

PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298



January 28, 2011

TO ALL CLASS B, C, AND D WATER AND SEWER UTILITIES

Subject: Rate Adjustments due to CPI-U Increase for 2010

On March 31, 1992, the Commission issued Decision 92-03-093, authorizing Class C and D water utilities to file each year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index for All Urban Consumers (CPI-U).¹ Subsequent resolutions (Res.) W-4493², Res. W-4540³, authorized sewer and Class B water utilities to file a CPI-U advice letter each year.

The CPI-U increase for 2010 is 1.5%.

Any Class B, C, and D water utility, and sewer utility, that is presently earning a lower rate of return (ROR) than its most recently authorized and is not presently subject to a test year, attrition year, or other general rate increase, is authorized to file for a CPI-U increase once each year, by advice letter. If your utility missed filing a CPI-U for one year, it **may not file retroactively** for that CPI-U in the following year.

Please follow the Summary of Earnings (SOE) format shown in Attachment 1 to determine your authorized and actual ROR. You would then compare these RORs to determine if the actual is less than or greater than authorized (see excerpt from Standard Practice U-27-W in Attachment 4).

Please file an advice letter (in accordance with General Order 96-B) requesting a CPI-U increase, **only** if the ROR based on actual revenues **does not** exceed the authorized ROR and if the projected revenues (with the CPI-U increase) **does not exceed** the authorized ROR. Please follow the following procedures when filing:

1. File an advice letter similar to that shown in Attachment 2.
2. Please also include a Cover Sheet (Attachment 3) to your advice letter, and the Service List from your last General Rate Case, with your CPI-U request.
3. If a utility has been authorized a Rate of Margin (ROM) instead of a Rate of Return, please substitute that measure when comparing Authorized versus Actual Revenues.
 - a. $\text{Actual ROM} = 1 - (\text{Operating Expenses} / \text{Operating Revenues})$.

¹ Announced by the Bureau of Labor Statistics, U.S. Department of Labor.

² September 2, 2004.

³ June 16, 2005.

4. Notice of a CPI-U request is **no longer required** under General Order 96-B. Utilities are now required to inform their customers of the CPI-U request via a bill insert with the first bill that contains the increase.⁴
5. Provide copies of the revised tariff schedules to reflect the increase that you are requesting (see Attachment 4 for examples).
6. Increase each rate, including facilities fees, by **1.5%**, the CPI-U increase for 2010.
7. Provide a copy of the SOE in which you calculate the authorized versus actual RORs, utilizing the following actual data:
 - a. Actual Revenues for 2010
 - b. Estimate of increased revenues (apply the 1.5% CPI-U inflation factor to actual revenues for 2010).
 - c. Actual Expenses for 2010. Provide actual individual expenses for 2010, based on the line item accounts as they appear in your last General Rate Case (GRC) Summary of Earnings.
 - d. Estimate of Rate Base equals (beginning of year rate base plus end of year rate base)/2.
 - e. Provide a copy of the 2009 Annual Report if your CPI-U advice letter is filed **before** March 31, 2011.
 - f. Provide a copy of the 2010 Annual Report if your CPI-U advice letter is filed **after** March 31, 2011.
8. Adjust all base rates (not surcharges and not reconnection fees, etc.) by multiplying by 1.015. Do not increase some base rates and not increase others.

If you have any questions, please feel free to contact Raymond Yin at ryy@cpuc.ca.gov or (415) 703-1818.

Sincerely,



Rami Kahlon, Director
Division of Water and Audits

Attachments

⁴ Resolution W-4664. Ordering Paragraph 3. "Utilities shall inform their customers of the increase in dollar and percentage terms by bill insert, in the first bill that includes the increase."

Attachment 1
ABC Water/Sewer Utility Company, Inc.
Example of a Summary of Earnings

| Category | Most Recent Adopted in Resolution W-0000 | Actual 2010 | CPI Increase @ 1.5% on Adopted Revenue Only | Revenue After CPI Increase, Actual Expenses, & Actual Rate Base |
|--|---|----------------|--|--|
| | a | b | c=a * 1.5% | (Revenues) d =b + c |
| Operating Revenues: | | | | |
| Flat Rate | 50,000 | 45,000 | 750 | 45,750 |
| Metered | 150,000 | 135,000 | 2,250 | 137,250 |
| Private Fire Protection | 10,000 | 8,000 | 150 | 8,150 |
| TOTAL OPERATING REVENUES | 210,000 | 188,000 | | 191,150 |
| Operating Expenses: | | | | |
| Purchased Water | 7,000 | 7,500 | | 7,500 |
| Purchased Power | 15,000 | 15,000 | | 15,000 |
| Purchased Chemicals | 1,000 | 1,000 | | 1,000 |
| Other Volume Related Expenses | 100 | 150 | | 150 |
| Employee Labor | 10,000 | 10,000 | | 10,000 |
| Materials | 5,000 | 5,700 | | 5,700 |
| Contract Work | 11,000 | 11,200 | | 11,200 |
| Water Testing | 500 | 750 | | 750 |
| Transportation Expense | 9,000 | 9,000 | | 9,000 |
| Other Plant Maintenance | 450 | 450 | | 450 |
| Office Salaries | 4,000 | 4,500 | | 4,500 |
| Management Salaries | 20,000 | 20,000 | | 20,000 |
| Employee Pension and Benefits | 10,000 | 11,000 | | 11,000 |
| Uncollectibles | 100 | 100 | | 100 |
| Office Service and Rentals | 2,000 | 2,000 | | 2,000 |
| Office Supplies and Expenses | 3,000 | 3,000 | | 3,000 |
| Professional Services | 1,500 | 1,800 | | 1,800 |
| Insurance | 9,000 | 10,000 | | 10,000 |
| Regulatory Commission Expense | 1,000 | 1,000 | | 1,000 |
| General Expenses | 400 | 400 | | 400 |
| SUBTOTAL | 110,050 | 114,550 | | 114,550 |
| Depreciation | 20,000 | 20,000 | | 20,000 |
| Taxes Other than Income | 4,000 | 4,500 | | 4,500 |
| State and Federal Income Taxes | 18,000 | 15,000 | | 15,000 |
| Interest | 0 | 0 | | 0 |
| TOTAL DEDUCTIONS | 152,050 | 154,050 | | 154,050 |
| NET REVENUE | 57,950 | 33,950 | | 37,100 |
| RATE BASE | | | | |
| Average Plant | 800,000 | 820,000 | | 820,000 |
| Less Average Accumulated Depreciation | 350,000 | 360,000 | | 360,000 |
| NET PLANT | 450,000 | 460,000 | | 460,000 |
| Less Advances & Contributions | 25,000 | 27,000 | | 27,000 |
| Plus Materials & Supplies | 5,000 | 5,000 | | 5,000 |
| RATE BASE | 430,000 | 438,000 | | 438,000 |
| RATE OF RETURN | 13.47% | 7.75% | | 8.47% |

Attachment 2
EXAMPLE OF AN ADVICE LETTER

_____ **Water (or Sewer) Company**

_____ **County**

Advice Letter No. _____

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

_____ Water (or Sewer) Company hereby transmits for filing the following changes in its tariff schedules which are attached hereto:

| <u>Cal. P.U.C.</u> <u>Sheet No.</u> | <u>Title Sheet</u> | <u>Cancelling</u> <u>Sheet No.</u> |
|--|--|---------------------------------------|
| _____ | Schedule No.1, General Metered Service | _____ |
| _____ | Schedule No.2, Flat Rate Service | _____ |
| _____ | Schedule No. F, Facilities Fees | _____ |
| _____ | Table of Contents | _____ |

(The present rates became effective on ____, 19(20)__, pursuant to Resolution W-____, which authorized an offset (CPI) rate increase of \$ ____ or ____%.)

The last general rate increase became effective ____, 19(20)__, pursuant to Resolution W-____, which authorized a general rate increase of ____ or ____%, and a rate of return of ____%.

These tariffs are submitted pursuant to Ordering Paragraph No.1 of Decision No. 92-03-093, dated March 31, 1992, Ordering Paragraph No.2 of Resolution (Res.) W-4493, dated September 2, 2004, or Ordering paragraph No. 1 of Res. W-4540, dated June 16, 2005. The decision and resolutions authorize Class B, C, and D water utilities and sewer utilities to file a request for a Consumer Price Index increase once a year by advice letter. The increase is to be passed on to the utility's customers in their quantity rate and service charge. The above referenced decision and resolutions authorize _____ Water (Sewer) Company to file the attached rate schedules and to concurrently withdraw and cancel its present schedules for such service.

_____ Water (Sewer) Company requests permission to increase its revenues (based on increase to the present monthly quantity rate and service charge) by 1.5%, the CPI-U for 2010. This projected revenue increase of \$ _____ will not result in a rate of return which exceeds the authorized rate of return of ____%. Workpapers justifying this increase have been provided to the CPUC Division of Water and Audits staff.

This filing is made under the provisions of General Order No. 96-B.

_____ Water (or Sewer) Company has given public notice of this request by publishing a notice in a local newspaper of general circulation. A copy of the notice is attached.

This filing will not cause withdrawal of service, nor conflict with any other schedule or rule.

_____ Water (or Sewer) Company
By: _____
Title

**Attachment 3
EXAMPLE OF A COVER LETTER**

| | | | | | |
|---|------------------------------|--|---|--|----------|
| CALIFORNIA PUBLIC UTILITIES COMMISSION DIVISION OF WATER AND AUDITS Advice Letter Cover Sheet | | | | (Date Filed / Received Stamp by CPUC) | |
| AL # | Date Mailed to Service List: | Requested Effective Date: | | Requested Tier: <input type="checkbox"/> Tier 1 <input type="checkbox"/> Tier 2 <input type="checkbox"/> Tier 3 | |
| Replacing AL#: | Authorization for Filing: | Compliance Filing? <input type="checkbox"/> Yes <input type="checkbox"/> No | Rate Impact | \$ | % |
| <u>The public has 20 days from Date Mailed (above) to protest this advice letter. If you chose to protest or respond to the advice letter, send Protest and/or Correspondence within 20 days to:</u> | | | Director Division of Water and Audits 505 Van Ness Ave. San Francisco, CA 94102 | | |
| <u>and if you have email capability, also email to:</u> | | | water_division@cpuc.ca.gov | | |
| <u>Your protest also must be served on the Utility</u> | | | (see attached advice letter for more information and grounds for protest) | | |
| Company Name: | | | | CPUC Utility Number: | |
| Address: | | | | WTA _____ | |
| City, State, Zip: | | | | WTB _____ | |
| | | | | WTC _____ | |
| | | | | WTD _____ | |
| | | | | SWR _____ | |
| | Contact Name: | Phone No. | Fax No. | Email Address: | |
| Filer | | | | | |
| Alternate | | | | | |
| Description: In this space or on the back of this form: <ol style="list-style-type: none"> 1. Explain justification for requested Tier 2. Describe service affected and how it is affected 3. Describe differences from related Advice Letters (Similar service, replacement filing) | | | | | |
| (FOR CPUC USE ONLY) | | | | | |
| WTS Budget/Activity/Type | | | Process as: <input type="checkbox"/> Tier 1 <input type="checkbox"/> Tier 2 <input type="checkbox"/> Tier 3 | | |
| / / | | | 20th Day | | 30th Day |
| Project Manager: | | Suspended on: | | | |
| Analyst: | | Extended on: | | | |
| Due Date: | | Resolution No.: | | | |
| Completion Date: | | AL/Tariff Effective Date: | | | |

Attachment 4

Excerpt from Standard Practice U-27-W, p.12

H – EARNINGS TESTS

1. Class B, C and D utilities requesting a CPI offset must pass an earnings test. This test involves the following:
 - a. If the last General Rate Case authorized a rate of return, create a recorded Summary of Earnings and compare the adopted rate of return to the recorded rate of return. The Summary of Earnings should be adjusted for extraordinary expenses or revenues.⁵ Using the Summary of Earnings, increase the revenues by the CPI percentage and recalculate the rate of return. If the new return exceeds authorized, the utility will only be eligible for part or none of the increase.
 - b. If the last General Rate Case authorized a return on margin, calculate the recorded return on margin by taking $1 - \text{Operating Ratio}$, where the Operating Ratio is equal to Recorded Operating Expenses (operations and maintenance expenses, annual depreciation on non-contributed facilities, amortization of multiyear expenses and applicable taxes: income taxes, property taxes, taxes other than income, payroll taxes) divided by Recorded Operating Revenues increased for the CPI. Again, some expenses may have to be adjusted. Compare this percentage to the authorized return on margin percentage.

⁵ For example, it is common for a small water company owner to take profits out of the system by increasing management salary. This, or any other expense or revenue that is not commensurate with good ratemaking methodology needs to be adjusted.