

CALIFORNIA PUBLIC UTILITIES COMMISSION

Water Division

STANDARD PRACTICE FOR PROCESSING

CONSUMER PRICE INDEX, RATE BASE

AND EXPENSE

OFFSET RATE INCREASES AND

AMORTIZING BALANCING AND

MEMORANDUM ACCOUNTS

Standard Practice U-27-W

San Francisco, California

Revised December 2000

STANDARD PRACTICE FOR PROCESSING CONSUMER PRICE INDEX, RATE
BASE, AND EXPENSE OFFSET RATE INCREASES AND AMORTIZING
BALANCING AND MEMORANDUM ACCOUNTS

A - PURPOSE AND DEFINITIONS

1. The purpose of these procedures is to ensure a uniform and complete method of processing offset rate increase and balancing and memorandum account amortization advice letters. All regulated water utilities and the Water Division (WD) engineer or analyst (analyst) shall use these procedures, unless a deviation is approved by the Director of the Water Division.

2. The use of a **CPI Offset** was approved on March 31, 1992, when the Commission issued Decision 92-03-093 authorizing Class C and D water utilities to 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) announced by the Bureau of Labor Statistics, U.S. Department of Labor. Any water utility presently not earning the rate of return authorized in its most recent rate case and not subject to a second test year or attrition year adjustment was authorized to file once each year by advice letter for this CPI-U increase. Any utility that misses filing during a year may not file retroactively during the next year. Decision 99-10-064, October 21, 1999 in the Mergers and Acquisition Rulemaking, R.97-10-048, extends this offset to a Class B or A 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 Health Services when it was acquired) for that system's customers up to seven years after the purchase date.

3. A **rate base offset** is authorized only during a General Rate Case for Class A utilities. Class B, C and D utilities may file for a rate base offset without prior authorization. Rate base offsets do not have an associated balancing account. As with CPI offsets, any rate base offset that was not authorized in a general rate case requires an earnings test. Rate base offsets are available for used-and-useful utility plant only.

4. An **expense offset** permits a utility to pass on to the customer changes in certain costs that are considered to be beyond the utility's control. Since expense offsets allow dollar-for-dollar recovery of these expenses, they are tracked using a balancing account (see below). Offsettable expenses include, for all water and sewer service utilities:

- a. purchased power (electricity or natural gas that the utility buys from the energy company, not through a broker. Class A utilities are expected to buy power on the open market and this protection may cease with their next General Rate Case),
- b. purchased water,
- c. groundwater extraction charges (pump taxes), and
- d. water testing expenses
- e. costs booked to a memorandum account when found reasonable for recovery

Class C and D utilities are not covered by attrition and may request an offset for:

- f. employee labor,

- g. payroll taxes,
- h. that portion of contract work that is for operation and maintenance of plant facilities (Class D only),
- i. unanticipated repair costs

5. A **balancing account** must be used for all offsets except CPI and rate base offsets. This account tracks the lost revenue from the time of the change in the offsettable expense until the change is included in base rates, or from the time the memorandum account balance surcharge or surcredit is effective until the end of the surcharge or surcredit recovery period. Also, after base rates have been changed to offset an expense change, the utility tracks the actual extra revenue earned by the incremental rate change against the actual incremental expenses incurred by keeping a balancing account (see Public Utilities Code section 792.5). These balancing accounts are “zeroed-out” as part of a General Rate Case or may be amortized by Advice Letter. Balancing account balances are recovered by means of a temporary surcharge or surcredit.

6. A **memorandum account** accrues expenses and the carrying cost and depreciation on capital investments, and offsetting revenues such as insurance proceeds, when authorized by the Commission. Memorandum accounts track costs and revenues as balancing accounts do, but recovery of costs is not guaranteed, as it is for balancing accounts (after reasonableness review). Example expenses include legal fees, watershed study costs, Department of Health Services costs (except penalties) and other events of an exceptional nature that are not under the utility’s control, and that have ratepayer benefits. All new memorandum accounts must be requested by requesting a change to the tariff sheets in the preliminary statement to include a description of the memorandum account. All memorandum account recoveries require an earnings test. Some typical existing memorandum accounts include:

Table 1. Example Memorandum Accounts

Title	Authorized By	Description	Termination Date
Water Sampling Testing Costs	Resolution No. W-4013, December 20, 1996 for all utilities.	Payment of water sampling testing costs and Department of Health Services' fees which are not already covered in rates.	January 1, 2002
Unanticipated Repair Costs	Decision 93-03-093, March 23, 1992, Ordering Paragraph 2 for Class C and D water utilities; D.99-10-064 for Inadequately Owned and Maintained Water Systems purchased by a Class A or B.	Repairs necessary for a utility's service to its customers not reflected in rates or recoverable from insurance.	None for Class C and D. Seven years after date of purchase for Inadequately Owned and Maintained Water Systems.
Costs associated with its efforts to comply with the fluoridation requirements set forth in AB 733 and Section 116410 of the California Health and Safety Code.	Resolution W-4227, October 5, 2000	Citizens Utilities' costs to fluoridate water in Sacramento District not included in rates.	None

B - GENERAL PROCEDURE

7. **CPI Offsets.** Early each calendar year the Water Advisory Branch prepares a letter to all water and sewer systems explaining how to apply for a CPI offset. A utility applies for a CPI offset by multiplying all service and commodity rates in its existing tariffs by the amount contained in the letter from the Water Advisory Branch.

8. **Expense Offsets.** When a utility incurs a change in an offsettable expense, it should submit an advice letter requesting an offset in base rates to account for that change.

9. **Balancing Accounts.** Pursuant to Section 792.5 of the Public Utilities Code, the utility must establish a balancing account for items for which revenue offsets have been authorized. Separate balancing accounts or a single balancing account may be used, but the balancing account(s) must be described in the Preliminary Statement of the utility's tariffs. New balancing accounts become effective on the date the preliminary statement tariff sheet describing the account becomes effective. The balancing account tracks the revenues

recovered by the rate offset and the offsettable costs incurred. The balance in the balancing account accrues interest at the current 90-day commercial paper rate.

10. When the total in the balancing account(s) exceeds (positive or negative) 2% of the gross revenue authorized in the last GRC or realized in the last annual report whichever is higher, the balancing account must be amortized. If the balance is less than 2%, the amount will normally not be amortized outside of a general rate case unless some expenses are over two years old. Balancing accounts are amortized by a surcharge on the service charge or the commodity charge, depending upon the type of expense being offset. An overcollection in a balancing account is refunded by a surcredit applied only to service charges. The balancing account amortization is based on recorded quantities. No resolution is required for balancing account recovery.

11. **Memorandum Accounts.** Memorandum accounts are normally requested by advice letter and approved by Commission resolution. The advice letter requests that the Commission approve the establishment of the account and adds a description of the account in the Preliminary Statement (see Attachment 1). Recovery of a memorandum account requires full justification of all expenses and an earnings test. Class A utilities shall include a weather normalized means test. Class B, C and D utilities may use the information on actual return on equity from their last annual report, updated as necessary. Recovery of memorandum accounts is done by instituting a surcharge or surcredit.

12. Surcharges and surcredits are normally described in the Special Conditions section of the applicable tariff sheets. They become effective on the effective date of the tariff sheet. The approximate length that the surcharge or surcredit will run (in months) must be included in the description. Surcharge or surcredits terminate automatically when the account has been amortized.

C – FORM AND CONTENTS OF THE ADVICE LETTER

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

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

14. Class B and C utilities may submit two copies of a draft advice letter (proposal), including supporting workpapers, to the staff for review (see Attachments 2 and 4). 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 workpapers must be legible and logically arranged. The purpose of a draft advice letter is to permit the branch 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, in staff's view, a utility is sophisticated enough to file a normal advice letter. Class A utilities shall submit a normal advice letter.

15. Class A, B and C water companies will provide the information in Attachment 2, with all supporting workpapers 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 or floppy disk copy of all calculations, or e-mail the spreadsheets to water_division@cpuc.ca.gov.

D - PROCESSING THE ADVICE LETTER

16. Expense offset rate increase advice letters should be processed within 30 days. If it becomes evident that the analysis won't be completed in time, the analyst must inform the utility by letter prior to the 30th day, 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. Ratebase offset and balancing or memorandum account recovery advice letters will require a resolution.

17. For all advice letters, the analyst will go through the workpapers, verifying all calculations, and requesting additional information as necessary, to ensure that the request is just, reasonable and correct. All charges booked to the balancing or memorandum account must be less than three years old unless the costs are fully justified for being older. After advice letter approval, the analyst or Senior prepares the resolution, if necessary.

18. 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 of the requested rate increase by sending the utility a filled-in copy of the Cover Letter and the Notice of Proposed Rate Increase (Attachment 3); a copy of the filled-out Additional Information sheets (Attachment 5); and, if necessary, a corrected draft Advice Letter. 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.

E -CALCULATING OFFSET RATE INCREASES

19. For CPI offsets, all existing rates amounts are multiplied by one plus the consumer price index for all urban consumers (CPI-U) increase for the previous year expressed as a decimal. The Water Advisory Branch will provide this information to all water utilities early in the calendar year by mail.

20. Calculate rate base and expense offset revenue changes by creating an offset summary of earnings (Attachment 2). The allowable offsetable amount is added to ratebase or expenses. The depreciation expense is adjusted by multiplying the incremental plant in service by the last approved depreciation factor for the utility or district. The rate of return

is that last approved for 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. For Class C and D utilities, use the midpoint of the latest Class C and D returns published by the Water Division adjusted by any deviation to the rate of return made in the utility's last general rate case.

21. Expense offset rate increases are based on the Adopted Quantities from the last general rate case (GRC) or the Additional Information from the last offset processed. 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, in the view of the staff, unique circumstances exist that argue for continued processing of offset filings.

22. The Adopted Quantities are included as an Appendix to Commission decisions and resolutions for all general rate proceedings and the Additional Information (Attachment 6) must be included as an attachment to the advice letter for all offsets. The utility may have to contact the tariff unit to obtain the Additional Information and unit costs to be used for an offset.

23. 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 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)

- 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

Increased expense

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

The requested increase in revenue is \$30,000 and the requested change in rates (assuming the same incremental increase to the quantity rate) is:

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

so the tariff sheets would be changed to reflect a quantity rate \$0.015 per Ccf higher than the last adopted rate.

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

- a. 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 still exist.

- b. 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).
- c. 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.

25. Amortization of Over/Undercollection in the Balancing Account (Metered)

- a. For the amount accrued from water production expenses, compute a surcharge in cents per Ccf.
- b. For the amount accrued from non-water production expenses, compute a surcharge per customer per billing period, scaled by the appropriate service equivalent capacity factors.

26. Balancing and memorandum 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 over 10% of gross revenues.

27. 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.
- 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 average amount of water receives the same percentage increase as a flat rate customer.
- c. Recovery of balancing account accruals related to water production expenses, shall be recovered through a surcharge on the quantity rates for metered customers. Accruals related to non-water production expenses, such as ad valorem taxes, should be recovered through a surcharge per connection. If the fixed expense changes are a small percentage (less than 10%) of the variable expense changes, or if they would result in a small monthly surcharge (less than \$0.50) they may be lumped together, and a single surcharge applied to quantity rates.
- d. Surcredits shall apply to service charge only and be designed to return the money as soon as reasonably possible.

28. After the advice letter is approved, the Tariff Unit sends one copy to the utility. The utility can then charge the new, authorized rates for service after the effective date that is shown on the tariff sheets.

F - WEIGHTING FACTORS

29. Because the date of the change in the offsetable expense and the effective date of the new tariff rate may occur during the billing cycle, the utility must weight the new rates by the number of days in the billing cycle and the number of days that the utility may charge the new rate. For utilities that read meters daily the following formulas will be applied when calculating the customer's bill. Utilities that read all meters within a few days may use a straight proportion for calculating the weighting.

a. Weighting Factors--Monthly Billing Cycle

Expense Weighting Factor

$$EW = (N_1 - E_e + 1)/N_1$$

Flat Rate or Service Charge Revenue Weighting Factor

$$FRW = (N_1 - E_r + 1)/N_1$$

Metered Revenue Weighting Factor

$$MRW_1 = (N_1 - E_r + 1)^2 / (2 \times N_1^2)$$

$$MRW_2 = 1 - [(E_r - 1)^2 / (2 \times N_1 \times N_2)]$$

b. Weighting Factors--Bimonthly Billing Cycle

Expense Weighting Factor

$$EW = (N_1 - E_e + 1)/N_1$$

Flat Rate or Service Charge Revenue Weighting Factor

$$FRW = (N_1 - E_r + 1)/N_1$$

Metered Revenue Weighting Factor

$$MRW_1 = (N_1 - E_r + 1)^2 / 2N_1 (N_1 + N_1^2)$$

$$MRW_2 = (2N_1 + N_2 - 2E_r + 2) / 2(N_1 + N_1^2)$$

$$MRW_3 = 1 - [(E_r + 1)^2 / 2 (N_1 + N_2)N_3]$$

Where:

E_d = Effective date of expense change

E_r = Effective date of revenue rate change

E_w = Expense weighting factor

FRW = Flat rate revenue weighting factor

MRW_{1,2,3} = Metered revenue weighting factor for the first, second and third months

N_{1,2,3} = Number of days in the first, second and third months.

G--NOTICE AND RESPONSES

30. (See Attachment 3) the following procedure shall be used to notify the utility's customers:

- a. For an increase that results in a rate increase of greater than 10%, the utility shall distribute a notice to all of its customers.
- b. For an increase that results in a rate increase of 10% or less, the utility may publish a Notice to Customers in the Official Notice section of a local newspaper of general circulation.
- c. For a utility with a significant number of part-time customers or if located in an area not served by a local newspaper, the utility shall distribute a notice to all of its customers.

31. Class B, C and D utilities should not distribute or publish the notice until the 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. The customers then have 20 days from the date the Advice Letter is filed to file a protest (see next paragraph). The public can also send responses to the Commission concerning the rate increase.

32. Although letters from customers that complain about rate increases are sometimes called protests, they are not. A protest is defined in Rule 8.1 of the Commission Rules of Practice and Procedure and in G.O. 96 and must be served on the utility, and responded to by the utility within 5 days. Letters to the Commission that object to the advice letters, per G.O. 96, are called responses. Nevertheless these letters are important indicators of the ratepayer's attitude and must be answered immediately. If service or noncompliance is not an issue, the assigned staff shall reply to the customers using the form letter in Attachment 6. However, if the customer's letter includes specific questions or complaints, the letter should be modified to include an informed response to each specific item (service, billing or other problems). Additionally, letters of this type should be forwarded to the Consumer Affairs Branch for logging-in (and possibly for handling).

33. In the case of serious service or compliance violations, the utility's rate increase should be made subject to refund until the utility files a plan that addresses the problems. In other instances, the Branch Chief will determine the appropriate course of action.

EXAMPLE MEMORANDUM ACCOUNT LANGUAGE FOR THE PRELIMINARY STATEMENT

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:

- 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.
- 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.
- Debit entries equal to the return on investment on the average monthly balance of new or replacement utility plant installed in (b) above.
- Credit entries equal to the proceeds reimbursed by the utility's insurance covering such events.
- 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.

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.

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.

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)

Advice Letter No. 26

SUMMARY OF EARNINGS - TEST YEAR 1999
(\$000)

<u>Item</u>	<u>Rates Authorized by D.99-01-001</u>	<u>Increases</u>	<u>At Proposed Rates</u>
<u>Operating Revenues</u>			
General Metered Service	\$ 6,950.2	\$ 285.7	\$ 7235.9
<u>Operating Expenses</u>			
Payroll	1,530.8	0	1530.8
Purchased Power	1,200.6	280.1	1450.5
Purchased Water	0.0	0.0	0.0
Uncollectables	123.0	5.6	128.6
Depreciation	355.0	0	355.0
Taxes - Other than Income	510.9	0	510.9
Taxes - Income	<u>1,040.8</u>	<u>0</u>	<u>1040.8</u>
Total Expenses	5,755.5	280.1	6,035.6
Net Operating Revenue	1,540.7	0	1,540.7
Rate Base	14,060.4	0	140,60.4
Rate of Return	11%		11%

EXAMPLE ACCEPTANCE LETTER AND NOTICE OF PROPOSED OFFSET RATE INCREASE FILING

 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 Advisory 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

Water Advisory Branch

Water Division

Enclosure

Cc: FLC

EXAMPLE ACCEPTANCE LETTER AND NOTICE OF PROPOSED OFFSET RATE INCREASE FILING

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

Balancing Account Amortization surcharge:

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

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.

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 application.

All 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 the above address and to this utility to

EXAMPLE ACCEPTANCE LETTER AND NOTICE OF PROPOSED OFFSET RATE INCREASE FILING

(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)

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.)98-01-001 included Any Water Company rates effective October 1, 1999 of \$0.14932/kWh on adopted usage of 2,445,200 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, 1998. 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 = \$240,900.

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	\$240,900
Ad Valorem Taxes	30,200

Required Rate Increase

$$\frac{\$280,100}{\$6,950,200} = 4.04\%$$

Computation of Rates

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

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

EXAMPLE WORKPAPERS

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

$$\frac{\$240,900}{16,410,560 \text{ Ccf}} = \$0.0152/\text{Ccf}$$

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 \$3,200 increase

$$\$3,200/51,532 = \$0.0587/\text{meter/year}$$

\$ per meter/month

$$\$0.0587/12 = \$0.482/\text{meter/month}$$

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

$$\text{Then 2" } = 0.0482 \times 2.222 = \$0.1071 \text{ or 10 cents}$$

Check revenues against increase

$$\begin{array}{r} 5,421 \times 0.05 \times 12 = \$3,253 \\ 50 \times 0.10 \times 12 = \underline{\$60} \\ \$3,313 \end{array}$$

\$3,313 revenue

3,200 increase

\$ 113 overcollection

Balancing Account Undercollection

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

LETTER TO UTILITY AFTER DRAFT REVIEW

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.

LETTER TO UTILITY AFTER DRAFT REVIEW

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 \$ _____

Balancing Account Status Balance As of
 _____ \$ _____ _____

Comments:

Balancing 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%).]

III. CUSTOMER SERVICE

LETTER TO UTILITY AFTER DRAFT REVIEW

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 not 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)

LETTER TO UTILITY AFTER DRAFT REVIEW

V. WATER CONSERVATION

Comments:

EXAMPLE LETTER TO CUSTOMERS OBJECTING TO THE
OFFSET RATE INCREASE REQUEST

Letterhead

Date

Name

Address

City, St ZIP

Dear (Mr./Ms.) _____ Name _____:

I am replying to your recent letter of _____ concerning Any Water Company's Notice of Rate Increase.

The Commission staff is now in the process of thoroughly reviewing Any Water Company's request for this offset rate increase. The purpose of this type of increase is to permit a utility to recover, on a dollar-for-dollar basis, increases in (power, water, etc.) costs that are beyond its control. Commission procedures in authorizing offset increases ensure that the utility receives no profit from the increase.

Thank you for your time and concern.

Very truly yours,

_____, (Analyst, Assistant/Associate Engineer)
Water Advisory Branch
Water Division