

PRELIMINARY STATEMENT  
(Continued)

Sheet 1

**AD. Water Cost of Capital Adjustment Mechanism**

**1. PURPOSE:**

The purpose of the Water Cost of Capital Adjustment Mechanism is to provide for an automatic adjustments, up or down as the case may be, to a water utility's adopted return on equity for 2022 (C) (and thus its overall rate of return on rate base for 2022) for years 2023 and 2024 only if there is a (T)(C) positive or negative difference of more than 100 basis points between the then current 12-month October 1 through September 30 average Moody's utility bond rates and a benchmark.

**2. APPLICABILITY:**

All districts of California American Water

**3. ACCOUNTING PROCEDURE:**

California American Water was granted authority to maintain this adjustment mechanism adopted in Decision (D.) 23-06-025 extended application for 2022, 2023, and 2024. (C)

a. The initial benchmark is equal to the average interest rate of Moody's Aa utility bonds for AA or A credit-rated utilities or higher, or Moody's Baa utility bonds for BBB+ credit-rated utilities or lower for the period October 1, 2020 to September 30, 2021. The subsequent October 1 through September 30 average also would be based on the foregoing parameters. (C)

b. If the 100 basis point "deadband" (a range of change in interest rates that may occur without automatically triggering a change in embedded long-term debt and preferred stock costs and return on equities) is exceeded, California American Water's return on equity will be adjusted by one half of the difference between the benchmark and the October 1 to September 30 average.

c. In any year where the 12-month October through September average adjustment, that average becomes the new benchmark.

d. If the 100 basis point "deadband" is exceeded, California American Water will file a Tier 2 advice letter by October 15 that updates return on equity and related rate adjustments to become effective on January 1 of the following year. The advice letter would also update long-term debt and preferred stock costs to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock-scheduled to be issued.

e. California American Water's capital structure, as adopted for base year 2022, shall not be adjusted. (C)

4. Work papers outlining the calculations relating to the change in return on equity, long-term debt costs, preferred stock costs and resulting changes in rates to become effective on the following January 1 are required to accompany the advice letter.

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(TO BE INSERTED BY UTILITY)		ISSUED BY	(TO BE INSERTED BY C.P.U.C.)	
Advice	1415	S. W. OWENS	Date Filed	<u>06/30/2023</u>
Decision		SR. DIRECTOR - Rates & Regulatory	Effective	<u>07/31/2023</u>
			Resolution	<u></u>