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APPENDIX C

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WATER INDUSTRY RULES

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Water Industry Rules

Industry Rule 1. Additional Definitions

In addition to the definitions in General Rules 3 to 3.16, the following definitions apply to the defined terms, which will appear with the initial letter capitalized when used in these Industry Rules.

1.1 Balancing Account (see Public Utilities (Pub. Util.) Code § 792.5)

A deferred charge or credit account approved by the Commission for recovery or refund (see General Rule 8.5.3).

1.2 Class A, Class B, Class C, Class D (see Decision (D.) 85-04-076)

A Utility is designated Class A if it serves over 10,000 service connections, Class B if it serves 2,001 through 10,000 service connections, Class C if it serves 501 through 2,000 service connections, and Class D if it serves no more than 500 service connections.

1.3 Compliance Advice Letter

An advice letter requesting approval of the utility's proposed implementation of a specific mandate in a statute or Commission order. Typically, a Compliance Advice Letter requests that tariff changes attached to a decision or resolution be made effective.

1.4 Contact Person

A person identified on the title page of a Utility's tariffs as the Utility's authorized representative for all rate and service quality matters.

1.5 Contract

An agreement between a Utility and a developer or customer to provide service under rates or conditions not offered in the Utility's tariffs or standard form contracts.

1.6 Industry Rule

An Industry Rule contained in these Industry Rules, as set forth in General Order 96-B or its successor.

1.7 Informal General Rate Case (see D.92-03-093)

A general rate case for a Class B, Class C, or Class D Utility that is requested by advice letter rather than by formal application.

1.8 Memorandum Account (see D.85-04-076)

A deferred charge or credit account that, as described in the Utility's preliminary statement (see General Rule 8.5.3) has been authorized by the Commission; however, deferred charges or credits shown in the Memorandum Account may be recovered in rates only after a request by the Utility, a showing of their reasonableness, and approval by the Commission.

1.9 Staff

The Water Division (or its successor).

1.10 Standard Practice

A Water Division document that provides procedural guidelines (1) to the public and Utilities for preparing, and filing with the Water Division, various documents, including formal applications and advice letters, and (2) to Staff for reviewing such documents and creating Water Division work products. Copies of Standard Practices are available on request from the Water Division and are published on the Commission's Internet site.

1.11 Utility

A public Utility that is a water corporation (see Pub. Util. Code § 241) or a sewer system corporation (see Pub. Util. Code § 230.6).

1.12 Weather-Normalized Means Test (Pro-Forma Test) (see D.94-06-033)

A procedure that tests the adjusted revenues of a Utility to see if it is already realizing a Commission-authorized revenue increase (see Standard Practice U-17-W).

Industry Rule 2. Filing Advice Letters, Information-only Filings

A Utility may use any one of the following procedures when filing its advice letter (General Rule 7.1) or information-only filing (General Rule 6.1) with the Water Division:

(1) File the document in person, by delivery service, or by mail to the Water Division, Room 3102, State Building, 505 Van Ness Ave., San Francisco, CA 94102-3298;

(2) File the document by facsimile to (415) 703-4426 (703-4H2O); or

(3) File the document by electronic mail to water_division@cpuc.ca.gov.

These procedures also apply to filing of documents pertaining to an advice letter, e.g., a protest, response, reply, substitute sheet, or supplement.

A Utility filing an advice letter shall provide an original and two copies with workpapers. A Utility filing an information-only filing shall provide an original and one copy.

Industry Rule 3. Methods of Customer Notice (see General Rule 4.2)

3.1 Method of Notice for Advice Letter Increasing Rates

A Utility shall give notice by bill insert or by separate mailing of an advice letter requesting approval of a more restrictive term or condition, or of a rate or charge increase, except that if the requested revenue increase is an offset increase of less than ten percent of the revenue requirement last authorized for the Utility (or district of the Utility for which the increase is requested), the Utility may give notice of the requested increase by publishing a legal notice in a newspaper of local circulation or, if no such newspaper exists, by posting notice prominently in an area in which customers normally gather. Mailed notice should be provided, whenever possible, to the customer's permanent mailing address if a Utility serves a high percentage of vacation homes.

Staff will create the notice of an Informal General Rate Case advice letter and provide the notice to the Utility for distribution by bill insert or special mailing.

3.2 Method of Notice for Compliance Advice Letter

Normally, notice to customers of a Compliance Advice Letter need not be provided; however, for a Compliance Advice Letter submitted in an Informal General Rate Case, the Utility shall give notice using the form provided by the Water Division (see Standard Practice U-9-W).

3.3 Other Required Notice

In addition to the notice required by General Rule 4.2 and Industry Rule 3.1, a Class A Utility shall publish at its Internet site the notice and contents of each advice letter it has submitted whose disposition is pending. For a particular advice letter, the Director of the Water Division may require a Utility to give notice to other persons, or by other means, in addition to those specified in these Industry Rules.

Industry Rule 4. Serving Advice Letters (see General Rules 4.3 & 7.2.)

At the option of the recipient, the Utility shall serve the entire advice letter, tariffs and workpapers; the advice letter and tariffs; or just the cover sheet (see General Rule 5.5). Except as provided in Industry Rule 4.1, service of one copy of an advice letter shall be without charge.

4.1 Advice Letters Generally

When filing any advice letter, the Utility shall serve it on the following persons:

(1) customers, developers, municipalities, counties, and other governmental agencies, in or partially in the service area(s) affected, who have requested a particular advice letter or have requested inclusion on the Utility's advice letter service list (see General Rule 4.3);

(2) adjacent Utilities (including, for purposes of this Industry Rule, publicly-owned utilities); and

(3) other interested persons, such as parties of record in a related proceeding or persons having a specific interest in the advice letter.

4.2 Service Area Extension or Transfer of Ownership (see Industry Rule 8.1)

When filing an advice letter for service area extension or transfer of ownership, the Utility shall serve it on the Local Agency Formation Commission (LAFCO) for each county in which service will be extended, and on each owner

of real property, local fire protection agency, and subdivision permitting agency in the area in which service will be extended.

4.3 Contract or Other Deviation (see Industry Rule 8.3.)

When filing an advice letter for a Contract or other deviation, the Utility shall also serve it on each customer for whom the Contract or other deviation is proposed. The advice letter shall state that the customer may object to it or seek a modification by submitting a protest.

4.4 Withdrawal or Withholding of Service (see Industry Rule 8.7)

When filing an advice letter for withdrawal or withholding of service, the Utility shall also serve it on each owner of real property in the affected area.

Industry Rule 5. Tariff Sheet Numbering (see General Rule 8.4.)

At the Utility's option, the numbers for new tariff sheets may be left blank, in which case staff will assign sheet numbers. A multiple-service Utility shall use the appropriate designator (SS for Sewer System, W for Water) as a suffix to the sheet number.

Industry Rule 6. Advice Letter Supplements (see General Rule 7.5.1)

A change to a pending advice letter that is necessary to correct minor errors, or a minor editorial change to the text, may be made by a supplement. A change that results in a higher revenue requirement, or greater diminution of service, from that noticed in the original advice letter must be made by a new advice letter.

Industry Rule 7. Disposition of Advice Letters

7.1 Initial Review

If an advice letter (including its cover sheet) is incomplete (see General Rules 5.4, 5.5), Staff will so inform the Utility and may either delay filing until corrections are made or return the advice letter without filing. If filed, one copy of the advice letter and tariff sheets will be returned to the Utility, stamped with the date of filing.

7.2 Effective Date (see General Rules 7.3)

The following provisions vary the otherwise applicable General Rules.

(1) A Compliance Advice Letter will become effective as specified in the applicable resolution or decision, or if not specified, five days after the date of filing.

(2) Upon request and justification by the Utility, Staff may allow a Tier 2 advice letter to be made effective, subject to refund, in less than 30 days.

(3) An advice letter that is an Informal General Rate Case will become effective as provided in the Service Guarantee Plan (Standard Practice U-9-W).

7.3 Tier Classifications for Advice Letters

Water and sewer system advice letters are classified as Tier 1, 2, or 3 for purposes of review and disposition, as shown below.

7.3.1 Tier 1

The following advice letters are effective pending disposition, and are generally subject to approval or rejection by Staff (including deemed approval) pursuant to General Rule 7.6.1, except as indicated below:

(1) Balancing Account offset (see Industry Rule 8.5);

(2) Change to sample forms (see General Rule 8.5.8);

(3) Compliance with mandatory statute, decision, or resolution;

(4) Consumer Price Index (CPI) offset;

(5) Decrease in rates;

(6) Pass-through of additional taxes imposed on utility;

(7) Service to a government agency (see General Rule 8.2.3); such advice letter shall be subject to disposition by Commission resolution as provided by General Rule 7.6.2; and

(8) Emergency voluntary conservation program.

7.3.2 Tier 2

The following advice letters are effective only upon approval, but may be deemed approved and are generally subject to approval or rejection by staff pursuant to General Rule 7.6.1:

(1) Approval of post-acquisition rates of mutual or municipal water company (see D.99-10-064);

(2) Attrition filing (Weather-Normalized Means Test required)

(3) Contract or other deviation (or tariff sheets providing service to a single customer) (see Industry Rule 8.3);

(4) Department of Health Services (DHS) fee offset;

(5) Expense offset (see Industry Rule 8.4);

(6) New service offering;

(7) New Memorandum Account request;

(8) Recycled water service (as provided in Industry Rule 8.6);

(9) Request for similar treatment (as provided in Industry Rule 8.2);

(10) Service extension into contiguous area or within city in which the Utility already provides service (see Industry Rule 8.1);

(11) Step rate filing (Weather-Normalized Means Test required);

(12) Transfer of ownership interest pursuant to Pub. Util. Code § 853(c);

(13) Withdrawal of tariff schedule that has no customers; and

(14) Provision of non-tariffed services (see D.00-07-018, D.03-04-028 & D.04-12-023).

7.3.3 Tier 3

The following advice letters may not be deemed approved and generally will be disposed of by Commission resolution pursuant to General Rule 7.6.2:

(1) Change in ownership or control due to court proceeding, other than transfer of ownership pursuant to Pub. Util. Code § 853(c) (see Industry Rule 7.3.2(12));

(2) Change to Commission resolution;

(3) Closing tariff schedule to new customers;

(4) Establish a new non-tariffed investment or recategorize an existing non-tariffed investment (see D.00-07-018);

(5) Informal General Rate Case;

(6) Loan approval or stock sale permission request by Class C or Class D Utility (see D.93-11-066);

(7) Memorandum Account offset (see Standard Practice U-27-W);

(8) Rate base offset (requires prior Commission approval for Class A Utility; Class B, Class C, or Class D Utility may request approval and recovery by advice letter);

(9) Revocation of certificate of public convenience and necessity due to abandonment or sale to municipality or special district;

(10) Transfer of ownership of inadequately operated and maintained Class C or Class D water Utility (see D.99-10-064);

(11) Withdrawal or withholding of service (see Industry Rule 8.7); and

(12) A matter appropriate to advice letter but not subject to approval or rejection under Industry Rules 7.3.1 or 7.3.2.

Industry Rule 8. Procedures for Specific Types of Advice Letters

8.1 Service Extension into Contiguous or Other Area (see Pub. Util. Code §§ 1001, 2709, 8202; Industry Rules 4.2, 7.3.2(10))

A service area extension is into a contiguous area for purposes of this Industry Rule if (1) the distance between the existing service area and

the new area does not exceed 2,000 feet at the points of closest proximity, or (2) service will be provided by the extension of line, plant, or system from the Utility's existing service area. If entirely separate sources of supply and distribution are used in the new area, and the separation is over 2,000 feet, the extension is not contiguous, and the Utility must seek authority by means of a formal application to serve the new area.

At least 30 days before (1) commencing service in an area within a city in which the Utility is already providing service, (2) extending service to a contiguous area, or (3) taking ownership of a mutual or municipal water company, the Utility shall submit a service area map delineating the added area, and proof that the utility already has a water supply adequate to serve the areas or a plan to obtain such a supply. (See Standard Practice U-14-W.)

8.2 Request for Similar Treatment (see Industry Rule 7.3.2(8))

A Utility may submit an advice letter requesting approval, authorization, or other relief similar to that accorded another Utility by Commission order. The advice letter shall cite each decision or resolution relied upon, and shall demonstrate that the Utility submitting the advice letter is similarly situated in all material respects, and is requesting the same relief and relying on the same justification as in the cited order(s).

8.3 Contract or Other Deviation (see Pub. Util. Code §§ 532, 2712; General Rule 8.5.6; Industry Rules 4.3, 7.3.2(3))

After entering into a Contract or other deviation, but at least 30 days before the effective date of the rate or service, the Utility shall file an advice letter requesting approval and updating its list of Contracts and other deviations.

Each Contract shall contain substantially the following provisions:

(1) "This Contract may not become effective until it is approved by the California Public Utilities Commission"; and

(2) "This Contract at all times shall be subject to such modifications as the California Public Utilities Commission may direct from time to time in the exercise of its jurisdiction."

A customer may protest an advice letter in which a Utility seeks approval of a Contract or other deviation for the purpose of providing service to that customer. Such protest, if it only concerns a rate or charge under the Contract or other deviation, may include a request for service pending disposition of the advice letter. Alternatively, in that situation, the Utility may request to provide service pending disposition of the advice letter. Staff will approve the request for service unless, based either on another protest or Staff's own analysis, Staff finds that there is a substantial issue that should be resolved before service is provided; however, if Staff approves the request, Staff will require the customer, as a condition of such service, to deposit with the Commission the sum(s) of money in dispute pending disposition of the advice letter.

8.4 Expense Offset (see Industry Rule 7.3.2(5))

When a Utility knows that an expense subject to offset is likely to change in the future, it shall file an advice letter for a concurrent change in rates. When an expense subject to offset changes without warning, the affected Utility shall file an advice letter within 60 days of the change seeking to adjust the rates accordingly.

8.5 Balancing Account Offset (see Industry Rule 7.3.1(1))

A Utility shall promptly file an advice letter seeking to offset an over- or under-collected balancing account when the balance exceeds two percent of the most recent annual report revenue for the Utility (or district of the Utility). An over-collection shall be refunded as soon as possible by crediting the service charge. An under-collection shall be recovered within one year by a surcharge on the service charge or commodity charge, as appropriate (see Standard Practice U-15-W). A Utility may not request recovery for an under-collection that is over three years old.

8.6 Recycled Water (see Pub. Util. Code § 455.1; Industry Rule 7.3.2(8))

If an advice letter requesting an initial rate or a rate increase for recycled water service is protested, the matter shall be set for hearing, the tariff schedules shall become effective, subject to refund, 30 days after the date of filing, and the Commission will dispose of the advice letter by resolution. If Staff requests additional information from the Utility, and if

the Utility appropriately supplements the advice letter within 10 days of receiving Staff's request, the tariff schedules in the supplement shall become effective, subject to refund, five days after the date of filing of the supplement, and the Commission will dispose of the advice letter by resolution.

8.7 Withdrawal or Withholding of Service (see Pub. Util. Code §§ 2708, 2710, 2711; Industry Rule 7.3.3(11))

A Utility shall provide service to any person in its service area on demand, in accordance with its tariffs; however, if a water shortage exists, or if the Department of Health Services has imposed a building permit moratorium, or if other good cause requires, the Utility shall file an advice letter requesting either (1) approval to withdraw service from all or part of its service area (including a new service area map), or (2) Commission imposition of a service connection moratorium and Commission authorization before withholding service.

8.8 Service to Government Agency (see General Rule 8.2.3; Industry Rule 7.3.1(7))

An advice letter to provide service to a government agency pursuant to General Rule 8.2.3 may be designated by the Utility as effective pending disposition.

Industry Rule 9. Tariff Publication, Format

Each Class A Utility shall be subject to the Internet publication requirements of General Rule 8.1.2.

9.1 Tariff Schedules

Water Rate Schedules shall be numbered and printed in the following order, as appropriate, for each of the Utility's districts:

(1) General Metered Service;

(2) Flat Rate Service;

(3) Irrigation Service;

(4) Fire Sprinkler Service;

(5) Private Fire Protection Service (see Pub. Util. Code § 2713 (b));

(6) Recycled Water Service;

(7) Construction and Other Temporary Metered Service;

(8) Service to Employees; and

(9) Water Conservation Plan.

The above schedules shall be followed or preceded by schedules applicable to multiple districts such as:

UF—Surcharge to fund Public Utilities Commission Reimbursement Fee

LC—Late Payment Charge

FF—Facilities Fees

Sewer System Rate Schedules shall be numbered and printed in the following order, for each of the Utility's districts:

(1) Sewer Service or General Residential Service

(2) Commercial and Industrial Service

The above schedules shall be followed or preceded by schedules applicable to multiple districts such as:

UF—Surcharge to Fund Public Utilities Commission Reimbursement Fee

LC—Late Payment Charge

Tariff sheets may not contain marks or alterations unless approved by staff. Only one side of a sheet may be used.

9.2 Tariff Rules (see General Rule 8.5.7)

A Utility shall include in its tariffs, following the tariff rules specified in General Rule 8.5.7, these additional tariff rules, numbered as follows:

Tariff Rule 17: Standards for Measurement of Service—Method of measuring, accuracy limits

Tariff Rule 18: Meter Tests and Adjustment of Bills for Meter Error—Specification of conditions, fees, and frequency of tests

Tariff Rule 19:

For Water Utilities: Supply to Separate Premises and Multiple Units—Separate metering on separate premises
For Sewer System Utilities: Resale of (Sewer) Service—Conditions for resale

Tariff Rule 20:

For Water Utilities: Water Conservation—Use of water-saving devices, provision of free water-saving kits
For Sewer System Utilities: Limitation on Wastes Discharged into the Utility's Sewer System—Items that may not be disposed of through the sewer system

Tariff Rule 21:

For Water Utilities: Fire Protection—General rules for fire protection service
For Sewer System Utilities: Commercial, Institutional and Industrial Wastes—Notice of waste discharge and preliminary treatment

Industry Rule 10. Service Area Maps (see General rule 8.5.4)

A Utility shall prepare a digital map of its authorized service area boundaries prepared using a common projection and datum that meets a minimum resolution of 1:24,000 scale, distributed in an open format and

accompanied by Federal Geographic Data Committee (FGDC)-compliant metadata. In addition, a utility shall provide a digital basemap (in TIF or PDF format) for printing that includes, at a minimum, its service area, major roads, and relevant administrative boundaries (e.g., counties, cities, federal and state land).

A Utility shall submit the map, and updates as the authorized service area changes, to the Water Division and to the Local Agency Formation Commission (LAFCO) for each county within the Utility's authorized service area. The Water Division will establish detailed map specifications and compliance schedules for the preparation of digital maps; but in no event will the compliance schedule extend beyond December 31, 2007, for Class A Utilities and December 31, 2008, for all other Utilities.

(End of Appendix C)