

**CALIFORNIA PUBLIC UTILITIES COMMISSION
DIVISION OF WATER AND AUDITS**

**STANDARD PRACTICE FOR
PROCESSING INFORMAL
GENERAL RATE CASES
OF WATER AND SEWER UTILITIES**
STANDARD PRACTICE U-9-SM

SAN FRANCISCO, CALIFORNIA

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STANDARD PRACTICE FOR PROCESSING INFORMAL GENERAL RATE CASES
OF WATER AND SEWER SYSTEM UTILITIES

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NOTE: THIS MEETING PLACE IS ACCESSIBLE TO THE DISABLED

A – PURPOSE AND SCOPE

1. The purpose of this standard practice is to provide the utility and the staff engineer or analyst (Staff) with the steps and schedule to follow when processing an advice letter General Rate Case (GRC) for Class B, C and D (small) water and sewer system utilities.¹
2. While many of the steps in this Standard Practice are required by the Public Utilities Code (Code), General Orders (G.O.) the Commission’s Rules of Practice and Procedure (Rules), or Commission Decisions or Resolutions, in processing small water utility rate requests common sense and practicality must take precedence. A small company's lack of time or money can be a major deterrent to what is mandated “by the book”. Consequently, staff is expected to exercise discretion in directing actions to be taken by the utility. Staff must maintain a courteous and business-like relationship with all parties in the proceeding. In all cases, if there is any doubt about what action to take, consult with your Project Manager or Supervisor.

B – HISTORY

3. In May of 1968 the Commission authorized the 410 small water utilities with annual gross revenues of \$25,000 or less to file General Rate Cases (GRCs) by advice letter. Prior to that time even the smallest water company had to file a formal application².

¹ A Class A water or sewer system utility has more than 10,000 service connections. A Class B has 2,001 to 10,000. A Class C has 501 to 2,000, and a class D has 500 service connections or less

² From January 1, 1934 to May 1, 1934 the Railroad Commission approved eight unnumbered resolutions requesting water rate decreases on less than statutory notice. The first numbered water resolution, Order No. 1, dated May 2, 1934 authorized the Monterey County Water Works to decrease rates for fire hydrant service on less than 30 day notice. All subsequent resolutions were for similar reductions in rates on less

Later, Resolution W-3045, November 17, 1982 relieved the 260 Class D utilities from even having to file an advice letter for a GRC.³ The latest authority to use the advice letter process for GRCs was provided by Commission Decision D.92-03-093, March 31, 1992, Ordering Paragraph 9. which states (emphasis in the original):

“9. General Order 96-A shall be amended to permit advice letter rate filings by all Class B water utilities, as well as by Class C and Class D water utilities, regardless of projected annual earnings. General order 96-A, Section VI., third paragraph, is amended to add an additional sentence as follows:

“Any utility or district of a utility may request authority for a general rate increase by an advice letter filing if the projected annual operating revenues, including the requested increase, are no greater than \$750,000. The revenue limitation does not apply to Class B, Class C, or Class D water utilities. This revenue limitation does not apply to the exchange telephone utilities.”

4. On August 25, 2005 the Commission authorized Great Oaks Water Company (the smallest Class A at the time) to file a GRC by Advice Letter. The approval was characterized as experimental.⁴ The rates became effective July 1, 2006 by Advice Letter 177-W, in accordance with Commission Resolution W-4594, May 11, 2006.

C – FILING AN INFORMAL GENERAL RATE CASE

5. A Class D Water Utility will file the Class D Workpapers and Standard Data Request (see Appendix A). A Class B or C Water Utility will file the Class B and C Workpapers (see Standard Practice U-46-W). Each filing may include an advice letter requesting a Consumer Price Index (CPI) increase adjustable up or down to the just and reasonable revenue requirement. This advice letter shall identify that it is in compliance with Resolution (Res.) No. W-4540, June 16, 2005.

than statutory notice, until Resolution 47-W, September 26, 1938 (Doc. Mgmt. #266882) which authorized Lorenzo Water Works to increase rates to the Boulder Creek Union School from \$125 to \$150 per year. This was the first known informal general rate increase; however, it seems to have been an anomaly. All other rate proceedings (starting with Case No 308, decided by Decision No. 608, April 25, 1913, “*In the Matter of the Rates and Service of San Gorgonio Water Company and the Beaumont Land and Water Company*”) and subsequent General Rate Cases (until Application No. 48981, Decision No. 7343, October 1967 “*Nicholls Warm Springs (Mesa Verde Water Co., 107 customers)*) until 1968 were done by application and decision.

³ “IT IS ORDERED that the Regulatory Lag Plan authorized by Resolution No. M-4705, dated April 24, 1979, is revised to 1. Eliminate the requirement for the filing of a draft advice letter and summary of earnings for Class D water utilities. 2. That a simplified summary of revenues, expenses and rate base be substituted for the advice letter and summary of earnings now required.”

⁴ Resolution W-4556, August 25, 2005.

D – REVIEW

6. Within seven days after being accepted, the draft AL workpapers will be assigned to the Utility Audit & Compliance Branch (UACB) and to a Supervisor (project Manager) in the Water Branch (WB), who will assign the GRC to a WB analyst (and update PAL accordingly). If it is a large or complex GRC the Supervisor may assign it to a Senior Engineer as Project Manager and to an analyst. The WB analyst will review the workpapers and an accountant or financial examiner (analyst) in UACB will also review the workpapers. The UACB analyst will prepare a cash flow study (see Appendix B). If the utility is identified as operating in the red on a cash flow basis, the WB analyst will prepare a resolution to authorize an immediate rate increase adequate to meet the cash flow needs adjusted for inflation with rates subject to refund and the eventual rates retroactive to the date the resolution is approved (see Appendix C). If no cash flow resolution is required, the WB analyst will prepare a resolution for a CPI increase, subject to refund and eventual rates retroactive to the date the resolution is approved, per Res. W-4540. For utility filings with a future test year the rates shall be made effective on the first day of the test year, subject to refund.
7. For Class A and B utilities UACB will also determine a reasonable return on equity.
8. The WB analyst will:
 - a. Get the latest copy of the latest version of this standard practice.
 - b. Check that annual reports have been filed as required by G.O. 104-A. If the utility is not up to date with its annual reports, or if the reports are clearly in error, the analyst will inform the utility and the UACB and will discontinue processing until they are up to date. The analyst needs to apply judgment, since, if there are many years of reports missing or wrong, it could be difficult for the utility to reproduce them. At the very least, the latest annual report must be filed before any additional rate case work is done.
9. The analyst will then prepare the Notice by checking all of the calculations on the worksheets and the standard data request items for Class D filings or Class B and C filings for accuracy. Completion of these reviews enables the analyst to determine whether the filing is complete or needs further explanation or additional data. If the filing is not complete, the analyst will send a data request to the utility listing the information needed to make it complete. Upon receipt of this information and verification of its accuracy, or if it is determined that the original filing is complete, the analyst will send an acceptance letter with the Notice to Customers (see Appendix D) and an Advice Letter for the utility to sign, requesting the increase in rates shown on the notice, to the utility.

10. The analyst will maintain a log of all data requests and telephone conversations with the utility. All data requests made orally must be followed by a letter signed by the Supervisor or Project Manager.
11. If the workpapers are in such poor condition that they cannot be used, the analyst will confer with the Project Manager about converting the filing to an outreach filing (Class D only). If it is an outreach filing, staff will prepare the workpapers and the AL if necessary.

E – NOTICE AND PUBLIC MEETING AND GRC SCHEDULE

12. The project manager sends the acceptance letter and draft Notice to Customers to the utility (see Appendix D) along with a complete advice letter for the utility to sign. The Notice to Customers is based upon the utility's request. The Commission may grant less, the same or more of a rate increase than that requested by the utility, without additional notice.⁵
13. This disposes of the draft advice letter. The utility submits its advice letter for the GRC by signing the advice letter attached to the acceptance letter. This starts the schedule for the advice letter General Rate Case.
14. It is the utility's responsibility to obtain a meeting place for the public meeting that is accessible to the handicapped. Once the analyst, project manager, and the utility agree on the date and place, the utility completes and distributes the notice. The analyst informs the Public Advisor (and the Los Angeles Public Advisor's office if the meeting is in Southern California) of the date and time of the meeting.
15. The analyst then produces a schedule of events, using the example in Appendix E. The analyst will fill in the actual anticipated calendar dates, considering other workload, vacations, training, holidays, etc. and forward it to the project manager. After approval by the PM and review by the supervisor, the analyst will send a copy to the utility and the WB branch chief.

F – PREPARATION FOR THE FIELD INVESTIGATION

16. The analyst will do the following in order to finish the field trip with all of the information needed to complete the R/O report:
 - a. Review prior Commission decisions, resolutions and the utility's correspondence files (602, 609). Check the compliance report to see if there are any delinquent items.

⁵ Memorandum from Joel T. Perlstein to Wes Franklin, October 23, 1986, Subj: Your inquiry concerning notice requirements where the Commission allows a rate increase that totals no more than the amount requested by the utility, but where, because of rate design, the rates to certain customers increase more than specified in the utility's notice of its rate increase application.

- b. Review prior GRC resolutions, workpapers and reports, if available. Compare the amounts authorized in the last GRC with the utility's request. This should help identify potential issues.
- c. Check with Consumer Affairs Branch for customer complaints.
- d. Review all replies to the Public Notice. Each reply must be answered. The analyst may use a form letter for general complaints, but will write a personalized letter for specific complaints.
- e. Check the local telephone book for the utility's listing. There should be adequate identification so the customers can contact the utility. The analyst will call the company during non-business hours to determine that the answering machine works.
- f. Call the State Department of Health Services or the local health department. The analyst will attempt to make an appointment to talk to the assigned engineer during the field trip and will invite him or her to the public meeting and the system inspection trip.
- g. Request the system map from the utility. This map is a requirement of G.O. 103, I.10.a.
- h. Make an appointment with the local fire chief or representative.
- i. Contact the utility to make sure it is prepared for the visit and has its books of accounts in order.
- j. Inform the utility representative ahead of time that he or she needs to make a presentation on the reasons the utility wants the increase. Request that the utility prepare a handout that summarizes its situation.

G – FIELD INVESTIGATION

- 17. During the field trip, the analyst will meet with the county Environmental Health department or Department of Health Services engineer assigned to the utility to discuss the water quality history of the utility and any other information the health department has.
- 18. During the field inspection the analyst will.

In the Utility's Office

- a. Using the system map, have the company explain how the system operates.

- b. Ask to see the utility's copy of its tariff book. It is a requirement of G.O. 96-A that the tariff book be available for public inspection.
- c. Ask to see the utility's complaint file. It is a requirement of G.O. 103, I.8. that the utility maintain a file for two years and a summary list for an additional three years.
- d. Ask for a leak map. This is a map showing the system with main leaks marked on it. Some small companies won't have one. It is not a requirement, but it is handy to have as it helps to determine when mains need replacement.
- e. Audit the utility's books of account as required by Public Utilities Code Section 314.5 to determine the accuracy of its records, verify expenses and plant additions and ensure conformance with the Uniform System of Accounts. If the utility has a Safe Drinking Water Bond Act loan, a Drinking Water State Revolving Fund loan, a principal and interest surcharge loan or is collecting facilities fees, audit the separate bank accounts for each of these funding sources. If the financing is complex, or there seem to be missing funds from the SDWBA or WSRF loan, contact UACB for an audit.

Field Inspection

- a. Inspect facilities. Determine the condition of the facilities, the type and location of supply sources, the location of any proposed additions, inspect any new construction and any prior ordered or authorized additions (particularly where money has been authorized in rate base), growth potential, current activities, compliance with G.O. 103, etc. Verify that any prior ordered or authorized additions have actually been installed.
- b. Take pictures of facilities.
- c. Take pressure readings, particularly at a high point or at a location distant from the source of water.
- d. Meet with the chief or representative of the local fire-fighting agency. Discuss pressure problems, fire flows, etc.

Public Meeting (normally conducted by Project Manager)

- a. These meetings are usually held in the evening during the field trip; however, in some resort or vacation areas the meetings are scheduled on weekends. See Standard Practice U-11-W to find out how to adjust working hours for weekend meetings.

- b. The Project Manager will open the meeting and introduce the utility and other staff, then explain Commission procedures and the steps and scheduling of the rate case.
- c. The utility will then use its handout to make a presentation on the reasons for the increase and answers questions.
- d. The analyst will take notes. Upon return, the Project Manager will prepare a memorandum of the meeting and forward it to the analyst, the supervisor and the branch chief.
- e. If over 50% of the customers protest the proposed rate increase by letter or petition, then the Water Division will consider rejecting the advice letter and refer the GRC request to the ALJ Division to assign an application number, and the GRC will be processed as a formal proceeding⁶.

H – STAFF REPORT

- 19. See Standard Practice U-3-W.
- 20. After the field trip, the analyst will identify any areas of concern, prepare an information sheet similar to Appendix F and send a copy to the Branch Chief, the Division Director and the utility.
- 21. The project manager will hold progress meetings to discuss the status of the Staff Report. As problem areas are identified, they will be communicated to the utility for potential resolution.
- 22. After the Project Manager approves the Staff Report, the division will mail a copy to the utility and to any person who requested one. The analyst will send an electronic copy to the WB branch chief and mark the document for "All CPUC read-only" access in Docs Open. The Branch Chief will publish the document to the Commission's Web site.

I – RESOLUTIONS

- 23. Staff will prepare a resolution providing for an increase to Staff approved rates and place it on the agenda. The Utility shall notice the compliance advice letter and explain why these rates were approved. If the parties agree, this will be the final resolution and the notice to the customers informing them of the amount of increase and in general why it was authorized, the new rates and the effective date will be in the format of Appendix D. The utility will distribute the notice to its customers in the

⁶ Memorandum from J. E. Kerr, General Counsel; I. R. Alderson, Chief ALJ; W. R. Ahern, Director, Utilities Division; B. A. Davis, Director, Rev. Req. Division; B. Barkovich, Director, Policy Division to Commissioners J. E. Bryson, President; R. D. Gravelle; L. M. Grimes; V. Calvo; P. C. Grew; June 10, 1982 (for June 15 1982 Conference) Subject: Conversion of Water Utility Advice Letter General Rate Increase Filings to Formal Applications and Rejection of Draft General Rate Increase Filings.

first subsequent billing. The resolution will be put on the Commission agenda and sent to the utility, and the utility's consultant, if any.

24. If parties disagree, Staff will negotiate with the utility on any items of disagreement. If they can reach consensus, staff will prepare a second resolution to the advice letter adopting the consensus position. If staff and the utility cannot resolve their differences, the utility will send a letter to the Branch Chief explaining its desires and justifying its position. The Branch Chief will respond to that letter within 14 days. If the utility doesn't agree with the Branch Chief's response, it may appeal to the Division Director. The Division Director will reply to the utility by letter. If the utility does not agree with the Director's response, the utility has two choices:
- (a) The Utility may send a written notice to the Branch Chief stating that the utility has exhausted its administrative appeals and setting forth briefly the nature of the dispute. Within 20 days of receipt, staff will forward the notice, along with a written response, to the Administrative Law Judge Division, with a copy to the utility. An assigned A:J will promptly schedule an informal hearing, without reporter, to hear the appeal request. Evidence will be taken under oath, and no attorney at law shall represent any party other than himself or herself. Within 30 days of hearing, the ALJ shall issue a brief recommended decision, which need not contain finding of fact or conclusions of law, and Branch shall incorporate that recommended decision in the advice letter rate resolution that is prepared for consideration by the Commission.⁷
 - (b) Alternatively, if the utility chooses not to follow the procedure described above, staff will prepare two advice letters, one containing the utility's position and the other containing the staff's position and put both on the Agenda for consideration by the Commission. If the Commission adopts one of these resolutions or a modification of one, or a new resolution, the utility will provide notice of the adopted position per Appendix D when it files to establish the rates.
25. The analyst will respond to any remaining letters from customers.

J – FILE

26. The analyst shall file all workpapers and a copy of the staff report in the file room under the utility's name and discard the prior GRC file except for any material that may need to be retained for future use.

⁷ D. 92-03-093, march 31, 1992, O.P. 7

CALIFORNIA PUBLIC UTILITIES COMMISSION

INFORMAL RATE CHANGE WORKPAPERS For Class D Water Utilities Regulated by the CPUC

Workpapers for rate increases (decreases)

WATER UTILITY NAME: _____

Name of Contact Person: _____

ADDRESS OF UTILITY: _____
Street, P.O. Box and/or suite number

City and Zip Code

PHONE NUMBER
of Contact Person: () _____

Requested:

Increase (decrease) _____ (May not be more than Worksheet Page 1, Line 33)
dollar amount

_____ (May not be more than Worksheet Page 1, Line 34)
percent

INSTRUCTIONS:

1. Have your latest annual report available.
2. Obtain a copy of your utility's latest GRC resolution or decision. (Water Branch will provide you a copy upon request)
3. Collect the information requested on the Standard Data Request Form.
4. Complete the entries in column A of page 1, using Schedule F of your latest annual report.
- 5. Do not include SDWBA surcharge funds or PUC reimbursement funds collected under Schedule UF.**
6. Complete page 2 using adopted quantities from the last GRC and the dollar value of investments made since the last GRC as recorded in your annual reports since the last GRC.
7. Using the proposed net revenue from page 2, estimate income tax using page 3
8. Complete the remainder of page 1. In choosing a Test Year, use the current calendar year if you file between January and June or the following year if you file between July and December. If any test year estimate differs sharply from the last recorded value, please include an explanation on a separate sheet.

APPENDIX A

STANDARD DATA REQUEST

This is the standard data request enclosed with the informal rate change workbook. The information requested herein is necessary for the staff to evaluate a rate increase request, so we are requesting it at the outset of the process. Please provide the filled-in forms and the following information if applicable. Call the Water Advisory Branch at (415) 703-1739 if you have any questions.

1. Copies of electric bills for the last twelve months;
2. Copies of purchased water bills for the last twelve months;
3. Employee salary records (or wage rates and hours worked) and job descriptions for all employees;
4. A copy of the latest liability, auto, and worker's compensation insurance premium bills;
5. A summary of property, payroll, and franchise taxes with copies of the latest tax statements;
6. A statement of whether the utility expects to require major changes in operating expense or plant investment due to water quality regulation and what those changes will consist of;
7. A statement of needed or completed major repairs; and
8. Any changes to rate structures you wish to propose in this rate case.

APPENDIX A

		Column	A	B	C
Line	Acct	Operating Revenue	19__ annual report	Is this a typical value? (If no, please attach explanation)	19__ Test Year Estimate (present rates)
1	460	Unmetered water revenue		yes <input type="checkbox"/> no <input type="checkbox"/>	
2	462	Fire protection revenue		yes <input type="checkbox"/> no <input type="checkbox"/>	
3	465	Irrigation revenue		yes <input type="checkbox"/> no <input type="checkbox"/>	
4	470	Metered water revenue		yes <input type="checkbox"/> no <input type="checkbox"/>	
5	480	Other water revenue		yes <input type="checkbox"/> no <input type="checkbox"/>	
6		Total Revenue			
7		Operating Expenses			
8	610	Purchased Water		yes <input type="checkbox"/> no <input type="checkbox"/>	
9	615	Power		yes <input type="checkbox"/> no <input type="checkbox"/>	
10	618	Other volume related expenses		yes <input type="checkbox"/> no <input type="checkbox"/>	
11	630	Employee labor		yes <input type="checkbox"/> no <input type="checkbox"/>	
12	640	Materials		yes <input type="checkbox"/> no <input type="checkbox"/>	
13	650	Contract work (excluding water testing)		yes <input type="checkbox"/> no <input type="checkbox"/>	
14		Water testing portion of contract work		yes <input type="checkbox"/> no <input type="checkbox"/>	
15	660	Transportation expenses		yes <input type="checkbox"/> no <input type="checkbox"/>	
16	664	Other plant maintenance		yes <input type="checkbox"/> no <input type="checkbox"/>	
17	670	Office salaries		yes <input type="checkbox"/> no <input type="checkbox"/>	
18	671	Management salaries		yes <input type="checkbox"/> no <input type="checkbox"/>	
19	674	Employee pensions & benefits		yes <input type="checkbox"/> no <input type="checkbox"/>	
20	676	Uncollectibles expense		yes <input type="checkbox"/> no <input type="checkbox"/>	
21	678	Office services and rentals		yes <input type="checkbox"/> no <input type="checkbox"/>	
22	681	Office supplies and expenses		yes <input type="checkbox"/> no <input type="checkbox"/>	
23	682	Professional services		yes <input type="checkbox"/> no <input type="checkbox"/>	
24	684	Insurance		yes <input type="checkbox"/> no <input type="checkbox"/>	
25	688	Regulatory Commission expense		yes <input type="checkbox"/> no <input type="checkbox"/>	
26	689	General expenses		yes <input type="checkbox"/> no <input type="checkbox"/>	
27		Total Operating Expenses (sum of Lines 8 thru 26)			
28	403	Depreciation expense		yes <input type="checkbox"/> no <input type="checkbox"/>	
29	408	Taxes other than income taxes		yes <input type="checkbox"/> no <input type="checkbox"/>	
30	409	Income tax on proposed net income (From Page 3, Line 4 OR Line 6 OR Line 8)			
31		Total Expenses at proposed rates (Lines 27 +28 + 29 + 30)			
32		Net Income (From Page 2, Line 21)			
33		Total Revenue Requirement (Line 31 + Line 32)			
34		Net Change in Revenue (Column C, Line 33 minus Column C, Line 6)			
35		Percent Change in Revenue (Column C, Line 34 divided by Column C, Line 6)			

APPENDIX A

Column	A	B	C	D	
line	Amount				
1	Last Approved Rate Base	Authorized By Res. _____ or Dec. _____.			
2	Changes to ratebase by Year				
3	Year	New Plant Investment	Contributed or Advanced Portion	OPTIONAL: Depreciation Accrual *	Net Rate Base Change (Col A-Col B - Col C)
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					
14					
15					
16					
17					
18	Test Year Proposed				
19	Test Year Estimated Ratebase (Sum of entries in Column D)				
20	Requested Rate of Return (use rate provided in cover letter)				
21	Net Income (Line 19, Col. D multiplied by Line 20, Col. D)				

Copy to Page 1, Line 32

*** NOTE: The ratebase you are calculating is an approximation. Unless you have accurate records of depreciation accrual since the last GRC, you should enter -0- in Column C. This omission is made to simplify filing. The Commission's staff will calculate actual depreciation reserve and rate base during its investigation.**

Facilities Fees. A Facilities Fee is a connection charge for new customers that can be used to build new infrastructure or replace or repair existing infrastructure. Facilities fee revenues are not to be used for O&M expenses and cannot be booked to retained earnings.

Do you want a Facilities Fee? Yes ____ No ____ . If so, how much? \$ _____.

APPENDIX A

Income Tax Calculations

(USE EITHER A, B, or C, DEPENDING ON YOUR NET INCOME, PAGE 2, LINE 21)

METHOD A

TO BE USED IF NET INCOME (PAGE 2, LINE 21) IS LESS THAN \$6,630

1	Net Income (Page 2, Line 21)	
2	Federal Tax (=Net Income X 0.177)	
3	State Tax	800
4	Total Tax (= Federal Tax + State Tax)	

Transcribe to Page 1, Line 30

OR

METHOD B

TO BE USED IF NET INCOME (PAGE 2, LINE 21) IS BETWEEN \$6,630 and \$38,500

5	Net Income (Page 2, Line 21)	
6	Total Tax (= Net Income X 0.291)	

Transcribe to Page 1, Line 30

OR

METHOD C

TO BE USED IF NET INCOME (PAGE 2, LINE 21) IS ABOVE \$38,500

7	Net Income (Page 2, Line 21)	
8	Total Tax (= Net Income X 0.313)	

Transcribe to Page 1, Line 30

APPENDIX B

Instructions for Development of Cash Flow Analysis to Determine whether Interim Rates are Necessary for a Class C or Class D Water Utility

1. Source for Data used in these calculations is the most recent Annual Report to the California Public Utilities Commission for the Class C or D Company as well as the Water Division Memorandum stating the CPI that will be used in the current year.
2. Cash Flow Model is shown as Table 1.
 - a. This Cash Flow Model adjusts Net Income (Loss) for Accrued Interest and changes in Depreciation, Depreciation on SDWBA Plant, Provision for losses on Accounts Receivable, SDWBA Trust Account, Accounts Receivable, Inventory, Prepaid Expenses, Accounts Payable, Accrued Expenses, Income Taxes Payable, Deferred Taxes, Deferred Credits, and Other Liabilities.
 - b. Staff shall verify Management Salaries shown in the Annual Report to those authorized in the company's last General Rate Case Decision or Resolution. The Management Salaries will be adjusted if they exceed what was previously authorized adjusted for inflation.
3. No matter what the Cash Flow figure is, the company shall receive an Interim Rate Adjustment based on the CPI (referenced above). This Interim Rate Adjustment is consistent with the intent of PU Code 455.2, which allows Class A water utilities to recover interim rates (based on the rate of inflation) that are subject to refund, in cases where the Commission decision is not issued on a timely basis (PU Code 455.2 is attached). The method Water Division Staff shall follow in the determination of both a Cash Flow Adjustment and an Interim Rate Adjustment are as follows:
 - a. The Resolution Authorizing an Interim Rate Adjustment shall include the following items:
 - i. The Interim Rate Adjustment is Subject to Refund.
 - ii. The Institution of Final Rates is Retroactive to the Effective Date of the Interim Rate Adjustment.
 1. For example, the Interim Rate Adjustment (Dated March 1) is an increase of \$1 over existing rates and the Final Rate (Dated June 1) is an increase of \$5 over those original existing rates.

APPENDIX B

The company could then request recovery of \$4 for March, April, and May ($\$5 - \$1 = \$4$).⁸

- b. If the Cash Flow is Negative, then an adjustment for both the Cash Flow and the Interim Rate Adjustment are necessary.
 - i. The Cash Flow Adjustment is equal to the negative amount determined in the Cash Flow Analysis.
 1. For example, if the result of the Cash Flow Analysis equals - \$100, then the Adjustment would equal +\$100.
 - ii. The Interim Rate Adjustment is calculated as follows:
 1. The interim rate is Subject to Refund.
 2. This Dollar Interim Rate Adjustment is calculated by multiplying the Gross Revenue from the most recent Annual Report filed with the CPUC times the CPI (from Water Division Memorandum).
 - a. $\text{Gross Revenue} * \text{CPI} = \text{Dollar Interim Rate Adjustment}$
 - iii. The dollar figures for both the Cash Flow Adjustment and the Interim Rate Adjustment (as well as the CPI figure used) are provided to the Water and Sewer Advisory Branch, who then drafts a resolution ordering the institution of the Cash Flow Adjustment and the Interim Rate Adjustment.
- c. If the Cash Flow is Positive, then no adjustment for cash flow is necessary. Only an Interim Rate Adjustment is calculated:
 - i. The CPI used in this calculation is found in a Water Division Memorandum issued annually by the Water Branch.
 - ii. The interim rate is Subject to Refund.
 - iii. This Dollar Interim Rate Adjustment is calculated by multiplying the Gross Revenue from the most recent Annual Report filed with the CPUC times the CPI (from Water Division Memorandum).
 1. $\text{Gross Revenue} * \text{CPI} = \text{Dollar Interim Rate Adjustment}$

⁸ See D.07-12-055 at 69.

APPENDIX B

- iv. The dollar figure as well as the CPI figure are used by Water Branch to draft a resolution ordering the institution of this Interim Rate Adjustment.