

Preliminary Statement AA5

Page 1

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AA5. Pension Cost Balancing Account (PCBA5)

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1. PURPOSE

The PCBA5 will track the difference between the adopted pension expense and California-regulated pension expense recorded in accordance with Generally Accepted Accounting Principles (GAAP). The adopted and tracked expenses include only the expensed portion of benefits and exclude pension costs assigned to capitalized overhead, capitalized projects, out-of-state affiliates, and unregulated entities.

2. APPLICABILITY

The PCBA5 is effective beginning January 1, 2023, through December 31, 2025, and applies to all ratemaking areas and Customer Support Services (General Office). This excludes out-of-state affiliates and unregulated operation expenses.

3. ACCOUNTING PROCEDURE:

The following entries will be recorded annually to the PCBA5:

- a. Annual pension expense as determined by Cal Water's actuarial expert according to the method prescribed by the Financial Accounting Standards Board's Codification 715 and all required pension trust administrative costs such as the ERISA-required Pension Benefit Guaranty Corporation (PBGC) costs. The capitalized portion of pension costs at the adopted capitalization ratio and other items listed in Section 1 will be excluded.
- b. The annual amount of pension expense authorized to be collected in rates. The capitalized portion of pension costs at the adopted capitalization ratio and other items listed in Section 1 will be excluded.
- c. The difference between 3.a and 3.b.
- d. The sum of entries in item 3.c., all prior year entries in 3.c., and all accumulated interest calculated in 3.e., below.
- e. Monthly interest expense calculated on the accumulated balance in 3.d. calculated at 1/12 of the most recent month's interest rate on Commercial Paper, published in the Federal Reserve Statistical Release H.15 or its successor.

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(To be inserted by utility)		Issued By	(To be inserted by CPUC)	
Advice Letter	<u>2523</u>	<u>Greg Milleman</u>	Date Filed	<u>07/29/2024</u>
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		<u>Rates and Regulatory Affairs</u>	Resolution	

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Page 2

(N)

**AA5. Pension Cost Balancing Account (PCBA5) (continued)**

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4. RATEMAKING PROCEDURE:

The PCBA5 is recoverable in a Tier 2 advice letter filing if the accumulated balance exceeds 2% of gross adopted revenues for Cal Water in accordance with General Order 96-B and standard practices or by request in the next general rate case. In any filing, Cal Water shall demonstrate its continued compliance with SFAS 87 and demonstrate that any changes to its expenses were reasonable and prudently incurred.

In any filing, Cal Water will identify any changes in pension accounting that were required by federal or state law or directed by the Financial Accounting Standards Board. Changes in assumptions reflecting current market, interest rate, or demographic conditions should not be considered "changes in accounting" as these are standard practices used to develop SFAS 87 requirements.

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