131	$25,721,660
2015	$40,060,985	($20,233,734)	$19,827,251
2016	$55,069,471	($34,531,301)	$20,538,170
2017	$86,579,470	($33,359,756)	$53,219,714
2018	$50,919,269	($29,863,201)	$21,056,068
2019	$77,219,818	($35,116,348)	$42,103,470
2020	$18,816,113	$11,678,989	$30,495,102
TOTAL			$330,419,028
Average revenue deficiency			$27,534,919
Income tax			$8,260,476
Net revenue deficiency			$19,274,443
Last adopted rate base			$1,624,748,700
ROE decrease			1.19%

Cal Water District	Decision 20-12-007 2021 Rate Base (Dollars in Thousands)
Bakersfield	$193,646.60
Bay Area Region	$192,209.90
Bear Gulch	$162,947.90
Chico	$72,756.90
Dixon	$22,221.60
Dominguez	$125,997.00
East Los Angeles	$105,752.00
Hremosa Redondo	$63,767.70
Kern River Valley	$20,777.50
Livermore	$53,040.70
Los Altos	$86,905.30
Los Angeles County Region	$78,606.70
Marysville	$11,865.10
Oroville	$13,437.30
Salinas Valley Region	$127,603.20
Selma	$15,283.10
Stockton	$167,606.00
Visalia	$65,962.60
Westlake	$24,091.30
Willows	$11,848.50
Travis AFB	$8,421.80
TOTAL	$1,624,748.70

Q. As shown above the Commission's adopted sales forecast is higher than the actual sales in every year since WRAM was implemented. To what do you attribute the disconnect between adopted sales forecasts and actual sales?

A. Historically sales forecasting has relied heavily on the correlation between weather data and sales. In hot, dry years water sales are expected to be higher and in cool, wet years sales are expected to be lower. However, the reliance on weather data

alone has become less reliable. California's water supply is not an unlimited resource. Several factors have contributed to constraints on water availability, such as population growth, climate change, water contamination, the Sustainable Groundwater Management Act limiting groundwater production, environmental restoration and preservation, and affordability. Combined these factors result in unreliable long-term sales forecasts.

Q. Today's sales forecasting models are sophisticated with many variables that capture economic, environmental, customer behavior, regulatory and other factors that impact water sales. Will sophisticated forecasting models provide improve the accuracy of sales forecasts in future rate proceedings?

A. No. Sophisticated sales forecast models are not new. Cal Water and the Commission's Public Advocates Office have been using these models in rate proceedings for years. Unfortunately, they have not produced reliable results, primarily because forecasts, by definition, are predicting future event that are outside the control of the Commission and utilities. Among several challenges is that sales forecasts are based on the recorded information available at the time of preparing the forecasts, which is more than two years removed from the start of the Test Year and four years from the start of the second attrition year. Like long-term weather forecasts, which use very sophisticated models to predict the weather and frequently get it wrong, the sales forecast models have missed the mark. Prior to the Commission's adoption of WRAM sales forecasts were expected to have an equal opportunity in any year of being higher

and lower than actual sales. Not only has this not been the case in the last 12 years, but there is no longer an expectation that that sales forecasts will produce results that are equally higher and lower than actual sales and cancel each other out. Actual sales in cold, wet years will naturally be down due to lower irrigation demand. However, in hot and dry or just dry years when demand should be up and actual sales higher than the adopted sales forecast, conservation and water use restrictions limit both outside and indoor demand. As a result, actual sales will be lower than if unrestricted and likely lower than the adopted sales forecast.

Q. D.20-08-047 states that water utilities may choose their preferred water sales forecasting model. However, the decision also requires the following:

> **In any future general rate case applications filed after the effective date of this decision, a water utility must discuss how these specific factors impact the sales forecast presented in the application:**
>
> **(a) Impact of revenue collection and rate design on sales and revenue collection;**
>
> **(b) Impact of planned conservation programs;**
>
> **(c) Changes in customer counts;**
>
> **(d) Previous and upcoming changes to building codes requiring low flow fixtures and other water-saving measures, as well as any other relevant code changes;**
>
> **(e) Local and statewide trends in consumption, demographics, climate population density, and historic trends by ratemaking area; and**
>
> **(f) Past sales trends**

Will addressing these factors improve the accuracy of future sales forecasts?

A. All these factors are important in estimating future water sales. However, Cal Water has already incorporated these factors in its recent rate proceedings,[19] but its forecasts based upon these factors (which the Commission has reviewed and approved each time) have failed to yield future sales forecasts that accurately reflect actual sales.

Q. Do all Class A water companies face the same challenges in forecasting water sales?

A. Generally, Class A water companies have similar challenges. However, there are some differences. For example, San Jose Water Company and Suburban Water Company are single ratemaking district companies with one water system and one sales forecast model. Cal Water has over 20 ratemaking districts and over 35 separate water systems, which requires over 20 sales forecast models throughout the state's many climate zones.

Additionally, many Cal Water districts are small and would be Class B, Class C, and Class D companies, which means there is a smaller sample size. When working with smaller sample sizes, it is less likely that errors will cancel each other out.

[19] For the two most recent proceedings see Application A.15-07-015 rate proceeding for the year 2017-2019 (D.16-12-042) and Application A.18-07-01 rate proceeding for the years 2020 -2022 (D.20-12-007).

Q. You mentioned that affordability is a factor that can impact sales forecasting. Can you be more specific?

A. Yes. Rate affordability is an important concern in determining rates. Sales forecasts will not affect the adopted revenue requirement as significantly as they affect rates. A high sales forecast will moderately increase revenues due to increased production costs. However, the increase in sales spreads the variable and fixed costs over a greater number of units thereby producing lower rates and bills. Rate affordability concerns can influence the adopted sales forecast and a result in a greater risk that actual sales will be lower than adopted sales forecasts.

Q. D. 20-08-047 states that in their next general rate applications water utilities, including Cal Water:

> **"…shall not propose continuing existing Water Revenue Adjustment Mechanisms/Modified Cost Balancing Accounts but may propose to use Monterey-Style Water Revenue Adjustment Mechanisms and Incremental Cost Balancing Accounts."**

Since Cal Water cannot propose continuation of WRAM in its next general rate application, its WRAM will terminate on December 31, 2022. Does a Monterey Style WRAM (M-WRAM) reduce the increased financial risk associated with elimination of WRAM?

A. No. M-WRAM is a rate design tool intended to address the uncertainty associated with increasing block rates (tiered rates). Increasing rate blocks are designed so rates increase as customer consumption increases. An example of increasing block

rates is a rate of $2/Ccf for the first 6 Ccf, $3/Ccf for the next 10 Ccf, and $4/Ccf for all usage above 16 Ccf. As stated in D.20-08-047:

> "The Monterey-Style WRAM tracks the difference in billed quantity-rate revenues at actual sales over a calendar year period between the adopted tiered rate design and a revenue-neutral uniform rate. The Monterey-Style WRAM was adopted to protect the utility from reduced revenues collected under tiered rates as compared to a uniform rate design."

M-WRAM is not a sales adjustment mechanism and does not adjust revenues based on the actual and adopted sales. Since M-WRAM does not decouple sales from revenues, it does not reduce or eliminate the financial risk due to actual sales that are lower than adopted sales forecasts.

Q. In D.20-08-047 the Commission states that:

> **"The WRAM/MCBA transfers risk for utility operations from shareholders to ratepayers, eliminates the incentives to efficiently manage water production expenses, and eliminates the incentive to accurately forecast sales in a GRC."**

Do you agree with this statement?

A. No. The Commission initially adopted WRAM/MCBA to address the need to decouple sales from revenues, remove the financial incentive that water utilities had to increase water sales, and encourage water companies to aggressively promote water conservation. Times have changed from water supply limitations just during drought periods. The state has declared "water conservation is a way of life" thus memorializing its importance as water supply availability declines due to environmental restoration and preservation, climate change, groundwater contamination, the Sustainable

Groundwater Management Act limiting groundwater production, population growth, and affordability. All of these factors contribute to significant inaccuracies in sales forecasting. While the Commission did not consider these factors initially, WRAM avoids addressing the increase in financial risk due to these factors in Cost of Capital proceedings. Conversely, without WRAM the increase in financial risk due to these same factors is significant. If 100% accurate sales forecasts were possible, there would not be an increase in financial risk with the termination of WRAM. Unfortunately, Cal Water and the Commission have not ever accurately forecasted water sales since WRAM was adopted. Accordingly, it is appropriate to reflect the increase in financial risk Cal Water faces with the termination of WRAM.

Q. What are you requesting in the Cost of Capital proceeding regarding the elimination of the WRAM?

A. The Commission must add a risk premium to Cal Water's overall return on equity to reflect additional financial risks from the elimination of the WRAM/MCBA.

Q. Does this conclude your prepared direct testimony?

A. Yes, it does.

Attachment 1

Attachment 1: Cal Water's Balancing and Memorandum Accounts

	Preliminary Statement & Abbreviation	Regulatory Account	Regulatory Account Description
1	H LIRA MA	LIRA Memo Account	Tracks the incremental costs of the Low Income Ratepayer Assistance program.
2	M WRAM/MCBA	WRAM/MCBA	Tracks water revenues and water production related costs for future disposition.
3	S WCCM	Water Cost of Capital Adjustment Mechanism	Provides an automatic adjustment, up or down, to Cal Water's adopted return on equity for 2009 (and thus its overall rate of return on rate base for 2009) for calendar years 2010 and 2011 only if there is a positive or negative difference of more than 100 basis points between the then current 12-month October 1 through September 30 average of Moody's utility bond rates and a benchmark.
4	T LBA	Lucerne Balancing Account	Records surcharge and service fee revenues as well as Safe Drinking Water State Revolving Fund (SDWSRF) payments and interest earned on funds deposited with the fiscal agent.
5	W TCPMA	TCP Litigation Memo Account	Tracks the costs incurred and proceeds received and applied with respect to litigation against manufacturers and distributors referred to as potentially responsible parties (PRPs) that manufactured and distributed products that contained (T) 1,2,3 trichloropropane (TCP) in California.
6	Z3 CEBA3	Conservation Expense One-Way Balancing Account 3	Tracks the difference between recorded expenses and authorized expenses and refund to customers amounts included in rates which were not spent during the three-year authorization period to ensure ratepayers fund only conservation programs consistent with the adopted settlement approved by the Commission in D.16-12-042.
7	Z4 CEBA4	Conservation Expense One-Way Balancing Account 4	Tracks the difference between recorded expenses and authorized expenses and refund to customers amounts included in rates which were not spent during the three-year authorization period to ensure ratepayers fund only conservation programs consistent with the adopted settlement approved by the Commission in D.20-12-007.
8	AA3 PCBA3	Pension Cost Balancing Account 3	Tracks the difference between the adopted pension expense and California-regulated pension expense recorded in accordance with Generally Accepted Accounting Principles (GAAP) from January 1, 2017, through December 31, 2019.

	Preliminary Statement & Abbreviation	Regulatory Account	Regulatory Account Description
9	AA4 PCBA4	Pension Cost Balancing Account 4	Tracks the difference between the adopted pension expense and California-regulated pension expense recorded in accordance with Generally Accepted Accounting Principles (GAAP) from January 1, 2020, through December 31, 2022.
10	AB3 HCBA3	Health Cost Balancing Account 3	Tracks the difference between the adopted health care expenses (including post-retirement benefits other than pension or PBOB) and the total actual cost incurred as health care expense from January 1, 2017, through December 31, 2019.
11	AB4 HCBA4	Health Cost Balancing Account 4	Tracks the difference between the adopted health care expenses (including post-retirement benefits other than pension or PBOB) and the total actual cost incurred as health care expense from January 1, 2020, through December 31, 2022.
12	AG CEMA	Catastrophic Event Memo Account	Records the costs of restoring customers' utility service, repairing, replacing or restoring damaged utility facilities, complying with government agency orders resulting from declared disasters, associated costs with emergency customer protections, and the implementation of those protections for all disasters.
13	AI Chromium-6 MA	Chromium-6 Memo Account	Tracks the incremental costs incurred to comply with the Maximum Contaminant Level (MCL)that is adopted by the California Department of Public Health (CDPH) for chromium-6 in order to coordinate recovery of costs with adopted revenue requirements.
14	AJ LIRABA	Low Income Ratepayer Assistance Balancing Account	Tracks the LIRA credits provided, to track the LIRA surcharges collected, and to adjust the LIRA surcharges on January 1 of each year.
15	AM RSF BA	Rate Support Fund Balancing Account	Tracks the Rate Support Fund ("RSF") subsidies (credits) provided to customers in certain ratemaking areas and the RSF surcharges collected to fund the RSF Program to review and adjust the RSF surcharge, if necessary, for the following year.
16	AN IMA	Infrastructure Memo Account	Created 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.
17	AO WCLMA	Water Contamination Litigation Memo Account	Tracks expenses associated with litigating water contamination legal cases.
18	AP District BAs	General District Balancing Accounts	Aggregates small residual dollar amounts for subsequent amortization at the ratemaking area ("district") level.

	Preliminary Statement & Abbreviation	Regulatory Account	Regulatory Account Description
19	AS ALMA	Asbestos Litigation Memo Account	Tracks costs, settlement payments, judgments and credits related to litigation arising from alleged exposure to asbestos from asbestos-cement water pipes in Cal Water's service areas.
20	AT SLT MA	School Lead Testing Memo Account	Tracks incremental expenses (not already reflected in authorized rates) associated with conducting lead tests at K-12 grade schools within Cal Water's service territory that request this service.
21	AU Sites MA	Phase 1 Sites Reservoir Memo Account	Tracks the costs for payments made to the Sites Project Authority for Phase 1 of the proposed "Sites Reservoir," an off-stream project located on the west side of the Sacramento Valley. The Phase 1 Sites MA is capped at the estimated $1.05 million maximum payment for Phase 1.
22	AV TAMA	2018 Tax Accounting Memo Account	Tracks on a CPUC-jurisdictional revenue requirement basis the impacts of the "2018 Tax Cuts and Jobs Act" not otherwise reflected in rates from January 1, 2018 through December 31, 2019 and the income tax expense associated with any grants awarded to Cal Water.
23	AX LSL MA	Lead Service Line Memo Account	Tracks the incremental costs associated with studying and potentially replacing lead service lines for the benefit of Cal Water's customers.
24	AY PSPS MA	Public Safety Power Shut-Off Memo Account	Tracks the incremental operations and maintenance expenses and carrying costs for new facilities, that are costs not already reflected in authorized rates, to address public safety needs in the event a proposed or declared Public Safety Power Shut-Off by an energy utility, including advance preparation costs.
25	AZ 2018 IRMA	2018 GRC Interim Rate Memo Account	Addresses any delay in the resolution of Cal Water's 2018 General Rate Case (A.18-07-001) past the beginning of the first Test Year, January 1, 2020.
26	BA PFAS MA	Polyfluoroalkyl Substances Memo Account	Tracks incremental expenses that are not otherwise covered in Cal Water's revenue requirement in order to comply with the regulatory standards set by the State Water Resources Control Board to detect, monitor, report, and remediate per- and polyfluoroalkyl substances ("PFAS") (such as perfluorooctanoic (PFOA) and perfluorooctanesulfonic acid (PFOS)) in drinking water.