

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



January 30, 2012

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

Subject: Rate Adjustments due to CPI-U Increase for 2011

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).<sup>1</sup> Subsequent resolutions (Res.) W-4493<sup>2</sup>, Res. W-4540<sup>3</sup>, authorized sewer and Class B water utilities to file a CPI-U advice letter each year.

**The CPI-U increase for 2011 is 3.0%.**

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. Actual ROM =  $1 - (\text{Operating Expenses} / \text{Operating Revenues})$ .

<sup>1</sup> Announced by the Bureau of Labor Statistics, U.S. Department of Labor.

<sup>2</sup> September 2, 2004.

<sup>3</sup> 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.<sup>4</sup>
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 **3.0%**, the CPI-U increase for 2011.
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 2011
  - b. Estimate of increased revenues (add the 3.0% CPI-U inflation to actual revenues for 2011).
  - c. Actual Expenses for 2011. Provide actual individual expenses for 2011, 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 2010 Annual Report if your CPI-U advice letter is filed **before** April 2, 2012, **and** your company has not filed the 2011 Annual Report with the Commission by the time of your filing of the CPI-U advice letter. Otherwise, provide a copy of the filed 2011 Annual Report.
  - f. Provide a copy of the 2011 Annual Report if your CPI-U advice letter is filed **after** April 2, 2012.
8. Adjust all base rates (not surcharges and not reconnection fees, etc.) by multiplying by 1.03. 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](mailto:ryy@cpuc.ca.gov) or (415) 703-1818.

Sincerely,



Rami Kahlon, Director  
Division of Water and Audits

Attachments

<sup>4</sup> 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 2011	CPI Increase @ 3.0% on Recent Adopted Revenue Only	Revenue After CPI Increase, Actual Expenses, & Actual Rate Base
	a	b	c=a * 3.0%	(Revenues) d =b + c
<b>Operating Revenues:</b>				
Flat Rate	50,000	45,000	1,500	46,500
Metered	150,000	135,000	4,500	139,500
Private Fire Protection	10,000	8,000	300	8,300
<b>TOTAL OPERATING REVENUES</b>	<b>210,000</b>	<b>188,000</b>		<b>194,300</b>
<b>Operating Expenses:</b>				
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
<b>SUBTOTAL</b>	<b>110,050</b>	<b>114,550</b>		<b>114,550</b>
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
<b>TOTAL DEDUCTIONS</b>	<b>152,050</b>	<b>154,050</b>		<b>154,050</b>
<b>NET REVENUE</b>	<b>57,950</b>	<b>33,950</b>		<b>40,250</b>
<b>RATE BASE</b>				
Average Plant	800,000	820,000		820,000
Less Average Accumulated Depreciation	350,000	360,000		360,000
<b>NET PLANT</b>	<b>450,000</b>	<b>460,000</b>		<b>460,000</b>
Less Advances & Contributions	25,000	27,000		27,000
Plus Materials & Supplies	5,000	5,000		5,000
<b>RATE BASE</b>	<b>430,000</b>	<b>438,000</b>		<b>438,000</b>
<b>RATE OF RETURN</b>	<b>13.47%</b>	<b>7.75%</b>		<b>9.19%</b>

**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 \_\_\_\_, 20 \_\_, pursuant to Resolution W-\_\_\_\_, which authorized an offset (CPI) rate increase of \$ \_\_\_\_ or \_\_\_\_%.)

The last general rate increase became effective \_\_\_\_, 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 3.0%, the CPI-U for 2011. 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.

The attached service list has been noticed today by email or U.S. mail. The customers will be informed of the increase with the first billing which includes the surcharge, in accordance with G.O. 96-B, Water Industry Rule 3.2."

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**

<b>CALIFORNIA PUBLIC UTILITIES COMMISSION DIVISION OF WATER AND AUDITS Advice Letter Cover Sheet</b>				(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>				<a href="mailto:water_division@cpuc.ca.gov">water_division@cpuc.ca.gov</a>	
<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					
<b>Description:</b>					
In this space or on the back of this form:					
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.<sup>5</sup> 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  $\frac{\text{Recorded Operating Expenses}}{\text{Recorded Operating Revenues}}$  (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.

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<sup>5</sup> 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.