

Preliminary Statement
Water Cost of Capital Adjustment Mechanism

GG. Water Cost of Capital Adjustment Mechanism

Golden State Water Company ("GSWC") requests to establish a Water Cost of Capital Adjustment Mechanism.

1. Purpose

The purpose of the Water Cost of Capital Adjustment Mechanism is to provide an automatic adjustment, up or down, to Golden State Water's adopted return on equity for 2022 (and thus its overall rate of return on rate base for 2022) for calendar years 2023 and 2024 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 Moody's utility bond rates and a benchmark. (T)

2. Applicability

All Regions of Golden State Water Company.

3. GSWC shall maintain the Water Cost of Capital Adjustment Mechanism as follows:

a. For 2023, Golden State Water's initial benchmark is equal to the average interest rate of Moody's Aa utility bonds if it has an AA or A credit-rating or higher, or Moody's Baa utility bonds if Golden State Water has a BBB+ credit-rating or lower for the period of October 1, 2020 to September 30, 2021. The subsequent October 1 through September 30 average shall be based on the foregoing parameters. (T)

b. If the 100 basis point "deadband" (a range of change in interest rates that may occur without automatically triggering a change in return on equities) is exceeded, Golden State 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. (T)

c. In any year where the 12-month October through September average of Moody's utility bond rates triggers an automatic return on equity adjustment, that average becomes the new benchmark. (T)

d. If the 100 basis point "deadband" is exceeded, Golden State 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. (T)

e. Golden State Water's capital structure, as adopted for base year 2022, shall not be adjusted. (T)

f. Workpapers outlining the calculations relating to the change in return on equity, long-term debt costs and preferred stock costs are required to accompany the advice letter. (T)

4. Effective Date

The WCCM shall be effective for rates implemented in 2023 after a final decision is adopted in A.21-05-001, *et seq.*, and for rates implemented in 2024, unless modified by order of the Commission. (T)

(To be inserted by utility)

Advice Letter No. 1897-W
Decision No. 23-06-025

Issued By
R. J. Sprowls
President

(To be inserted by P.U.C.)

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Resolution No. _____