Preliminary Statement

(continued)

F. MEMORANDUM ACCOUNT (MTBEMA)

1. PURPOSE: The purpose of the MTBEMA is to track the costs incurred and proceeds received and applied with respect to litigation against manufacturers, refineries, and service station operators referred to as potentially responsible parties (PRPs), that produced and/or distributed products, which contained methyl tertiary butyl ether (MTBE). Cal Water will incur external costs to support its litigation effort. The MTBEMA will track actual costs. The MTBEMA will also track litigation awards and settlement proceeds. Finally, the MTBEMA will track application of funds received toward investments in replacement and treatment property and expenses (internal and external) to operate, manage, and maintain that property. The Commission will determine the disposition of the MTBEMA in connection with Cal Water's general rate cases or a separate proceeding. (C)

2. APPLICABILITY: The MTBEMA applies in all Cal Water districts which pump groundwater potentially contaminated with MTBE. MTBEMA shall apply to the Bakersfield, Chico, Dixon, East Los Angeles, Hermosa-Redondo, Kern River Valley, King City, Livermore, Los Altos-Suburban, Marysville, Oroville, Salinas, South San Francisco, Stockton, Visalia, Willows, and Dominguez. (C)

3. MTBEMA RATES: The MTBEMA does not currently have a rate component.

4. ACCOUNTING PROCEDURE: Cal Water shall maintain the MTBEMA until further order of the Commission authorizes it to be closed or modified. Entries will be made into the MTBEMA at the end of each month. The purpose of the entries described herein is to preserve the full range of regulatory options for the Commission and to coordinate this memorandum account with adopted revenue requirements. Entries shall be tracked separately as follows: (C)

<u>Investment Entries</u> (C)

a. A credit or debit entry equal to the amounts recorded in Cal Water's Operations and Maintenance, and Administrative and General Expense Accounts for external costs incurred to support the MTBE litigation and for all costs (internal and external) incurred to operate, manage, and maintain facilities constructed with the MTBE proceeds. (C)

b. A debit or credit entry equal to the amounts obtained in judgments or settlements in the subject litigation. (C)

c. A debit or credit entry equal to the original cost of capital investments placed in service to replace MTBE contaminated property or to treat water for MTBE contamination, including such projects that have been completed prior to the adoption of this memorandum account. Cal Water shall record the capital investment by project and by district. (C)

<u>Revenue Requirement Entries</u> (Note: These entries are not necessarily cumulative and are recorded in order to preserve the range of potential regulatory outcomes the Commission may elect.) (C)

d. A debit or credit entry equal to the revenue requirement of each capital investment recorded in (c.) as if it were shareholder-funded (including return on investment, income taxes, ad valorem tax, depreciation, other taxes and fees). Cal Water shall record the revenue requirement by project and by district. (C)

e. A debit or credit entry equal to the revenue requirement of each capital investment recorded in (c.) as if it were contributed (including only ad valorem tax, other taxes and fees). Cal Water shall record the revenue requirement by project and by district. (C)

f. A debit or credit entry equal to the amount of revenue requirement for MTBE-related plant replacement or water treatment included in Cal Water's adopted revenue requirement. Cal Water shall record the revenue requirement by project and by district. (N)

<u>Interest</u>

g. A monthly debit or credit entry equal to the average balance in each segment of the account (as described in paragraphs a through f) multiplied by 1/12th of the most recent month's interest rate on Commercial Paper (prime, 90-day), published in Federal Reserve Statistical Release H-15. (N)