

CALIFORNIA PUBLIC UTILITIES COMMISSION
Division of Water and Audits

STANDARD PRACTICE FOR PROCESSING
RATE OFFSETS AND
ESTABLISHING AND AMORTIZING
MEMORANDUM ACCOUNTS

Standard Practice U-27-W

SAN FRANCISCO, CALIFORNIA
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A–PURPOSE

1. The purpose of this standard practice is to provide procedures to ensure a uniform and complete method of preparing and processing:

- a. expense offset rate increases,
- b. reserve account amortization,
- c. Consumer Price Index and rate base offsets
- d. Escalation offsets.
- e. Water Revenue Adjustment Mechanism and Modified Cost Balancing Accounts
- f. memorandum account establishment and
- g. memorandum account amortization advice letters.

2. All regulated water and sewer utilities (Utility) and the Division of Water and Audits (DWA) engineer or analyst (Staff) shall use these procedures, unless a deviation is approved by the Director of DWA. This standard practice incorporates the provisions contained in General Order (GO) 96-B.

B-DEFINITIONS

3. **Balancing Account.** A deferred debit account carried on the utility's books. When amounts from reserve accounts or memorandum accounts are approved as reasonable by the Commission, those amounts are moved to balancing accounts for recovery.
4. **Consumer Price Index (CPI) Offset.** A CPI offset adjusts all existing base rates including Facilities Fees by the Consumer Price Index for All Urban Consumers (CPI-U) to allow for attrition in earnings due to inflation.
5. **Expense Offset.** An expense offset is a change in rates that allows a utility to pass on to the customers changes in certain costs that are considered to be beyond the utility's control and that are in the public interest to allow the utility to recover. Offsets track both increases and decreases in costs.¹
6. **Memorandum (Memo) Account.** A memo account is an accounting device that, after approval by the Commission or upon statutory notice, may be used by a utility to record various expenses it incurs. The utility may later seek authorization from the Commission to recover the recorded amounts by passing them on to consumers in rates. The establishment of a memo account does not guarantee that the utility will recoup the tracked amount, but a utility is precluded from recovering amounts not booked to a memo account. Memo accounts allow the Commission to consider recovery of utility expenses that have occurred in the past without incurring retroactive ratemaking.²
7. **Modified Cost Balancing Account.** A balancing account that tracks purchased water, purchased power and pump tax (groundwater extraction charge).³
8. **Offset Rate.** An Offset Rate is a change to the "base rates" that are set in a General Rate Case that the Commission has allowed in order to protect the utilities from the financial impact of substantial unforeseen changes to expenses beyond the utilities' management control.⁴
9. **Preparation Cost.** Class C and D utilities may request recovery of the cost of preparing an offset advice letter if no funds were included in the Regulatory Expense authorized in their last General Rate Case (GRC) to cover such preparation costs. Normally this recovery is spread over three years but may be recovered more quickly if justified.

¹ "Utilities will be required to make rate reductions when power costs, property taxes or any of the other expense items normally included in an offset proceeding are reduced." Memorandum from B. A. Davis, Director, Operations Division to The Commission, Subj: Major Water Utilities Regulatory Policy, June 21, 1977, Conclusion and Recommendation (b), Approved 6/28/77 Commission Conference. Document Management (Doc. Mgmt. #) 263977

² The retroactive ratemaking doctrine prohibits the Commission from authorizing or requiring a utility to adjust current rates to make up for past errors in projections. If a utility includes an estimate of certain costs in its rates and subsequently finds out that the estimate was too low, it cannot adjust *future* rates to "recoup past losses." *City of Piqua v. FERC*, 610 F.2d 950, 954 (D.C. Cir. 1979) (quoting *Nader v. FCC*, 520 F.2d 182, 202 (D.C. Cir. 1975)).

³ D.08-08-030, August 21, 2008, at 15

⁴ Order Instituting Rulemaking (R.)01-12-009, November 21, 2001, at 2

10. Rate Base Offset. A rate base offset allows the utility to adjust its rates to account for a change in utility plant in service that affects rate base. It includes adjustments to associated expenses such as depreciation and taxes and to charges, such as franchise taxes and uncollectables, that depend upon gross revenues.

11. Reserve Account. A reserve account must be used to track offset expenses and revenues except for CPI and rate base offsets.⁵ This account tracks the incremental change in the underlying offsettable expense, and the additional revenue, or revenue foregone if the offset is a decrease, from the time of the approval of a rate offset until the expense change is included in base rates.

12. Water Revenue Adjustment Mechanism. An account that tracks the difference between the variable revenues collected and the revenues that would have been collected if the utility had charged a single block rate.

C–SCOPE AND HISTORY

Expense Offsets and Reserve Accounts

13. The best-known expense offset approved by the Commission was the Energy Cost Adjustment Clause for Southern California Edison.⁶ It allowed Edison to add a percentage surcharge to its bills to cover increases in fuel costs (oil, natural gas and coal) with true-up to actual expenditures at a later date.

14. Resolution No. W-1204, January 6, 1970 approved a “percentage additive” offset to the bills for California Water Service Company to offset the five percent federal income tax surcharge.⁷ It was followed by a series of resolutions doing the same for other water companies.

15. In 1976 the Legislature enacted section 792.5 of the Public Utilities Code, which required that utilities, when the Commission authorized expense offsets, maintain a reserve account reflecting the difference between actual costs incurred by the utility and the revenue collected through the offset rate increase.

16. Categories of expenses that are eligible to be offset include, for all water and sewer system utilities:

- a. purchased power (electricity or natural gas that the utility buys from the energy company),
- b. purchased water,
- c. groundwater extraction charges (pump taxes).

Class C and D utilities are not covered by attrition and may request an expense offset for:^{8,9}

⁵ Public Utilities Code Section 792.5

⁶ Decision (D.)79838, March 21, 1972

⁷ Doc. Mgmt. No. 328070.

⁸ Memorandum to All Hydraulic Branch Technical Staff from Wesley Franklin, Chief, Hydraulic Branch, November 9, 1984, Subj: Procedures for Offset Rate Increases, attachment, p. 1

⁹ Resolution W-4467, April 22, 2004 establishes memorandum accounts for these expenses (a. through h.) as of the date of the resolution.

- a. employee labor,
- b. payroll taxes,
- c. that portion of contract work that is for operation and maintenance of plant facilities (Class D only),
- d. unanticipated repair costs^{10,11}

17. At one time there was a lower limit of 1% and an upper limit of 10% on offsets, but the upper limit was modified in 1979 to simply require individual customer notice for increases over 10%.¹² The 1% lower limit, based on the most recent test year or the most recent Annual Report revenues, remains.¹³ This does not mean that the expense change itself cannot be tracked in the associated reserve account, just that the rates cannot be changed.

18. These guidelines were consolidated in 1984.¹⁴ No offsets were allowed if the latest adopted quantities were more than 5 years old (p. 6). This limitation remains.

CPI Offset

19. Each Class B, C and D water utility earning less than the rate of return authorized in its most recent rate case that is not in its test year and is not subject to a second test year or attrition year adjustment may file once 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).¹⁵ The Commission has extended this authorization to sewer utilities and to Class B water utilities.^{16,17} Any utility that misses filing for a CPI increase during a calendar year may not file retroactively during the next year. The utility must pass an earnings test.

20. The Mergers and Acquisition Rulemaking, R.97-10-048, extended the CPI offset to a Class A or B water utility that purchases an Inadequately Operated and Maintained Water System (a system with less than 2,000 service connections that had an outstanding order or citation from the California Department of Public Health when it was acquired) for up to seven years after the purchase date.¹⁸

21. There are two distinct types of CPI offsets: the annual CPI discussed in this standard practice, originally established by D.92-03-093, March 31, 1992 and the interim GRC CPI established by Public Utilities Code Section 455.2 and Commission Resolution No. W-4540, June 16, 2003. The latter CPI offset is discussed in Standard Practice U-8-W.

¹⁰ D.92-03-093, March 31, 1992, Ordering Paragraph 2.

¹¹ Resolution No. 4467, O.P. 6

¹² Memorandum to All Hydraulic Branch Engineers from John D. Reader, December 13, 1979, Subject: Policy Matters. Doc. Mgmt. #329851.

¹³ Memorandum to All Hydraulic Branch Technical Staff from Wesley Franklin, Chief, Hydraulic Branch, November 9, 1984, Subject: Procedures for Offset Rate Increases, Attachment p. 2, Doc. Mgmt. #267375, Webpub #82514

¹⁴ Ibid.

¹⁵ Decision 92-03-093, March 31, 1992, Ordering Paragraph 1.

¹⁶ Resolution No. W-4493, September 2, 2004

¹⁷ Resolution No. W-4540, June 16, 2005

¹⁸ Decision 99-10-064, October 21, 1999, Appendix D, Section 3.03, C. Webpub #82511

Rate Base Offset

22. Class A utilities may file a rate base offset only if authorized by decision. Class B, C and D utilities may file for a rate base offset without prior authorization.
23. Rate base offsets do not have an associated reserve account.
24. Any rate base offset not authorized in a general rate case requires an earnings test.
25. Rate base offsets are available for used-and-useful utility plant only (unless specifically exempted by the Commission),¹⁹ and the offset may be subject to a saturation adjustment if the facilities are over-built.²⁰

Escalation Offsets

The final Rate Case Plan Decision modified the attrition filing process to an escalation filing. Escalation offsets require an earnings test.

Memorandum Accounts

26. A memo account is not recorded in the utility's accounting books; it represents an off-book accounting record. Trackable costs are recorded in the memo account, and they are also recorded in the accounting records normally, in accordance with the Uniform System of Accounts. For example, costs normally expensed would continue to be expensed in the accounting records even though a memo account is set up to track these costs for potential future recovery. Memo accounts track a) expenses, b) the carrying cost and depreciation on capital investments, and c) offsetting revenues, such as insurance proceeds, from the effective date of the account.
27. Memo accounts may be requested by a Tier 2 advice letter. In order to qualify for memo account treatment, the costs must be due to events of an exceptional nature that:²¹
- a. are not under the utility's control,
 - b. could not have been reasonably foreseen in the utility's last general rate case,
 - c. and that will occur before the utility's next scheduled rate case,²²
 - d. are of a substantial nature such that the amount of money involved is worth the effort of processing a memo account and
 - e. have ratepayer benefits.²³
28. Existing memo accounts include:

¹⁹ D.96-02-032, February 23, 1996, Fulton Water Company

²⁰ See Standard Practice U-3-SM

²¹ Decision 08-03-020 March 13, 2008 at 18

²² For these first three requirements see Decision 94-06-033, June 22, 1994, page 51

²³ For example, a memo account to book legal costs to fight a takeover by a potentially incompetent entity might have ratepayer benefits, but a memo account to book legal costs to fight a takeover by a competent water district would not.

Description	Established by
Unanticipated Repair Cost Memorandum Account (Class C and D Water and Sewer System utilities only). Class A and B utilities that have acquired an Inadequately Operated and Maintained Water Utility also has this protection for seven years after acquisition.	D.92-03-093, March 31, 1992, Ordering Paragraph (O.P.) 2. The recovery must total more than 2% of the last adopted revenue requirement and must not include costs already included in rates. Res. No. 4467, Ordering Paragraph 6 Decision 99-10-064, October 21, 1999, Appendix D, Section 3.03, A.
Catastrophic Event Memorandum Account (All Public Utilities)	Public Utilities Code Section 454.9
Water Contamination Litigation Expense Memorandum Accounts (All Water and Sewer Utilities)	Res. No. 4094, March 26, 1998
Infrastructure Act Memorandum Account (all water companies) tracks the gain or loss on the sale of all water utility real property that was ever in rate base. This account shall be primary source of capital for investment in utility infrastructure. Water utilities shall file to amortize by surcredit any funds in this account that are over eight years old.	D. 06-05-041, May 25, 2006, O.P. 17.
Purchased Water and Pump Tax Memorandum Account (Class B, C and D Water Utilities), Purchased Power Memorandum Account (Class B, C and D Water and Sewer Utilities), Payroll, Payroll Tax and that Portion of Contract Work that is for Operation and Maintenance of Plant Facilities Memorandum Account (Class C and D Water and Sewer Utilities)	Res. No. W-4467, April 22, 2004

29. Individual company memorandum accounts may be authorized by the Commission but, if the accounts are authorized rather than mandated, they must be described in the Preliminary Statement to show that the utility is availing itself of the account:

Description	Established by
Water System Master Plan Study Costs Memorandum Account, (Fruitridge Vista Water Company)	Res. No. W-4133, February 4, 1999
Fluoridation Cost Memorandum Account (California American Water Company Sacramento District)	Res. No. W-4227, October 5, 2000
Engineering and Legal Cost Memorandum Account (Central Camp Water Company)	Res. No. W-4225, September 21, 2000
Water Treatment Memorandum Account (California Water Service Company's Salinas District) (earnings test required)	D.02-08-054, O.P. 3
Water Hauling Memorandum Account (Keene Water Service)	Res. No. W-4502, October 7, 2004
Litigation Memorandum Account (Del Oro Water Company)	Res. No. W-4253, April 19, 2001

30. Memo account balances earn at the 90-day commercial paper rate.²⁴ For Class B, C and D utilities the memo account must be kept on a cash basis not an accrual basis; that is, when an invoice is actually paid, then that expense may be booked to the memo account. Advice letter memo account recovery requests require an earnings test and proof of reasonableness.

Balancing Accounts

31. A balancing account tracks monies that the Commission has authorized for recovery or amortization. When a balance in a reserve account or memo account is approved for recovery, that reserve or memo account balance is moved to a balancing account.²⁵ If the Commission disallows recovery of all or part of a reserve or memo account, the unrecovered amount is amortized below the line.

32. The balancing account is a regulatory asset in the accounting records, and in the balance sheet. Costs allowed to be recorded into this account are charged to this account, and surcharges collected to recover these costs are credited to this account, and therefore the surcharges are not credited to a revenue account. The corresponding credit entry is to increase retained earnings, since the purpose of the balancing accounts is to recover expenses that occurred in the past.²⁶

²⁴ D.94-06-033, June 22, 1994, Ordering Paragraph 1.

²⁵ "Purchased water, purchased power and pump tax reserve accounts shall be moved to balancing accounts and may be recovered once the balance in the account exceeds 2% of the last approved revenue requirement." (D.06-04-037, April 13, 2006, O.P. 3.

²⁶ Memo from Joseph Loo to Kayode Kajopaiye, February 5, 2007, Subject: RE: Balancing/Memorandum Accounts, Doc. Mgmt. # 292007

33. Each district has a separate balancing account subaccount for each item to be recovered or amortized. When the balancing account balance reaches zero or a small amount, the utility files to terminate the surcharge or surcredit and the residual amount is moved to another balancing account. Balances in the balancing account earn at the 90-day commercial paper rate.²⁷

34. Purchased water, purchased power, and pump tax offsets are booked to balancing accounts.²⁸

D – NOTICE

35. Tier 1 advice letters requesting an expense offset for the pre-approved expenses listed above or an annual CPI offset do not have to be noticed. The utility should inform its customers with a bill insert or language on the bill that explains the rate change when it first bills for it.²⁹ All other expense offset requests are Tier 3 filings and require General Rule 4.2 notice and a resolution.

36. A Tier 2 advice letter requesting the establishment of a memorandum account does not have to be noticed because there is no change in rates. The notice will be required when the utility requests recovery of the memorandum account.

37. A Tier 3 rate base offset or memorandum account recovery advice letter must be noticed per GO 96-B General Rule 4.2.

38. Class C and D utilities should not distribute or publish the notice until Staff has reviewed it and informs the utility that it is acceptable. After the notice is distributed or published, these utilities can file the final advice letter.

E – FILING PROCEDURES

Filing for an Expense Offset

39. When a utility incurs or will incur changes in its offsettable expenses listed above resulting in an annual revenue requirement change of over 1%, or if a group of expenses change that, when added together, will exceed 1% in a calendar year, it shall submit a Tier 1 advice letter requesting an offset surcharges to account for those changes and associated changes to other expenses such as franchise tax (see Appendix A). The adopted quantity for the purchase price of purchased water, purchased power and pump tax shall be recorded in the Water Revenue Adjustment Mechanism (WRAM) description in the Preliminary Statement.

The filing shall add language similar to the following as a special condition on all rate schedules that are affected by the offset:

“Beginning (date), as required by Section 792.5 of the Public Utilities Code, an increase (decrease) in power (purchased water, pump tax) cost of

²⁷ D.94-06-033, June 22, 1994, Ordering Paragraph 1.

²⁸ D.06-04-037 April 13, 2006, Ordering Paragraph 3

²⁹ Resolution No. W-4664, November 1, 2007 reclassified an offset for a pre-approved expense as Tier 1 and removed the requirement for notice. Ordering paragraph 3 requires that the utility tell the customer about the rate change, in dollar and percentage terms, in the first bill that includes the rate change for the offset.

\$0.0xxx/KwH (\$0.00 per acre-foot), relative to the power (purchased water, pump tax) cost adopted by (GRC Resolution/Decision), and an associated revenue increase (decrease) of \$0.0yyy/CCF, are being tracked in a reserve account.”

40. For other expense offsets, the utility must file a Tier 3 advice letter unless it can provide a citation to a decision (for Class A) or other Commission document approving offset tracking of that type of expense, in which case it is a Tier 2 filing.^{30, 31} Class B, C and D offset filings require an earnings test.³²

Amortizing a Reserve Account

41. As stated above, pursuant to Section 792.5 of the Public Utilities Code, the utility must establish a reserve account for each item for which expense offsets have been authorized. The reserve account tracks the revenues recovered by the rate offset and the offsettable costs incurred. The average in the reserve account each month accrues interest at the current 90-day commercial paper rate.^{33,34}

42. For Class B, C and D water and sewer service utilities, when the total in the reserve account(s) exceeds (positive or negative) 2% of the gross operating revenue authorized in the last GRC or realized in the last annual report, whichever is higher, the reserve account must be amortized. The reserve account amortization requires an earnings test based on recorded quantities.

43. Reserve account amortization for Class A utilities will be part of the General Rate Case or may be by advice letter when the account over or under collection exceeds 2%, at the utility’s option.³⁵

44. Undercollected reserve accounts are amortized by a surcharge on the service charge or the commodity charge, depending upon the type of expense being offset.³⁶ An overcollection in a reserve account is refunded by a surcredit applied only to service charges.³⁷ Surcharges and surcredits are described in the Special Conditions section of the applicable tariff sheets. They become effective on the effective date of the tariff sheet. The maximum length that a surcharge or surcredit will run (in months) must be included in the description. Surcharges or surcredits can terminate before that date if the account has been amortized. The utility files a Tier 1 advice letter to eliminate the special condition.

³⁰ G.O. 96-B, Rule 7.3.2 (4)

³¹ D.03-06-.72, June 19, 2003, Conclusion of Law 3

³² For guidelines in filing an expense offset see the May 23, 1986 Memorandum from Wesley Franklin, Chief Water Utilities Branch to Water Utilities Branch Technical Staff Subject: Offsets for Insurance Premium Increases, Doc. Mgmt. #367133,

³³ D.94-06-033, June 22, 1994, O.P. 1

³⁴ One-twelfth of the most recent month’s interest rate on Commercial Paper (prime, three months), published in the Federal Reserve Statistical Release, G.13, or its successor publication. See <http://www.federalreserve.gov/releases/H15/data/m/cp3m.txt>

³⁵ D.06-04-037, April 13, 2006, O.P. 2, Doc. Mgmt. #230466

³⁶ Letter from Wesley Franklin to All Class A, B and C Water Utilities, dated September 13, 1983

³⁷ The water utilities originally proposed that all amortization of balancing accounts be applied to the service charge. Staff proposed that the proper way of amortizing water supply expenses be through the commodity charge (Letter from Wesley Franklin to Class A, B and C Water Utilities, September 13, 1983).

Filing for a CPI Offset

45. By April 15 of each calendar year DWA will prepare a letter to all Class B, C and D water and sewer system utilities explaining how to apply for a CPI offset, including the CPI percentage increase to use. The utility calculates a CPI offset by multiplying all rates in its existing rate schedules by one plus the amount contained in the letter from DWA (or a lesser figure) and files an advice letter to replace the old tariffs with the new tariffs that include the rates escalated by the CPI. The advice letter is Tier 1 (effective upon filing), but still requires an earnings test.³⁸

Filing for a Rate Base Offset

46. Filing for rate base offset recovery requires a Tier 3 advice letter. If the filing is by a Class A utility, the advice letter must refer to the ordering paragraph of the decision that authorizes the filing. The utility shall file an advice letter increasing rates to account for the addition to rate base calculated in accordance with Appendix A. The filing should include all invoices for the project, or, if that would be too voluminous, a listing of the invoices by date paid, company, and service provided with individual amounts, interest accrued, and the total requested.

Filing for an Escalation Offset

47. Escalation Years 1 and 2 rate increase requests shall be sought by Tier 1 advice letter no later than 45 days prior to first day of the escalation year. Late filed escalation advice letters shall be effective no sooner than 45 days after filing.

48. The most recent memorandum entitled, “Estimates of Non-labor and Wage Escalation Rates” as described in D.04-06-018, shall be used. The advice letter filing shall include all calculations and documentation necessary to support the requested rate change. The requested rate increase shall be subject to the pro forma earnings test, as specified in D.04-06-018.

49. Revenue requirement amounts otherwise subject to rate recovery, e.g., through balancing or memorandum accounts, shall not be subject to escalation. All rate base items, including capital additions and depreciation, shall not be escalated but rather shall be subject to two test years and an attrition year, consistent with D.04-06-018. If the Escalation Year and Attrition Year advice letters are in compliance with this decision, GO 96-B, and other requirements, the advice letter shall be effective on the first day of the escalation or attrition year, consistent with the procedures set forth in GO 96-B.

50. Utilize the following methods for preparing escalation year requests:³⁹

- a. Adjust escalation year labor expenses by the most recent labor inflation factors as published by the DRA.

³⁸ D.92-03-093, March 31, 1992 at 23.

³⁹ In each water utility’s escalation year advice letter filing, the most recent DRA inflation factors will be used. This will normally be the factors for October effective January 1 or April effective July 1.

- b. Adjust non-labor escalation year expenses, excluding water production related expenses, by the most recent composite non-labor 60%/compensation per hour 40% inflation factors published by DRA.
- c. Adjust escalation year water production related expenses based on escalation year sales.
- d. Adjust for all non-recurring and significant expense items prior to escalation. A significant expense is equal to or greater than 1% of test year gross revenues.
- e. Expense items subject to recovery via offset accounts, e.g., balancing accounts, shall not be escalated.
- f. Estimate escalation year expenses not specifically addressed in DRA's published inflation factors, (such as insurance) based on CPI-U for most recently available 12 months, as provided in D.04-06-018.
- g. Escalation year expenses may also be increased by the most recent five-year average customer growth or other growth adopted by the Commission.
- h. For the first escalation year, estimate customers by adding the five-year average change in customers by customer class or other growth adopted by the Commission to the test year customers. For the second escalation year, estimate customers by adding the five-year average change in customers by customer class or other growth adopted by the Commission to the first escalation year customers.
- i. Estimate sales for the escalation years for the residential, multifamily, and business classes by multiplying the number of customers for each escalation year by the test year sales per customer. Use the test year sales for all other customer classes for both escalation years.
- j. Forecast sales revenues for the escalation years based on each year's forecast of sales and customers. Other revenues will be estimated using a five-year average of recorded other revenue.

Establishing a New Memorandum Account

51. Memo accounts may be established by filing a Tier 2 advice letter.⁴⁰ They become effective upon staff approval or on regular statutory notice unless suspended or rejected.⁴¹ The advice letter must seek to add a description of the account in the Preliminary Statement (see Appendix B).

52. Each advice letter requesting a new memo account must address the following:⁴²

- a. The expense is caused by an event of an exceptional nature that is not under the utility's control;
- b. The expense cannot have been reasonably foreseen in the utility's last general rate case and will occur before the utility's next scheduled rate case;

⁴⁰ Many memorandum accounts, such as Security Costs Memorandum Accounts, are more properly established in a general rate proceeding, where the costs can be estimated with precision See D.03-10-070, October 30, 2003. Some memorandum accounts, by Commission ruling, can only be established in a formal proceeding, i.e. Water Quality Memorandum Accounts, (Decision 94-06-033, June 22, 1994, O.P. 3)

⁴¹ Southern California Edison Company v. Public Utilities Commission, (2000) 185 Cal. App. 4th 1086.

⁴² D.02-08-054, August 22, 2002, at 3. Doc. Mgmt. #129903.

- c. The expense is of a substantial nature as to the amount of money involved when any offsetting costs decreases are taken into account; and
- d. The ratepayers will benefit by the memo account treatment.

53. Some memo accounts are established by Commission order or California law, but, if the establishment is discretionary on the utility's part, it requires an advice letter filing to be effective.⁴³ Such filing for a preapproved memorandum account is a Tier 1 filing.

Amortizing a Memorandum Account

54. Recovery of a memo account requires a Tier 3 advice letter with full justification of all expenses and a recorded earnings test for the calendar year period during which the expense was incurred. The average monthly balance in the account accrues interest at the 90-day commercial paper rate.⁴⁴

55. Surcharges or surcredits for recovery of memo accounts should be spread across all utility services that have benefited from the money spent and booked to the memo account. For example, recovery of DHS fee memo accounts (not water quality memo accounts) should be spread across all services including private fire protection service and reclaimed water service because DHS monitors backflow prevention protections for these services. Recovery of water quality memo accounts, however, should come only from customers who use potable water. Recovery of memo accounts requires a Tier 3 advice letter and resolution, which transfers the balance in the memo account to a balancing account and will institute either a surcharge or surcredit.

F – FORM AND CONTENTS OF THE ADVICE LETTER

56. Class D utilities may elect to furnish only the following information for expense offset rate increases:⁴⁵

- a. A written request, including an explanation for the tracked costs;
- b. A tabulation of increases in expenses and revenues;
- c. Copies of paid bills and work papers showing calculations in support of items to be recovered.
- d. For previously established reserve accounts, a summary with supporting work papers showing over or undercollections in the reserve account.

Staff will prepare the necessary paperwork, i.e., the advice letter and Notice to Customers, and provide these documents to the utility. The utility is responsible for the distribution of the notice to its customers.

⁴³ "A small water company, perhaps assisted by the Association or by Branch, would file an advice letter and tariff sheets establishing a memorandum account for unanticipated repair costs." D.92-03-093, March 31, 1992 at 26.

⁴⁴ One-twelfth of the most recent month's interest rate on Commercial Paper (prime, three months), published in the Federal Reserve Statistical Release, G.13, or its successor publication. See <http://www.federalreserve.gov/releases/H15/data/m/cp3m.txt>

⁴⁵ "Hydraulic Branch Procedures for Offset Rate increases" by B. Bennett and W. Franklin, 8/24/84 at 4. See Doc. Mgmt. #267375.

57. Class B and C utilities may submit two copies of a draft advice letter (proposal), including supporting work papers, to the staff for review (see Appendices B and D). Draft form simply means that the advice letter and the tariff sheets are not numbered, the advice letter is called a draft advice letter, and the date of publication (or distribution) of the Notice to Customers is not filled in. The advice letter must still be typed and all work papers must be legible and logically arranged. The purpose of a draft advice letter is to permit the Division to review the submittal for errors and to eliminate the possible need to reject or supplement a filed advice letter. Exceptions to the draft advice letter procedure will be permitted if a utility is sophisticated enough to file a normal advice letter. Class A utilities shall submit a regular advice letter.

58. Class A, B and C water companies will provide the information in Appendix C, with all supporting work papers showing insurance recoveries, contracts, costs and calculations. Proof of the underlying expense change such as a copy of the invoice or notice of impending cost change must be included. Class A utilities will include a compact disk of all calculations, or e-mail the spreadsheets to water_division@cpuc.ca.gov.

G – CALCULATING OFFSET RATE INCREASES

59. Calculate offset revenue changes by creating an offset summary of earnings (Appendix D). The allowable offsetable amount is added to rate base or expenses. If a rate base offset, the depreciation expense is adjusted by multiplying the incremental plant in service by the last approved composite depreciation rate for the utility or district. The rate of return is that last approved for the utility, or, for multi-district utilities, the last approved for the district, whichever is lower. For Class B utilities the rate of return is the last approved for the utility or district adjusted by the same number of basis points that class C and D rates of return have been adjusted over the same period of time, whichever is lower. For Class C and D utilities, use last authorized return or the midpoint of the latest Class C and D returns published by the Division of Water and Audits adjusted by any deviation to the rate of return made in the utility's last general rate case, whichever is higher.

60. Expense offset rate increases are based on the Adopted Quantities from the last GRC or from the last offset processed.⁴⁶ For Class A utilities with multiple block rates the last adopted cost is included in the WRAM description in the preliminary statement. For all other water utilities the new Adopted Quantities is included in the Special Condition that authorized the offset. The last GRC proceeding should not be more than five years old. Normally, after five years, the utility no longer qualifies for an offset and must file for a GRC if it wants rates modified to account for cost changes. Exceptions to this procedure will be permitted if unique circumstances exist that argue for continued processing of offset filings.

61. As stated earlier, an offset rate increase covers changes in costs since the last rate case or offset. For example, if the electric utility's rates are increased by two cents per kWh, a water or sewer utility can request a rate increase to offset the increased cost of purchased power. The following sample calculation for purchased power illustrates the procedure:

Adopted Quantities (last general rate proceeding)

⁴⁶ Memorandum from Wesley Franklin to Hydraulic Branch – Supervisors and Seniors, Aug 31, 1983, Subject: Adopted Quantities

- a. 1,500,000 kWhs at a unit cost of \$0.10 per kWh.
- b. 2,000,000 Ccf water sales.

New (current) cost of electrical power

\$0.12 per kWh

The increased expense is:

$$1,500,000 \text{ kWh} \times (\$0.12 - \$0.10/\text{kWh}) = \$30,000$$

The requested increase in revenue is \$30,000 and the requested change in rates is:

$$\$30,000 / 2,000,000 \text{ Ccf} = \$0.015 \text{ per Ccf}$$

so the tariff sheets would add a surcharge (Special Condition) to the quantity rate of \$0.015 per Ccf or increase the quantity rate by \$0.015 and establish a new adopted quantity of \$0.12/kWh in a special condition or it preliminary statement description of its WRAM account.

62. Calculation Guidelines for Rate Changes. The following guidelines should be used for calculating the changes in rates.

Water Production Expense Changes for a metered system -

Compute an incremental change in cents per Ccf by dividing the annual amount of the cost increase by the adopted annual sales adjusted for unaccounted-for water. Apply this increase to all blocks if multiple block rates exist.

Water Production Expense Changes for a flat rate system -

Compute an incremental change for the flat rate tariffs similar to the computation of a surcharge by dividing the annual amount to be amortized by the number of actual services and the number of billing periods per year. Adjust the surcharge by the same factors as the flat rate schedule itself (by lot size or service size).

Non-Water Production Expenses - Compute an incremental change in the flat rate tariff similar to the computation above or in the service charge scaled by the capacity factor equivalents for different meter sizes for metered services.

63. The following rate design policy shall be used for offsets unless there is a valid cause for deviation:

- a. No change of rate design (percentage of fixed costs in service charge for metered service) shall be made in an offset rate proceeding.⁴⁷
- b. Increases involving water systems that have both flat rate and metered customers should be allocated to those classes so that the metered customer who uses an

⁴⁷ A change in rate design may require a formal proceeding. At a minimum there must be a substantive justification for the change. See California Manufacturer's Association v. Public Utilities Commission 24Cal.3d 251; 155 Cal.Rptr. 664, 595 P.2d 98.

average amount of water receives the same percentage increase as a flat rate customer.

- c. Offsets also apply to Low-Income rate schedules

H – RECOVERY PERIODS

64. Amortization of Undercollection in the Reserve Account (Metered):

- a. Surcredits shall apply to service charge only and be designed to return the money as soon as reasonably possible.
- b. Reserve and memo account amortization surcharges shall be spread over one year for undercollections of less than 5% of gross revenues, over two years for undercollections of 5% to 10% of gross revenues and over three years for undercollections over 10% of gross revenues. Recovery shall be tracked in a balancing account.

I – EARNINGS TESTS

65. 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. Using the Summary of Earnings, increase the most recent adopted 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 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 the most recent adopted Operating Revenues increased by the CPI. Compare this percentage to the authorized return on margin percentage. If the new return exceeds authorized, the utility will only be eligible for part or none of the increase..

66. If the earnings test shows that the utility is over-earning, adjust the requested amount by the over-earning amount.

J – PROCESSING THE ADVICE LETTERS

67. Expense and CPI offset rate increase advice letters are Tier 1 but still require review. Staff will assure that the utility has properly calculated the offset and met the earnings test as described above.

68. For Class A water companies with Modified Cost Balancing Accounts (MCBAs), the MCBA replaces the traditional three balancing accounts (purchased water, purchased power and pump tax) and tracks the difference in cost between the actual and adopted costs.⁴⁸ For Class A water companies with WRAMs, the WRAM tracks the difference between revenue received for actual metered sales through the tiered volumetric rate and the revenue that would have been received through the uniform, single quantity rates if they had been in effect. The balancing account will track the actual water amount sold in a month and apply the single quantity rate to result in an adjusted revenue amount for that month. The difference between the adjusted revenue and the actual revenue will be reflected in the balancing account. The account will not track revenues recovered through the service charge, fire service, unmetered service, reclaimed water service, fees and fire service, and other non-general metered service revenue. The utility will provide an annual report showing the revenue over- or under-collection for the prior calendar year for both the WRAM and the MCBA. If the over- or under-collection exceeds 2% of adopted revenue requirement for the present year for amounts recovered through the quantity rates of residential customers, the utility will file an advice letter within 30 days that amortizes the balance in the account. If the cumulative 2% threshold is not met, the balance in the account will be amortized in the next GRC. Recovery of under-collections and refunds of over-collections will be passed on to ratepayers through volumetric surcharges and surcredits.⁴⁹

69. Requests for a new memo account are made by Tier 2 advice letter that should be processed within 30 days. If it becomes evident that the analysis won't be completed in time, the analyst must suspend the review period for the advice letter by sending a suspension letter to the utility prior to the 30th day stating why the review needs to be suspended, inform the tariff unit so that the information can be published in the Commission Calendar, and inform his or her supervisor, who will inform the Branch Chief. Staff will assure that the requested memorandum account meets Commission guidelines as described above.

70. Rate base offset and memo account recovery advice letters are Tier 3 and will require a resolution. All charges booked to memo accounts must be less than three years old unless the costs are fully justified for being older. Legal expense memo accounts cannot be recovered until the case is closed if the utility was the defendant, and booked costs are normally found imprudent if the utility loses the case. Legal expense memo accounts where the utility is the plaintiff may be recovered prior to closure of the case, subject to refund. After advice letter approval, the analyst or project manager prepares the resolution, if necessary.

⁴⁸ D.08-02-036, February 28, 2008 at 8. Doc Mgmt #319189

⁴⁹ Ibid at 26

71. For all advice letters, the analyst will go through the work papers, verifying all calculations, and requesting additional information as necessary, to ensure that the request is just, reasonable and correct. Even CPI advice letter should be checked for correctness. Appendix E contains a CPI Advice Letter Checklist that can be used for this purpose.

72. For Unanticipated Repair Cost Memorandum Accounts, the “utility should not be permitted to recover costs already factored into its latest rate case, nor should recovery be permitted where a reasonably prudent operator would have taken steps that would have avoided the repair costs.”⁵⁰

73. For Class B, C and D utilities, after review of the draft advice letter, the staff member will advise the utility to file the final advice letter and to notify its customers (if necessary) of the requested rate increase by sending the utility a filled-in copy of the Cover Letter (Appendix F) and the Notice of Proposed Rate Increase (Appendix G); a copy of the filled-out Additional Information sheets (Appendix H) and, if necessary, a corrected draft advice letter (Appendix I). The utility then files the advice letter as specified in General Order No. 96 and notifies its customers. The engineer or analyst logs in all customer responses received and replies to them.

⁵⁰ D.92-03-093, March 31, 1992 at 26.

Appendix A
EXAMPLE CALCULATIONS FOR OFFSETS

Any Water Company
Rate Base Offset

Computation of Well Cost

Engineering	20,000
Backhoe Service	6,000
Rock	5,000
Well Cost	500,000
Capitalized Interest	10,000
Total	541,000

Cost of New Construction

Land Acquisition	50,000
Geological Reports	40,000
Total	90,000

Total Increase in Rate Base

Cost of New Construction	90,000
Cost of Well	541,000
Total Additions	631,000

Net Rev. Increase Needed to Cover New Plant

Rate of Return	8.9% (see below)
Change in Rate Base	631,000
Net Rev. Increase	\$56,159

Return and Weighted Net-to-Gross for Rate Base Calculation (from last GRC)

	Cap Ratio	Int/Return	Rate of Return	ROR	Net to Gross	Net to Gross for RB
Debt	0.4753	0.0754	0.035838	40.27%	1.0046 ⁵¹	0.404569
Equity	0.5247	0.1013	0.053152	59.73%	1.6955	1.012694
			0.08899			1.417263

Revenue Requirement Increase due to Rate Base

Net Revenue Increase	\$56,159
Net to Gross	1.417263
Change in Gross Revenue	
Due to Rate Base Addition	\$79,592

Revenue Requirement Increase due to Expense Increase

Depreciation Rate	2.7% ⁵²	Depreciation Expense	\$17,037
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⁵¹ Calculate Net to Gross for Debt by including only non-tax items (franchise fees, uncollectables, etc.) that are calculated based on the revenue requirement. Do not include state and federal tax.

⁵² Even if the plant addition has a non-average service life, it should be depreciated at the last approved composite

Appendix A
EXAMPLE CALCULATIONS FOR OFFSETS

Property Taxes @ 1%	\$6,310	Franchise Fee @ 2%	\$12,620
Uncollectables @ .5%	3,155	Cost of Offset Filing	\$120
		(\$360 amortized over three years)	

Depreciation	\$17,937
Property Taxes	6,310
Franchise Fee	12,620
Uncollectables	3,155
Preparation Cost	120
Change in Gross Revenue	
Due to Expenses	\$40,142

Total Revenue Requirement Increase

Requirement Increase $\$79,592 + 40,142 = \$119,734$

depreciation rate. A new depreciation rate can be calculated in the next GRC that takes all facilities depreciation lives into account.

Appendix B
EXAMPLE CALCULATIONS FOR EXPENSE AND RATE BASE OFFSETS

G. CATASTROPHIC EVENT MEMORANDUM ACCOUNT (CEMA):

1. PURPOSE: The purpose of the CEMA is to recover the costs associated with the restoration of service and Any Water Co. facilities affected by a catastrophic event declared a disaster or state of emergency by competent federal or state authorities. The balance in the CEMA will be recovered in rates after CPUC review and audit of the recorded CEMA balance. The authority to establish this account was granted in CPUC Resolution E-3238, dated July 24, 1991 and Public Utilities Code Section 454.9.

Should a disaster occur, Any Water Co. will inform the Executive Director of the CPUC by letter within 30 days after the catastrophic event that Any Water Co. has started booking costs in the CEMA.

2. ACCOUNTING PROCEDURE: Any Water Company (AWC) may maintain a memorandum account for its expenses and other recovery/reimbursements in connection with a catastrophic event as defined in Section 454.9. These expenses must be additional or incremental to those allowed in AWC's last general rate case proceeding. AWC shall make entries to this account at the end of each month as follows:
 - a. Debit entries equal to the incremental or additional amounts recorded in AWC's operations and maintenance and administrative and general expense accounts that were incurred as a result of the catastrophe.
 - b. Debit entries equal to the depreciation and/or amortization amounts of new or replacement utility plant installed to continue the provision of uninterrupted services to customers.
 - c. Debit entries equal to the return on investment on the average monthly balance of new or replacement utility plant installed in (b) above.
 - d. Credit entries equal to the proceeds reimbursed by the utility's insurance covering such events.
 - e. Credit or debit entries to transfer all or a portion of the balance in this memorandum account to other adjustment clauses for future rate recovery, as may be approved by the Commission.

In addition, the water utility shall file an advice letter to the Commission detailing any utility plant retired from service and the proposed rate making treatment for such plant.

WORKPAPERS FOR ADVICE LETTER NO. 26

Rate of Return (Rate Base offsets, CPI offsets and memorandum account recovery only)

1. The recorded rate of return on rate base for the 12 months ending September 1999 is 9.8%.

(Class A utilities only)

2. The recorded weather-normalized rate of return on rate base for the 12 months ending September 1999 is _____.

The weather normalized rate of return is calculated by calculating revenues by multiplying the adopted consumption per customer by the actual number of customers, subtracting the adopted expenses and associated taxes and fees and applying the net revenues to the actual rate base.

Purchased Power

Decision (D.)99-01-001 included Any Water Company rates effective October 1, 1998 of \$0.14932/kWh on adopted usage of 24,450,200 kWh. Copies of the Adopted Quantities Tables from D.99-01-001 are attached.

Increases in SCE rates of 0.01018/kWh became effective October 1, 1999. A copy of this tariff (or a bill with the new rate circled) is attached.

Increase in purchased power costs of 24,450,200 kWh x \$0.01018/kWh = \$248,900.

Ad Valorem taxes have been increased by 0.12% to fund a new school. A copy of the approved county resolution is attached.

Summary of Increased Expenses

Purchased Power	\$248,900
Ad Valorem Taxes	30,200

Required Rate Increase

$$\frac{\$279,100}{\$6,950,200} = 4.02\%$$

Computation of Rates

Apply purchased power increase to quantity rates and ad valorem increase to service charge rates.

Appendix C
EXAMPLE WORKPAPERS

Purchased Power - Quantity Rates

D.99-01-001 included adopted water sales of:

Block 1	0 - 3 Ccf	1,850,160 Ccf
Block 2	Over 3 Ccf	<u>14,560,400 Ccf</u>
		16,410,560 Ccf

Increase in quantity rates - use same cents/Ccf increase for all water sales:

$$\frac{\$248,900}{16,410,560 \text{ Ccf}} = \$0.0152/\text{Ccf}$$

Ad Valorem Tax - Service Charge Rates

D.99-01-001 included adopted customers services of:

5/8 inch meter	50,421
2 inch meter	<u>500</u>
Total	50,921

Total Equivalent 5/8 x 3/4" meters

$$\frac{\text{2" rate}}{\text{5/8" x 3/4" rate}} = \frac{\$50.00}{20.25} = 2.222$$

Total Equivalents

$$50,921 + (500 \times 2.222) = 50,421 + 1,111 = 51,532$$

\$ per meter/year for \$30,200 increase

$$\$30,200/51,532 = \$0.586/\text{meter/year}$$

\$ per meter/month

$$\$0.586/12 = \$0.489/\text{meter/month}$$

Let 5/8 x 3/4 increase by 5 cents

$$\text{Then 2" } = 0.0489 \times 2.222 = \$0.1085 \text{ or 11 cents}$$

Check revenues against increase

$$\begin{aligned} 5,421 \times 0.05 \times 12 &= \$3,253 \\ 50 \times 0.11 \times 12 &= \underline{\$ 66} \\ &= \$3,319 \end{aligned}$$

\$3,319 revenue

3,200 increase

\$ 119 overcollection

Reserve Account Undercollection

The reserve account balance as of September 30, 1999 was \$5,100. Since this is less than 2% of gross revenues, no recovery is requested.

Appendix D
Offset Summary of Earnings

Advice Letter No. 26

SUMMARY OF EARNINGS - TEST YEAR 2010
(\$000)

<u>Item</u>	<u>Rates Authorized by D.20-01-001</u>	<u>Increases</u>	<u>At Proposed Rates</u>
Operating Revenues			
General Metered Service	\$16,320.2	\$288.4	\$16,608.6
Operating Expenses			
Payroll	1,530.8	0.0	1,530.8
Purchased Power	1,200.6	280.1	1,480.7
Purchased Water	0.0	0.0	0.0
Uncollectables (1.96%)	123.0	5.7	128.7
Depreciation (2.25%)	355.0	0.45	355.5
Payroll Tax	510.9	0.0	510.9
Taxes - Income	1,040.8	0.0	1,040.8
	Total Expenses	4,761.1	286.2
Net Operating Revenue	11,559.1	2.2	11,561.3
Average Plant	181,733.0	20.0	181,753.0
Average Depreciation Reserve	6,309.0	0.5	6,309.5
Net plant	175,424.0	19.6	175,443.6
Less: Adv. & Contributions	70,383.0	0.0	70,383.0
Rate Base	105,041.0	19.6	105,060.6
Rate of Return	11.00%	11.00%	11.00%

Appendix F
COVER LETTER

Date

Mr./Ms. Owner

Any Water Company

Address

City, State ZIP

Dear Mr./Ms. Owner:

This is to acknowledge receipt of your draft offset advice letter rate increase request dated _____. The Water Branch has completed its preliminary review of your submittal and finds it complete for filing as of today.

In order to promote greater ratepayer awareness during the rate increase process and to avoid later claims of lack of due process, we require that you provide notice of this increase to afford customers the opportunity to be heard and to ask questions about the proposed increase and the approval process. Please date, fill in the blanks and distribute the enclosed notice.

Since the increase is for less than 10% of your latest recorded gross revenues, please arrange to have the enclosed notice published in the Official Notice section of a newspaper of general circulation in your service territory.

or

Since the requested increase is for more than 10% of your latest recorded gross revenues, please distribute the enclosed Notice to each customer. This may be distributed by mail or otherwise, but should be distributed as soon as possible.

You should also distribute a sufficient number of copies to your customers who submeter others and request that they make a distribution to their submetered users. Please furnish the Commission with a copy of the notice as distributed by enclosing a copy with the four copies of the advice letter that you are now authorized to file. Please advise us of the date of such distribution and whether by mail or otherwise.

The Branch will evaluate any letters received from the utility's customers and will correspond with you regarding further processing of your request for an increase in rates.

If you have any further questions, please call me at (415) 703-_____. I appreciate your cooperation in this matter.

Very truly yours,

Your name, Your classification

Your Branch

Your Division

Enclosure

Appendix G
NOTICE TO CUSTOMERS

Date

NOTICE OF PROPOSED RATE INCREASE BY ANY WATER COMPANY

Any Water Company is requesting that the California Public Utilities Commission (CPUC) increase its gross revenue by \$280,100, or 4% to offset purchased power increases from Southern California Edison Co. and to recover increased water testing costs.

The revenue increase will recover only the added costs discussed above. This increase will not increase Any Water Company's profits.

The present rates have been in effect since January 1, 1999.

A comparison of the rates now authorized and the rates proposed follows:

General Metered Service:

Service Charge:

	Per Meter Per Month	
	Present Rates	Proposed Rates
For 5/8 x 3/4-inch meter.	\$ 15.50	\$ 15.70
For 3/4-inch meter.	\$ 16.05	\$ 16.30
For 1-inch meter.	\$ 18.25	\$ 18.60
For 1-1/2-inch meter.	\$ 21.00	\$ 21.45
For 2-inch meter.	\$ 24.85	\$ 25.45

Quantity Rate:

All Water, per 100 cu. ft.	\$ 1.58	\$ 1.60
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Reserve Account Amortization surcharge:

All Water sold, per 100 cu. ft.	\$ 0.149	\$ 0.164
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Protests and Responses

There are two ways to respond to this notice. You can send a protest to the CPUC and the utility, or you can send a response to the CPUC, with a copy to the utility if you wish.

A protest is a document objecting to the granting in whole or in part of the authority sought in this advice letter.

An advice letter may be protested on one or more of the following grounds:

- (1) The utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material errors or omissions;
- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;

Appendix G
NOTICE TO CUSTOMERS

- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory, provided that such a protest may not be made where it would require relitigating a prior order of the Commission.

A protest must be mailed within 20 days of the date the California Public Utilities Commission accepts the advice letter for filing. It must state the facts constituting the grounds for the protest, the effect that approval of the advice letter might have on the protestant, and the reasons the protestant believes the advice letter, or a part of it, is not justified. If the protest requests an evidentiary hearing, the protest must state the facts the protestant would present at an evidentiary hearing to support its request for whole or partial denial of the advice letter. The utility must respond to a protest within five days.

A response is a document that does not object to the authority sought, but nevertheless presents information that the party tendering the response believes would be useful to the Commission in acting on the request.

All protests and responses should be sent to:

California Public Utilities Commission, Water Division
505 Van Ness Avenue
San Francisco CA 94102
Fax: (415) 703-4426
E-Mail: water_division@cpuc.ca.gov.

All protests should be sent to this utility to

_____, _____,
(name) (address)

_____, _____.
(fax number) (e-mail address)

If you have not received a reply to your protest from the utility within 10 business days, contact this person at

_____.
(phone)

Appendix H
ADDITIONAL INFORMATION

Meeting Date _____

Resolution W- _____

ADDITIONAL INFORMATION

ADVICE LETTER NO: _____

UTILITY: _____

DISTRICT: _____

I. RATE OF RETURN (Rate Base offsets, CPI offsets and memorandum account recovery only)

1. The recorded rate of return on rate base for the 12 months ending _____ is _____%.
2. The recorded pro-forma rate of return on rate base for the 12 months ending _____ is _____%.

Note: For Class A and B water companies, the recorded rate of return should be relatively easy to obtain. This return should be the latest reasonably available. For Class C and D water companies, the recorded rate of return may be difficult to obtain. However, the engineer should be satisfied that the utility is not over earning.

The pro-forma (or ratemaking) rate of return differs from the recorded rate of return in that the revenues and expenses are normalized for weather. In addition, the pro-forma return reflects the most current expense and tariff rate changes in effect. For Classes B, C and D the pro-forma will not be required.

Appendix H
ADDITIONAL INFORMATION

II. INCREASE REQUESTED BY THIS ADVICE LETTER

<u>No.</u>	<u>Offset Items</u>	<u>Schedule No.</u>	<u>Amount</u>	<u>Date Effective</u>
1.	Purchased Power			
	_____	_____	\$ _____	_____
	_____	_____	\$ _____	_____
	Total		\$ _____	_____
2.	Purchased Water			
	_____	_____	\$ _____	_____
	_____	_____	\$ _____	_____
3.	Ground Water Charge			
	_____	_____	\$ _____	_____
	_____	_____	\$ _____	_____
4.	Amortization of Bal. Acct.			
	_____	_____	\$ _____	_____
	_____	_____	\$ _____	_____
5.	Uncollectibles & Franch. Tax			
	Uncollectibles		_____	Concurrent
	Franchise Tax		_____	Concurrent
	TOTAL Expense Offset		\$ _____	
	Reserve Account Status	Balance		As of
	_____	\$ _____		_____

Comments:

Reserve account is ____% of gross revenues. [This amount is too small to be amortized (<2%). This amount should be amortized over a 12-month period (2% to 5%). This should be amortized over a 24-month period (5% to 10%). This amount should be amortized over a 36-month period (>10%).]

Appendix H
ADDITIONAL INFORMATION

III. CUSTOMER SERVICE

The utility serves approximately _____ customers within the system. A summary of customer complaints received at the Commission for the past 12 months is listed below. This summary relates to both formal and informal complaints. Complaint information is obtained from the formal files, Consumer Affairs Branch and also includes any letters received by the Water Advisory Branch complaining of service. This includes letters protesting the offset requests where service problems are mentioned.

<u>Complaint</u>	<u>Number</u>
Service	_____
Amount of bill	_____
Pressure Leaks	_____
Company Practice and Rules	_____
Miscellaneous	_____
 Total	 _____

Comments: (discuss complaint status and plan to resolve)

AWC investigates complaints in a timely manner and resolves them to the satisfaction of the customer in almost all cases.

IV. PUMP EFFICIENCIES (not necessary for offsets not related to pumping)

Pump efficiency tests were submitted by the utility as required; the rating of the _____ pumps checked are as follows:

<u>No. of Pumps</u>	<u>Qualitative Rating</u>
_____	Excellent
_____	Good
_____	Fair
_____	Low
_____	<u>Not Tested</u>
_____	Total

Comments: (discuss utility's plans for pumps rated low or not tested)

Appendix H
ADDITIONAL INFORMATION

V. WATER CONSERVATION

Comments:

Letterhead if available

Advice Letter No. 26 Any Water Company (U 456 W) November 5, 1992

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ANY WATER COMPANY, requests ministerial review and approval of the following changes in tariff sheets applicable to _____.
(District)

<u>C.P.U.C.</u>		<u>Canceling</u>
<u>Sheet No.</u>	<u>Title of Sheet</u>	<u>C.P.U.C. Sheet No.</u>
119-W	Schedule No. 1, General Metered Service	106-W
120-W	Table of Contents	117-W

The effective date of the tariff schedule is requested to be _____.

Notice has been provided as required by GO 96. The Service List is attached to this advice letter (or) This advice letter was served on the same parties a advice letter (or Decision) # _____, dated _____.

The purpose of this advice letter is to include in rates the following increases in costs: (list increases by source, date and amount.)

(Justification for DHS Offset)

Assembly Bill 2995, in adding Section 4019.10 to the California Health and Safety Code (now section 116590 and 116595), directs the Department of Health Services (DHS) and local primacy agencies to charge the utilities within its jurisdiction for all operating costs. The legislation also authorized these costs to be passed on to those utilities' customers. Commission Resolution W-4327, dated March 6, 2002, authorizes any Class B, C and D water company to file the attached rate schedules, and to concurrently withdraw and cancel its present schedules for such service.

Any Water Company, Inc. had duly established the required memorandum account and recorded therein the amount of \$_____ representing expenses for DHS or the local primacy agency paid by the company.

Any Water Company, Inc. requests permission to recover the above charges from its _____ customers by adding an annual one time surcharge of \$_____ to each customer's bill. Workpapers justifying this charge have been provided to the CPUC Water Branch Staff.

There have been no other compensating changes in the company's revenues, remaining operating expenses or rate base that would offset the impact on earnings of these increases.

The Company's present General Metered Service rates became effective January 1, 1999, pursuant to Decision (D.) 99-01-001, in Application (A.) 98-06-001.

It has been determined that a 4.0% increase in gross revenues amounting to \$280,100 is required to offset the increased expenses.

The Commission staff has been provided with supporting workpapers showing the derivation of these quantities.

The actions requested in this advice letter are not now the subject of any formal filings with the California Public Utilities Commission, including a formal complaint, nor action in any court of law.

Protests and Responses

A protest is a document objecting to the granting in whole or in part of the authority sought in this advice letter. A response is a document that does not object to the authority sought, but nevertheless presents information that the party tendering the response believes would be useful to the Commission in acting on the request.

Grounds for a protest

An advice letter may be protested on one or more of the following grounds:

- (1) The utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material errors or omissions;
- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory, provided that such a protest may not be made where it would require relitigating a prior order of the Commission.

A protest must be mailed within 20 days of the date the California Public Utilities Commission approves this advice letter for filing. It must state the facts constituting the grounds for the protest, the effect that approval of the advice letter might have on the protestant, and the reasons the protestant believes the advice letter, or a part of it, is not justified. If the protest requests an evidentiary hearing, the protest must state the facts the protestant would present at an evidentiary hearing to support its request for whole or partial denial of the application.

All protests or responses to this filing should be sent to:

California Public Utilities Commission, Water Division
505 Van Ness Avenue
San Francisco CA 94102
Fax: (415) 703-4426
E-Mail: water_division@cpuc.ca.gov,

and to this utility to _____, _____,
(name) (address)
_____, _____.
(fax number) (e-mail address)

If you have not received a reply to your protest within 10 business days,
contact this person at _____.
(phone)

Letterhead if available

Advice Letter No. 26 Any Water Company (U 456 W) November 5, 1992

PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

ANY WATER COMPANY, requests ministerial review and approval of the following changes in tariff sheets applicable to _____.

(District)

C.P.U.C. Sheet No.	Title of Sheet	Canceling C.P.U.C. Sheet No.
119-W	Schedule No. 1, General Metered Service	106-W
120-W	Table of Contents	117-W

The effective date of the tariff schedules is requested to be _____.

Notice has been provided as required by GO 96. The Service List is attached to this Advice Letter (or) This advice letter was served on the same parties a Advice Letter (or Decision) # _____, dated _____.

The purpose of this advice letter is to include in rates the following increases in costs: (list increases by source, date and amount.)

There have been no other compensating changes in the company's revenues, remaining operating expenses or rate base which would offset the impact on earnings of these increases.

The Company's present General Metered Service rates became effective January 1, 1999, pursuant to Decision (D.) 99-01-001, in Application (A.) 98-06-001.

It has been determined that a 4.0% increase in gross revenues amounting to \$280,100 is required to offset the increased expenses.

The Commission staff has been provided with supporting workpapers showing the derivation of these quantities.

The actions requested in this advice letter are not now the subject of any formal filings with the California Public Utilities Commission, including a formal complaint, nor action in any court of law.

RESPONSE OR PROTEST

Anyone may respond to or protest this advice letter. A response supports the filing and may contain information that proves useful to the Commission in evaluating the advice letter. A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds are:

- (1) The Utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the Utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;

- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process;
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require relitigating a prior order of the Commission.)

A protest shall provide citations or proofs where available to allow Staff to properly consider the protest.

A response or protest must be made in writing or by electronic mail and must be received by the DWA within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, DWA, 3rd floor
 California Public Utilities Commission,
 505 Van Ness Avenue, San Francisco, CA 94102
 water_division@cpuc.ca.gov

On the same date the response or protest is submitted to the DWA, the respondent or protestant shall send a copy by mail (or e-mail) to the Utility, addressed to:

_____ ' _____'
 (name) (address)
 _____ ' _____'.
 (fax number) (e-mail address)

Cities and counties that need Board of Supervisors' or Board of Commissioners' approval to protest should inform the DWA, within the 20 day protest period, so that a late filed protest can be entertained. The informing document should include an estimate of the date the proposed protest might be voted on.

If you have not received a reply to your protest within 10 business days, contact this person at _____.
 (phone)

In compliance with General order 96-B, Water Industry Rule 4.1 this document has been mailed to all interested and affected parties as detailed in Attachment A.

- Attachments**
- A. Service List
 - B. Workpapers

Appendix J
Check List for Offsets

Check List
for CPI Increase Advice Letters

For recorded year
Have they provided

	Yes	No
1 Recorded revenue	_____	_____
2 Details of recorded expenses (O&M, A&G, payroll taxes, property tax - this was what they listed in the annual reports)	_____	_____
3 Recorded depreciation expense	_____	_____
4 Income taxes	_____	_____
5 Recorded Rate Base	_____	_____
Plant-in-Service	_____	_____
Plant Addition	_____	_____
Depreciation Reserve	_____	_____
Working Cash	_____	_____
6 Provide a GRC resolution/decision number along with the date	Res/Dec No. _____	Date _____
7 Specify amount of authorized R/R or ROM in the last GRC	R/R _____	ROM _____
8 Multiply recorded revenue by 1 + the CPI put the amount here.	_____	_____
9 Construct summary of earnings table with revenue shown in item 8 above and recorded expenses shown in items 2, 3, and 4.	_____	_____
10 What is the R/R on Rate Base or ROM found in item 9	R/R _____	ROM _____
11 Does the R/R or R/M in item 10 exceed the one shown in item 7?	_____	_____
12 If yes, Reject	_____	_____
13 If no, approve the advice letter.	_____	_____

Appendix J
Check List for Offsets

- 14 Have they filed this year's annual report? _____
- 15 Have they filed last year's annual report? _____
- 16 Notified customers? _____