APPENDIX A: PROPOSED CHANGES TO PROPOSED DECISION

- Proposed text deletions are in bold strikethrough (example)
- Proposed text additions are in bold underline (example)
- Upon making the following changes, the Findings of Fact, Conclusions of Law, and Ordering Paragraphs should be re-numbered to ensure that no numbers are skipped.

Findings of Fact

4. Neither LPWC nor MPWMD had previously addressed or taken a position on most of the issues contained in the Monterey Settlement.

5. The issues in the Monterey Settlement were actively contested and litigated by ORA, and impact LPWC and MPWMD.

6. The Monterey Settlement is not reasonable in light of the whole record or and in the public interest.

8. With the exception of the Coronado/Imperial Beach Recycled Water Project, Coronado had not previously expressed a position or provided testimony on the issues included in the Coronado Settlement.

9. The Commission’s consideration of the new Southern Division consolidated rate design proposal would be prejudicial to the parties that actually litigated and contested the proposed Southern Division consolidation.

10. The Coronado Settlement is not reasonable in light of the whole record or and in the public interest.

20. The Commission received several letters from the public regarding Cal-Am’s proposed moratorium on new service connections for the Laguna Seca Subarea, which stated that the proposed moratorium substantially affects the interests of property owners in the area without adequate notice and opportunity to be heard.

21. There is no evidence that Cal-Am provided adequate notice regarding the proposed Laguna Seca Subarea moratorium to the public and affected customers.

30. There are currently significant differences in water supply for the three districts in the Southern Division that justify a gradual approach to consolidation.

31. Given differences in water supply, the Ventura and San Diego districts are unlikely to ever benefit from the pooling of plant and infrastructure costs.

32. Cal-Am’s proposed Southern Division consolidation as presented in the Coronado Settlement would result in Ventura customers subsidizing customers in other districts during this GRC cycle will result in greater stability in rates because there will be a larger
number of customers over whom to spread costs, and will lower average bills for customers in all Southern Division districts.

33. There is no evidence that supports that subsidization by Ventura customers of other customers in the Southern Division would be reasonable or justified.

34. There is no evidence of high cost or affordability issues in the Southern Division pursuant to the tests adopted in D.14-10-047.

35. There is no evidence that there will be lowered administrative or regulatory costs as a result of the proposed Southern Division consolidation.

42. In developing the expense forecasts, it is reasonable to include all high “outlier years” as defined by ORA in developing the TY forecast with the exception of “Misc. Maint.– Transmission & Distribution—Service” for the Sacramento District.

43. Recorded 2011 and 2012 expenses for the Sacramento District’s “Misc. Maint.– Transmission & Distribution - Service” line item should not be considered in developing the TY forecast since they include expenses related to conversions from flat rate to metered service and no such conversions are likely to occur during are planned for this GRC cycle.

44. It is reasonable to base the forecast for the “Misc. Maint.–Transmission & Distribution – Service” expense for the Sacramento District on the escalated 3-year average from 2013–2015.

45. There is inadequate justification to use a non-labor escalation factor of 2.3% for 2016.

46. There is a lack of justification for selectively choosing which rates to use from ORA’s escalation memo.

47. Unless otherwise specified, it is reasonable to base escalation rates on ORA’s August 2018 Escalation Memo.

48. Cal-Am’s forecasts for purchased water are adequately justified and reasonable with the exception of certain purchased water unit costs that Cal-Am updated in a response to ORA’s data requests found at Attachment 3 to Exh. ORA-4 and additional purchased water offsets that Cal-Am has filed via advice letters.

51. Cal-Am’s methodology for forecasting chemical costs is reasonable and justified overstates chemical costs and is unnecessarily complex.

52. ORA’s proposed methodology for forecasting chemical costs is inferior to the methodology proposed by Cal-Am reasonable for all districts except for Monterey Wastewater.

55. With the exception of the Monterey District, there is no evidence that recorded 2015 leak adjustments would overstate leak adjustments.
57. Cal-Am has failed to demonstrate the reasonableness of its leak adjustment practices or recorded leak adjustments in its Monterey District.

58. There is no substantial evidence in the record regarding any verifiable guidelines or standards for the issuance of leak adjustments in the Monterey District.

59. There is a lack of information in the record that supports the reasonableness of Cal-Am’s 2014 and 2015 recorded leak adjustments in the Monterey District.

60. Given the high dollar amounts of Monterey District leak adjustment expenses, the variability in recorded Monterey District Leak adjustment expenses, and Cal-Am’s failure to adequately justify previous expenditures, additional scrutiny of these expenses via a balancing account is appropriate these cost should be placed in base rates and can be reviewed in Cal-Am’s next General Rate Case subject to refund.

61. Given that there is no evidence of a reasonable leak adjustment policy in Monterey, it is reasonable to establish a one-way balancing account for Monterey District leak adjustments so there is an incentive for Cal-Am to incur only reasonable leak adjustment expenses during this GRC cycle.

62. Given the variability in recorded Monterey District leak adjustment expenses, it is reasonable to establish the five-year 2011-2015 average of $2,370,879 as an annual budget for the Monterey District leak adjustment balancing account pursuant to the Monterey Settlement.

63. Based on recorded information and forecasts provided by Cal-Am, an NRW threshold of 7.0% for the Monterey District, consistent with the Monterey Settlement, is a reasonable upper threshold above which penalties would accrue.

64. In order to incentivize Cal-Am to further reduce NRW levels, an NRW threshold of 5.0% for the Monterey District is a reasonable lower threshold below which rewards would be earned.

78. The escalation factor that Cal-Am uses for union employees, 2.5%, is the same escalation factor that the 2015 GRC decision adopted for all employees.

79. There is inadequate record evidence regarding the staffing and accounting changes that Cal-Am asserts occurred in 2016.

80. ORA’s proposal of using 2015 recorded expenses as a basis for forecasting 2018 labor expenses is unreasonable.

81. It is reasonable to escalate the 2015 recorded expenses by 2.5% annually utilize the separate escalation factors recommended by Cal-Am for union and non-union employees to forecast the 2018 labor expenses.
88. The Willis Towers Watson’s actuarial projections, which Cal-Am’s pension expense forecast is based on, are not part of the record of this proceeding.

89. There is an overcollection of approximately $4 million, as of 2015, in the pension balancing account, because there is a declining trend in pension expense that resulted in Cal-Am’s actual costs being below its authorized budget in 2013 to 2015.

90. It is reasonable to base the 2018 pension expense forecast on average costs for 2013-2015, escalated to 2018 dollars using the 2016 and 2017 escalation factors Willis Tower Watson’s actuarial projections for 2018.

96. The most recent recorded data in the record on Cal-Am’s incurred expenses for group insurance are the costs Cal-Am incurred in 2015.

97. Recorded data shows that American Water’s recorded costs for group insurance costs did not vary from 2015 to 2016, changing by less than 1%.

98. ORA and Cal-Am did not accurately forecast Cal-Am’s group insurance escalation rate for 2016, based on the actual escalation rate versus their forecasted escalation rates.

100. It is reasonable to adopt the average of ORA’s and Cal-Am’s escalation factors, which is 7.0% and 6.7% for 2017 and 7.5% for 2018, respectively, for group insurance expenses, because both parties’ forecasted escalation factors fall within a reasonable range of possibility but neither party’s forecast is more accurate than the other, it is more accurate than ORA’s forecasted escalation factors.

101. It is reasonable to approximate Cal-Am’s 2016 group insurance costs based on its 2015 recorded 2017 budgeted costs inflated by 7.0% for 2017 and 6.7% 7.5% for 2018.

139. The historical data shows that there are random variances in Cal-Am’s recorded percentage allocation factors, as demonstrated by the Regulated Ops Business Function.

140. To account for the dynamic cost allocation shifts caused by American Water’s recent subsidiary acquisitions throughout this period, it is reasonable for Cal-Am to use an average of the recorded percentage allocation factors for 2013-2015.

143. American Water is not an outside contractor for Cal-Am but is Cal-Am’s Parent Company, even though American Water Service Company provides services to Cal-Am based on a contract.

144. It is not appropriate for Cal-Am to use the composite inflation factors to escalate Service Company labor expenses, because the composite inflation factors are for escalating costs of contracted services.
145. It is appropriate for Cal-Am to use labor escalation factors to escalate Service Company labor expenses, because the Service Company labor expenses are labor costs that American Water expects to incur.

147. It is reasonable to forecast Cal-Am’s 2018 Service Company Incentive Compensation expenses by first applying the average 2013-2015 recorded percentage factor to American Water’s 2015 recorded expenses, and then escalating these figures by the 2017 and 2018 labor inflation factors in ORA’s August 2018 Escalation Memo composite inflation factors.

149. Cal-Am has not met its burden of proof in demonstrating that ratepayers benefit from increases in economies of scale and lower costs of capital that result from the acquisitions that the Business Development unit promotes.

150. It is not reasonable to approve ratepayer funding for Cal-Am’s Business Development unit.

152. Cal-Am spent $1,869,468 in 2014 and $2,243,632 in 2015 more than the amount the Commission approved for Information Technology (IT) capital projects related to the Business Transformation (BT) project in Cal-Am’s previous General Rate Case (GRC) proceedings.

153. The cost overruns related to the BT project were for IT enhancements and upgrades that are normal and ongoing system improvements which are typical for any prudent company.

[NEW FINDING OF FACT]. Cal-Am’s centrally-sponsored IT projects are required for system upgrades and enhancements, separate from the BT project.

154. Cal-Am failed to explain why it did not forecast additional IT enhancement costs, which are normal IT system expenses, in its previous GRC.

155. The additional IT upgrade costs related to the BT project were costs Cal-Am spent without receiving prior Commission approval, even though these are normal operating expenses that Cal-Am should have requested in a prior General Rate Case before spending.

156. Cal-Am fails to demonstrated that the IT upgrade costs related to the BT project were prudently and reasonably incurred, and therefore, it is not reasonable to include these costs in the General Office rate base forecast.

157. Cal-Am’s percentage allocation for the BT project has been based on Cal-Am’s percentage of customers relative to American Water’s total number of customers.

158. Cal-Am’s number of customers relative to the total number of American Water customers has decreased, given American Water’s recent acquisitions of Pennsylvania American Water and New Jersey American Water.
159. After accounting for the recent American Water acquisitions and counting water and wastewater services as separate customers, ORA calculated that Cal-Am’s proportion of customers relative to the total American Water customers should be 5.33% in 2018.

160. It is unreasonable to use a ratio of 5.33% to allocate American Water’s 2018 IT-related plant costs, including for the BT project, as doing so may result in a normalization violation.

169. The net excess reserve in the Accumulated Deferred Income Tax account consists of protected and unprotected assets.

171. It is reasonable for Cal-Am to retain the Excess Protected ADIT in the 2018 Tax Accounting Memorandum Account.

172. Cal-Am has not sufficiently addressed why implementation costs of the TCJA cannot be forecasted in this proceeding and why these costs are substantial in terms of the amount of money that Cal-Am will incur.

174. In several recent general rate case proceedings, the Commission has directed utilities to establish a two-way Tax Memorandum Account to record the differences between the income tax expense authorized in the GRC proceedings and the tax expenses the utilities incur.

175. In several recent general rate case proceedings, the Commission has directed utilities to notify the Commission of any tax-related changes, any tax-related accounting changes, or any tax-related procedural changes that materially affect, or may materially affect, revenues.

176. For purposes of notifying the Commission of any material tax-related changes, it is reasonable to define a material tax change for Cal-Am as a potential increase or decrease of $250,000 or more, which is about a 0.1% of Cal-Am’s 2018 revenue requirement.

179. Cal-Am has failed to demonstrate that its AMI proposal is cost-effective and that the potential benefits of deploying AMI in the San Diego, Ventura, Monterey, and Los Angeles County service districts justify the requested costs.

180. Cal-Am did not provide a cost-benefit analysis of its AMI proposal.

181. There is a great deal of variability in the amount of leak adjustments in the four districts in which Cal-Am is proposing to deploy AMI.

182. In districts other than Monterey, it is unlikely that the value of reducing customer leak adjustments would justify the costs Cal-Am is requesting for its AMI plan.

183. Cal-Am does not fully account for all costs associated with its AMI proposal.
184. Cal-Am’s AMI plan does not include policies for addressing customer opt-outs as required by D.16-12-026.

185. Cal-Am does not specify which of two options it will use for operation of the AMI network and its cost estimates under each option are preliminary.

186. Cal-Am’s application did not include a request for additional initial planning dollars for proposed recycled water projects and Cal-Am made this request for the first time in its rebuttal testimony.

187. Cal-Am fails to adequately justify the amounts for additional initial planning dollars for recycled water projects requested for this GRC cycle.

214. The Elverta Road Bridge Water Main and Arden Intertie projects have not been completed despite being funded in multiple rate cycles and Cal-Am does not provide sufficient information that demonstrates these projects are likely to be completed by the end of 2019.

231. The costs and timing of Cal-Am’s proposed project to purchase groundwater rights in the Los Angeles District are speculative.

232. Given the speculative nature of the project, it is not reasonable to approve Cal-Am’s requested budget for acquiring groundwater rights in the Los Angeles District.

247. Cal-Am prospectively double-counted the uncollectible costs when it incorporated the costs of uncollectibles in the calculation of the San Clemente Dam revenue requirement, since Cal-Am already added in the uncollectible costs in another section of the Results of Operations model.

279. The 10% cap on the amortization of the WRAM/MCBA balances is a ratepayer protection measure against rate shock and unreasonably high rates.

280. Given the potential for rate shock and unreasonably high rates, intergenerational inequities and harm from lingering regulatory assets, it is not reasonable to increase the 10% cap on amortization of the WRAM/MCBA balances as proposed by Cal-Am.

281. Given the decrease in rates due to changes to the federal tax rate and rate of return, it is reasonable to increase the WRAM/MCBA amortization cap to 15% for this rate cycle.

284. Cal-Am fails to justify the reasonableness of its Monterey Active Wastewater System high cost fund proposal set forth in the Monterey Settlement is reasonable.

285. There is a lack of justification for requiring water customers to subsidize all active wastewater customers.
303. Cal-Am does not adequately justify moving the conservation staff expenses from the conservation budgets to the district operations labor budgets.

304. Keeping conservation staff expenses in the conservation budgets will make it easier to track these expenses and ensure that the expenses are spent on conservation efforts.
Conclusions of Law

7. The Monterey Settlement fails to meet the requirements of Rule 12.1, and therefore, should not be adopted.

8. The Coronado Settlement fails to meet the requirements of Rule 12.1, and therefore, should not be adopted.

14. Members of the public and customers that would be affected by the proposed Laguna Seca Subarea moratorium should have received notice and an opportunity be heard prior to any moratorium being imposed.

15. Cal-Am’s request for a moratorium on new connections in the Laguna Seca Subarea should be denied.

19. Cal-Am has failed to meet its burden of proof with respect to its Southern Division consolidation proposal.

20. Cal-Am’s proposal to consolidate its Southern Division should be denied as set forth in the Coronado Settlement.

21. Cal-Am’s proposed rate design for the proposed consolidated Southern Division as set forth in the Coronado Settlement should not be adopted.

26. Official notice of ORA’s August 2018 Escalation Memo may be taken pursuant to Rule 13.9 and Ev. Code, § 452(h). 27. Cal-Am’s purchased water forecasts should be adopted with modifications to reflect the updated purchased water unit costs in Cal-Am’s data responses to ORA found at Attachment 3 to Exh. ORA-4 and additional purchased water offsets that Cal-Am has filed via advice letter.

28. ORA’s Cal-Am’s proposed methodology for forecasting chemical costs for districts other than Monterey Wastewater should be adopted.

29. Chemical costs for Monterey Wastewater should be based on a three-year escalated average of total expenses.

30. Cal-Am’s proposed methodology for forecasting uncollectible costs should be adopted.

31. Cal-Am’s leak adjustment forecasts for its districts other than the Monterey District should be adopted.

34. A one-way Monterey District leak adjustment balancing account capped at $2.6 million should be established with an annual budget of $2,370,879 pursuant to the Monterey Settlement.
35. Cal-Am should be required to propose a leak adjustment policy for its Monterey District in its next GRC.

36. An upper NRW threshold of 7.0% of total production levels should be adopted above which penalties accrue and below which rewards are earned in the Monterey District.

37. A lower NRW threshold of 5.0% of total production levels should be adopted below which rewards are earned in the Monterey District.

49. Cal-Am should use an average of the recorded percentage allocation factors from 2013-2015, instead of using the recorded 2015 percentage allocation factor, when calculating its share of American Water’s Service Company expenses.

50. Cal-Am should forecast its Service Company labor expenses using labor escalation factors and not-composite inflation factors, because American Water is Cal-Am’s Parent Company and not Cal-Am’s contractor.

51. Cal-Am should forecast its 2018 Service Company labor expenses by escalating its 2016 recorded Service Company labor expenses with the 2017 and 2018 labor inflation factors published in ORA’s August 2018 Escalation Memo.

52. Cal-Am should forecast its 2018 Service Company Incentive Compensation expenses by first applying the average 2013-2015 recorded percentage factor to American Water’s 2015 recorded expenses, and then escalating these figures by the 2017 and 2018 labor inflation factors published in ORA’s August 2018 Escalation Memo.

53. Cal-Am’s request for ratepayer funding for its Business Development unit should be denied.

54. Cal-Am failed to meet the “preponderance of evidence” standard to demonstrated that additional IT upgrade costs related to the BT project in 2014 and 2015 were prudently and reasonably incurred.

55. Cal-Am’s request for recovery of $1,869,468 and $2,243,632 in expenses it spent in 2014 and 2015, respectively, in its rate base for the Information Technology upgrade capital projects related to the Business Transformation project should be disallowed.

56. The allocation factor for 2018 should be changed to reflect American Water’s recent acquisitions and the subsequent decrease in Cal-Am’s proportion of American Water’s customers.

57. Cal-Am should use 5.33% as the percentage allocation factor to derive its portion of American Water’s Information Technology (IT)-related plant costs, including the Business Transformation (BT) Project.

68. Cal-Am should close the Tax Act Memorandum Account.
69. Cal-Am should record bonus depreciation resulting from the Tax Cuts and Jobs Act for assets with uncertain eligibility statuses in the Tax Memorandum Account until the Internal Revenue Service clarifies these eligibility statuses.

71. Cal-Am should refund the 2018-2020 Excess Protected Accumulated Deferred Income Tax to ratepayers, no faster or sooner than allowed under the Average Rate Assumption Method.

72. The Commission has previously determined that flow-through is the appropriate method for refunding tax benefits to ratepayers.

73. Cal-Am should refund the entire $7.1 million of Excess Unprotected Accumulated Deferred Income Tax, amortized evenly over the 24-month period from 2019 to 2020, as a bill credit, based on the size of the customer’s meter, as an immediate net reduction to its existing outstanding WRAM/MCBA balances.

74. Cal-Am’s request to track the implementation costs for the TCJA in a memorandum account should be denied.

76. Cal-Am should establish a two-way Tax Memorandum Account to track any revenue differences resulting from the differences in the income tax expense authorized in the GRC proceedings and the tax expenses it incurs.

77. Cal-Am should record in the two-way Tax Memorandum Account: (a) the Excess Protected Accumulated Deferred Income Tax, and (b) Bonus Depreciation for the limited assets where eligibility for bonus depreciation is uncertain and (c) implementation costs for the TCJA.

78. Cal-Am should keep the 2018 Tax Accounting Memorandum Account open.

79. Cal-Am should notify the Commission of any tax-related changes, any tax-related accounting changes, or any tax-related procedural changes that materially affect, or may materially affect, revenues by filing a Tier 1 advice letter with the Water Division.

85. Cal-Am’s request for widescale deployment of AMI in its San Diego, Ventura, Monterey, and Los Angeles County services districts and request for associated O&M expenses related to AMI should be denied.

86. A request made for the first time in rebuttal testimony prejudices other parties and does not provide customers notice of the rate impacts associated with the request.

87. Cal-Am’s request for additional initial planning dollars for the Sacramento Recycled Water Project, Baldwin Hills Recycled Water Project, and Coronado/Imperial Beach Recycled Water Project should be denied.
108. The following capital projects in the Sacramento District should be removed from rate base: the Elverta Road Bridge Water Main; Arden Intertie; Antelope 1 Million Gallon Tank, Booster Station and Well; and New Lincoln Oaks Well. The Arden Intertie project should remain in rate base.

118. Cal-Am's requested budget for purchasing groundwater rights in the Los Angeles District should be **denied**.

124. Cal-Am **failed to meet** its burden of proof to substantiate a $2.3 million increase in annual depreciation expense.

125. Cal-Am’s **current proposed** annual depreciation expense of **$21.6 million** should be adopted for 2018-2020.

126. Los Angeles County’s recommendation that Cal-Am phase in the depreciation adjustment over a period of time to lessen the impact on rates is **moot**.

127. Uncollectible costs should be removed from the **prospective** calculation of the annual amortization of the San Clemente Dam costs, so that the uncollectible amount is not double counted for recovery.

150. The cap on amortization of WRAM/MCBA balances should **not be eliminated but should be increased to 15% 17% of the last authorized revenue requirement for each of Cal-Am’s districts.**
Ordering Paragraphs

3. The June 12, 2017 joint motion of California-American Water Company, Las Palmas Wastewater Committee, and Monterey Peninsula Water Management District for adoption of a partial settlement agreement on Monterey issues in the General Rate Case is **denied**.

4. The August 18, 2017 joint motion of California-American Water Company, and the City of Coronado for adoption of a partial settlement agreement on San Diego issues in the General Rate Case is **denied**.

5. California-American Water Company’s request for a proposed moratorium on new connections for the Laguna Seca Subarea is **denied without prejudice**.

7. The current rate design for the Meadowbrook area shall remain in place through 2020. Meadowbrook shall be moved onto the Sacramento District rate design effective January 1, 2021. **Cal-Am shall develop a separate revenue requirement specifically for Meadowbrook that is in keeping with Cal-Am’s authorized rate of return and allowing a certain level of expenses to operate the system. Cal-Am shall then subtract the Meadowbrook specific revenue requirement from the overall Sacramento revenue requirement before rates are calculated for Sacramento customers under their own rate design.**


12. Within 30 days of the issuance of this decision, California-American Water Company (Cal-Am) shall file a Tier 1 advice letter establishing the Monterey District leak adjustment balancing account. The balancing account shall be a one-way balancing account **with an annual budget of $2,370,879 capped at $2.6 million, with Cal-Am’s shareholders bearing any costs above the $2.6 million cap**. The balancing account shall be reviewed for reasonableness in Cal-Am’s next General Rate Case. All leak adjustments found unreasonable will be removed from the balancing account and if the annual balance found reasonable is less than the approved annual budget, the difference will be refunded to ratepayers in the next General Rate Case.

14. California-American Water Company shall propose a leak adjustment policy for its Monterey District in its next General Rate Case.

15. An upper non-revenue water (NRW) threshold of 7.0% and lower NRW threshold of 5.0% of total adopted production levels are adopted for California-American Water Company’s Monterey District. California-American Water Company shall accrue penalties pursuant to its NRW Reward/Penalty Mechanism for NRW levels that exceed the upper threshold and earn rewards for NRW levels that are below the lower threshold. California-American Company shall neither accrue a penalty nor earn a reward in its Monterey District for NRW levels between 5.0% and 7.0%, inclusive.
17. Within 30 days of the issuance of this decision, California American Water Company (Cal-Am) shall file a Tier 3 advice letter to refund the 2018 Excess Protected Accumulated Deferred Income Tax, which should have been recorded in the Tax Memorandum Account, 2019 Excess Protected Accumulated Deferred Income Tax, and the 2020 Excess Protected Accumulated Deferred Income Tax to ratepayers as a bill credit, based on the size of the customer’s meter. The refund shall be amortized evenly over the remaining GRC cycle. In the advice letter, California American Water Company shall provide calculations and supporting documentations that demonstrate: (1) an estimation of the 2018, 2019, and 2020 Excess Protected Accumulated Deferred Income Tax, (2) how the 2018, 2019, and 2020 Excess Protected Accumulated Deferred Income Tax balances were calculated, and (3) the normalization method used. By June 30, 2019, California American Water Company (Cal-Am) shall file a Tier 3 advice letter to refund the 2018 Excess Protected Accumulated Deferred Income Tax, which will be recorded in the 2018 Tax Accounting Memorandum Account, to ratepayers as a bill credit, based on the size of the customer’s meter. By June 30, 2020, Cal-Am shall file a Tier 3 advice letter to refund the 2019 Excess Protected Accumulated Deferred Income Tax to ratepayers as a bill credit, based on the size of the customer’s meter. By June 30, 2021, Cal-Am shall file a Tier 3 advice letter to refund the 2019 Excess Protected Accumulated Deferred Income Tax to ratepayers as a bill credit, based on the size of the customer’s meter. Each refund shall be amortized evenly over the remaining GRC cycle or 1 year and each advice letter shall include a corresponding rate base offset caused by the decrease in Accumulated Deferred Income Tax balances. Notwithstanding this order, Excess Protected Accumulated Deferred Income Tax balances shall not be returned faster or sooner than allowed under the Average Rate Assumption Method. In each advice letter described above, California American Water Company shall provide calculations and supporting documentations that demonstrate: (1) an estimation of the 2018, 2019, and 2020 Excess Protected Accumulated Deferred Income Tax, respectively; (2) how the 2018, 2019, and 2020 Excess Protected Accumulated Deferred Income Tax balances were calculated, respectively; and (3) the normalization method used.

18. Within 30 days of the issuance of this decision, California American Water Company (Cal-Am) shall file a Tier 2 advice letter with Water Division to refund the $7.1 million of Excess Unprotected Accumulated Deferred Income Tax as a bill credit, based on the size of the customer’s meter. Cal-Am shall amortize the refund equally over the 24-month period from 2019 to 2020.

21. Within 60 days of the issuance of this decision, California-American Water Company shall file a Tier 3 advice letter with Water Division to provide all the accounting entries for the Seaside Ground Water Basin Balancing Account from January 1, 2015 through December 31, 2017 and to request to transfer the outstanding balance in the account to the Consolidated Expense Balancing Account. In the advice letter filing, California-American Water Company may request an additional 30 days if necessary.
Peninsula Water Management District Conservation Balancing Account to the Consolidated Expense Balancing Account. The net balance shall include the removal of the disputed balance of $888,297 and any invoices for recovery by Monterey Peninsula Water Management Conservation District for conservation costs incurred through April 17, 2017. **California-American Water Company may request an additional 30 days if necessary.**

23. Within **30 days** of the issuance of this decision, California-American Water Company (Cal-Am) shall file a Tier 2 advice letter with Water Division to establish the Sustainable Groundwater Management Act Memorandum Account and propose tariff language that includes the following additional reporting guidelines:
   a. For every cost that Cal-Am records in the Sustainable Groundwater Management Act Memorandum Account, Cal-Am must document and identify each cost incurred, the purpose of each cost, and an explanation of why the costs are necessary to comply with the Sustainable Groundwater Management Act.
   b. Cal-Am may book into the account the costs of employees who spend less than five percent of their time related to compliance with the Sustainable Groundwater Management Act, with a general explanation of the work the employee performed.
   c. Cal-Am shall provide additional information for costs incurred by employees who spend more than five percent of their time related to compliance with the Sustainable Groundwater Management Act, identifying each of these employees by their employee identification number, position title, the number of hours the employee worked, and the purpose of the work performed.

24. Within **30 days** of the issuance of this decision, California-American Water Company shall file a Tier 1 advice letter with Water Division to do the following:
   a. Close the Coastal Water Project Balancing Account.
   c. Close the Los Angeles Main San Gabriel Contamination Memorandum Account.
   d. Modify the Purchased Power, and Pump Tax Balancing Account to exclude the Sacramento District from being included in the account.
   e. Modify the Sacramento District Voluntary Conservation or Mandatory Rationing Revenue Adjustment Mechanism Memorandum Account to exclude lost revenues associated with reduced sales from being recorded in the account.

28. Within **30 days** of the issuance of this decision, California-American Water Company (Cal-Am) shall establish a two-way Group Insurance Balancing Account by filing a Tier 2 advice letter with Water Division. In the advice letter filing, Cal-Am shall propose tariff language for this two-way Group Insurance Balancing Account, which shall include the following terms and conditions:
   a. The initial account balance shall be the approved group insurance expenses for 2018. The 2019 group insurance expense shall be the approved 2018 expense escalated by the 2019 escalation factor. The 2020 group insurance expense shall be the approved 2019 expense escalated by the 2020 escalation factor. The 2019 and 2020 escalation factors shall be the labor escalation factors from the Office of Ratepayer Advocates: Estimates of Non-labor and Wage Escalation Rates for 2018 through 2022 from the
August 2018 IHS Global Insight U.S. Economic Outlook” dated September 4, 2018 based on the recommended trend observed by Willis Towers Watson.

b. Cal-Am shall record in the account the annual difference between total approved net group insurance costs and the actual level of net group insurance costs. Net group insurance costs are the total incurred costs less reimbursements.

c. The next general rate case proceeding shall review and determine the appropriate disposition of the balance in the Group Insurance Balancing Account and shall also review whether this two-way balancing account is still necessary.

29. The cap on total net Water Revenue Adjustment Mechanism and Modified Cost Balancing Account surcharges shall be 15% of the last authorized revenue requirement for each of California-American Water Company’s districts during this General Rate Case cycle. The cap will revert to 10% following this General Rate Case cycle unless modified in a subsequent Commission decision.

40. California-American Water Company (Cal-Am) is directed to file escalation filings for attrition years 2019 and 2020 through appropriate Tier 1 advice letter filings in conformance with General Order 96-B and the advice letter procedures found in Section VII of Appendix A attached to Decision (D.) 07-05-062 for every district where there is a projected decrease in rates. Cal-Am may also file escalation filings for 2019 and 2020 pursuant to these procedures for every district where there is a projected increase in rates. D.07-05-062 requires escalation filings to be filed no later than 45 days prior to the start of the escalation year. In light of the effective date of this decision, any escalation filing for attrition year 2019 shall instead be filed within 30 days from the effective date of this decision and shall be effective 45 days from the date of filing.