STATE OF CALIFORNIA

EDMUND G. BROWN JR., *Governor*

PUBLIC UTILITIES COMMISSION
505 VAN NESS AVENUE
SAN FRANCISCO, CA 94102-3298

April 16, 2014

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

Subject: Rate Adjustments due to CPI-U Increase for 2013

On March 31, 1992, the Commission issued Decision 92-03-093, authorizing Class C and D water utilities to file each year by advice letter for a rate increase based on the most recent year-end increase in the Consumer Price Index for All Urban Consumers (CPI-U).[1] Subsequent resolutions (Res.) W-4493[2], Res. W-4540[3], authorized sewer and Class B water utilities to file a CPI-U advice letter each year.

The CPI-U increase for 2013 is 1.5%.

Any Class B, C, and D water utility, and sewer utility, that is presently earning a lower rate of return (ROR) than its most recently authorized and is not presently subject to a test year, attrition year, or other general rate increase, is authorized to file for a CPI-U increase once each year, by advice letter. If your utility missed filing a CPI-U for one year, it **may not file retroactively** for that CPI-U in the following year.

Please follow the Summary of Earnings (SOE) format shown in Attachment 1 to determine your authorized and actual ROR. You would then compare these RORs to determine if the actual is less than or greater than authorized (see excerpt from Standard Practice U-27-W in Attachment 4).

Please file an advice letter (in accordance with General Order 96-B) requesting a CPI-U increase, **only** if the ROR based on actual revenues **does not** exceed the authorized ROR and if the projected revenue (with the CPI-U increase) **does not exceed** the authorized ROR. Please follow the following procedures when filing:

1. File an advice letter similar to that shown in Attachment 2.

2. Please also include a Cover Sheet (Attachment 3) to your advice letter, and the Service List from your last General Rate Case, with your CPI-U request.

3. Please include a copy of your 2013 Annual Report which is required to be filed by March 31, 2014.

4. If a utility has been authorized a Rate of Margin (ROM) instead of a Rate of Return, please substitute that measure when comparing Authorized versus Actual Revenues.
    a. Actual ROM = 1 – (Operating Expenses/Operating Revenues).

[1] Announced by the Bureau of Labor Statistics, U.S. Department of Labor.
[2] September 2, 2004.
[3] June 16, 2005.

5. Notice of a CPI-U request is **no longer required** under General Order 96-B. Utilities are now required to inform their customers of the CPI-U request via a bill insert with the first bill that contains the increase.[4]

6. Provide copies of the revised tariff schedules to reflect the increase that you are requesting (see Attachment 4 for examples).

7. Increase each rate, including facilities fees, by **1.5%,** the CPI-U increase for 2013.

8. Provide a copy of the SOE in which you calculate the authorized versus actual RORs or ROMs, utilizing the following actual data:

    a. Actual Revenues for 2013
    b. Estimate of increased revenues (add the 1.5% CPI-U inflation to actual revenues for 2013).
    c. Actual Expenses for 2013. Provide actual individual expenses for 2013, based on the line item accounts as they appear in your last General Rate Case (GRC) Summary of Earnings.
    d. Estimate of Rate Base equals (beginning of year rate base plus end of year rate base)/2.

9. Adjust all base rates (not surcharges and not reconnection fees, etc.) by multiplying by 1.015. Do not increase some base rates and not increase others.

If you have any questions, please feel free to contact Khai Duong at kdu@cpuc.ca.gov or (415) 703-2799.

Sincerely,

Rami Kahlon, Director
Division of Water and Audits

Attachments

[4] Resolution W-4664. Ordering Paragraph 3. "Utilities shall inform their customers of the increase in dollar and percentage terms by bill insert, in the first bill that includes the increase."

Attachment 1
ABC Water/Sewer Utility Company, Inc.
Example of a Summary of Earnings
Earnings Test Calculation

Category	Most Recent Adopted in Resolution W-0000	Actual 2013	CPI Increase @ 1.5% on Recent Adopted Revenue Only	Revenue After CPI Increase, Actual Expenses, & Actual Rate Base
	a	b	c=a * 1.5%	(Revenues) d =b + c
Operating Revenues:				
Flat Rate	50,000	45,000	750	45,750
Metered	150,000	135,000	2,250	137,250
Private Fire Protection	10,000	8,000	150	8,150
TOTAL OPERATING REVENUES	**210,000**	**188,000**		**191,150**
Operating Expenses:				
Purchased Water	7,000	7,500		7,500
Purchased Power	15,000	15,000		15,000
Purchased Chemicals	1,000	1,000		1,000
Other Volume Related Expenses	100	150		150
Employee Labor	10,000	10,000		10,000
Materials	5,000	5,700		5,700
Contract Work	11,000	11,200		11,200
Water Testing	500	750		750
Transportation Expense	9,000	9,000		9,000
Other Plant Maintenance	450	450		450
Office Salaries	4,000	4,500		4,500
Management Salaries	20,000	20,000		20,000
Employee Pension and Benefits	10,000	11,000		11,000
Uncollectibles	100	100		100
Office Service and Rentals	2,000	2,000		2,000
Office Supplies and Expenses	3,000	3,000		3,000
Professional Services	1,500	1,800		1,800
Insurance	9,000	10,000		10,000
Regulatory Commission Expense	1,000	1,000		1,000
General Expenses	400	400		400
SUBTOTAL	**110,050**	**114,550**		**114,550**
Depreciation	20,000	20,000		20,000
Taxes Other than Income	4,000	4,500		4,500
State and Federal Income Taxes	**18,000**	**15,000**		**15,000**[5]
Interest	0	0		0
TOTAL DEDUCTIONS	**152,050**	**154,050**		**154,050**
NET REVENUE	**57,950**	**33,950**		**37,100**
RATE BASE				
Average Plant	800,000	820,000		820,000
Less Average Accumulated Depreciation	350,000	360,000		360,000
NET PLANT	**450,000**	**460,000**		**460,000**
Less Advances & Contributions	25,000	27,000		27,000
Plus Materials & Supplies	5,000	5,000		5,000
RATE BASE	**430,000**	**438,000**		**438,000**
RATE OF RETURN	**13.47%**	**7.75%**		**8.47%**

[5] For purposes of the Earnings Test, you may use actual state and federal income taxes or you may adjust taxes to reflect higher revenues as estimated in Column D.

Attachment 2
EXAMPLE OF AN ADVICE LETTER

_____Water (or Sewer) Company

_____County

Advice Letter No._____

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

_____ Water (or Sewer) Company hereby transmits for filing the following changes in its tariff schedules which are attached hereto:

Cal. P.U.C. Sheet No.	Title Sheet	Cancelling Sheet No.
_____	Schedule No.1, General Metered Service	_____
_____	Schedule No.2, Flat Rate Service	_____
_____	Schedule No. F, Facilities Fees	_____
_____	Table of Contents	_____

(The present rates became effective on ____, 20__, pursuant to Resolution W-_____, which authorized an offset (CPI) rate increase of $_____ or _____%.)
The last general rate increase became effective_____, 20___, pursuant to Resolution W-____, which authorized a general rate increase of ____ or ___%, and a rate of return of ___%.

These tariffs are submitted pursuant to Ordering Paragraph No.1 of Decision No. 92-03-093, dated March 31, 1992, Ordering Paragraph No.2 of Resolution (Res.) W-4493, dated September 2, 2004, or Ordering paragraph No. 1 of Res. W-4540, dated June 16, 2005. The decision and resolutions authorize Class B, C, and D water utilities and sewer utilities to file a request for a Consumer Price Index increase once a year by advice letter. The increase is to be passed on to the utility's customers in their quantity rate and service charge. The above referenced decision and resolutions authorize _____ Water (Sewer) Company to file the attached rate schedules and to concurrently withdraw and cancel its present schedules for such service.

_____ Water (Sewer) Company requests permission to increase its revenues (based on increase to the present monthly quantity rate and service charge) by 1.5%, the CPI-U for 2013. This projected revenue increase of $_____ will not result in a rate of return which exceeds the authorized rate of return of _____%. Workpapers justifying this increase have been provided to the CPUC Division of Water and Audits staff.

This filing is made under the provisions of General Order No. 96-B.

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

This filing will not cause withdrawal of service, nor conflict with any other schedule or rule.

_____Water (or Sewer) Company

By: _____
Title

Attachment 3
EXAMPLE OF A COVER LETTER

ADVICE LETTER COVER SHEET

Utility Name: _____ Date Filed: _____

CPUC Utility Number: _____ 20th Day: _____

Advice Letter #: _____ 30th Day: _____

Authorization for Filing: _____ Req. Effective Date: _____

Compliance Filing: Yes ☐ No ☐

Subject: _____ Tier 1 ☐ Tier 2 ☐ Tier 3 ☐

_____

_____ Rate ($): _____

_____ Impact (%): _____

CONTACT PERSON(S):

Filer: _____ Alternate: _____

Phone: _____ Phone: _____

Email: _____ Email: _____

(FOR CPUC USE ONLY)

DWA STAFF REVIEW

Date	Recipient	Comments
_____	_____	_____
_____	_____	_____

[ ] ACCEPTED [ ] WITHDRAWN [ ] REJECTED

Effective Date: _____

Signature: _____ Date: _____

Attachment 4

Excerpt from Standard Practice U-27-W

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 – 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.