

## PUBLIC UTILITIES COMMISSION

505 VAN NESS AVENUE  
SAN FRANCISCO, CA 94102-3298



April 11, 2023

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

Subject: Correction to **February 1, 2023** Memo on Rate Adjustment due to CPI-U for 2022

It has come to our attention that a correction needs to be made to the Memo issued by Water Division on February 1, 2023, regarding rate adjustment due to CPI-U for 2022. Please see the below strikethrough on page 6 of the original text from the memo. The 7.0% has been changed to 6.5% and the year was changed from 2021 to 2022.

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).<sup>1</sup> Subsequent resolutions (Res.) W-4493<sup>2</sup>, Res. W-4540<sup>3</sup> and Res. W-4658<sup>4</sup>, authorized sewer and Class B water utilities to file a CPI-U advice letter each year.

**The CPI-U for 2022 is 6.5%.**

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 adjustment, **only** if the ROR based on actual revenues **does not** exceed the authorized ROR and if the projected revenue (with the CPI-U) **does not exceed** the authorized ROR. Please follow the following procedures when filing:

1. File an advice letter like 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 provide a copy of your 2022 Annual Report which is required to be filed by April 30, 2023.
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.  $\text{Actual ROM} = 1 - (\text{Operating Expenses} / \text{Operating Revenues})$ .

<sup>1</sup> Announced by the Bureau of Labor Statistics, U.S. Department of Labor.

<sup>2</sup> September 2, 2004.

<sup>3</sup> June 16, 2005.

<sup>4</sup> September 20, 2007.

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.<sup>5</sup>
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 6.5%, the CPI-U for 2022.
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 2022
  - b. Estimate of increased revenues (add the 6.5% CPI-U inflation to actual revenues for 2022).
  - c. Actual Expenses for 2022. Provide actual individual expenses for 2022, 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 1.065. Do not increase some base rates and not increase others.

If you have any questions, please feel free to contact Josefina Montero at josefina.montero@cpuc.ca.gov or (415) 703-1654.

Sincerely,

/s/BRUCE DEBERRY  
Bruce DeBerry, Program Manager  
Water Division

Attachments

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<sup>5</sup> 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 2022	CPI Adjustment @ 6.5% on Recent Adopted Revenue Only	Revenue After CPI Increase, Actual Expenses, & Actual Rate Base
	a	b	c=a * 6.5%	(Revenues) d =b + c
<b>Operating Revenues:</b>			<b>[C]</b>	
Flat Rate	46,000	45,000	2,990	47,990
Metered	145,000	135,000	9,425	144,425
Private Fire Protection	9,000	8,000	585	8,585
<b>TOTAL OPERATING REVENUES</b>	<b>200,000</b>	<b>188,000</b>	<b>13,000</b>	<b>201,000</b>
<b>Operating Expenses:</b>				
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
<b>SUBTOTAL</b>	<b>110,050</b>	<b>114,550</b>		<b>114,550</b>
Depreciation	20,000	20,000		20,000
Taxes Other than Income	4,000	4,500		4,500
State and Federal Income Taxes	<b>18,000</b>	<b>12,000</b>		<b>12,000</b>
Interest	0	0		0
<b>TOTAL DEDUCTIONS</b>	<b>152,050</b>	<b>151,050</b>		<b>151,050</b>
<b>NET REVENUE</b>	<b>47,950</b>	<b>36,950</b>		<b>49,950</b>
<b>RATE BASE</b>				
Average Plant	800,000	850,000		850,000
Less Average Accumulated Depreciation	350,000	360,000		360,000
<b>NET PLANT</b>	<b>450,000</b>	<b>490,000</b>		<b>490,000</b>
Less Advances & Contributions	25,000	27,000		27,000
Plus Materials & Supplies	5,000	5,000		5,000
<b>RATE BASE</b>	<b>430,000</b>	<b>468,000</b>		<b>468,000</b>
<b>RATE OF RETURN</b>	<b>11.15%</b>	<b>7.89%</b>		<b>10.67%</b>

Net Revenue divided by Rate Base = ROR

## Attachment 2

### ### WATER COMPANY

Address

Telephone ###

Email: ###

### DATE

Advice Letter No. ###

TO THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

### Water Company (###) hereby transmits for filing one original and one copy of this advice letter (AL) and the following tariff sheets which are enclosed:

#### NEW SHEET #

#### TITLE

#### CANCELLING SHEET #

###-W

Schedule No. ###

###-W

###-W

Schedule No. ###

###-W

###-W

Schedule No. ###

###-W

###-W

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### REQUEST

By AL ###, ### requests permission to increase its revenues (based on increase to the present monthly quantity rate and service charge) by ~~6.57.0%~~, the Consumer Price Index (CPI) for 2022~~1~~. The projected revenue increase of \$### will not result in a rate of return which exceeds the authorized rate of return of ###%. Workpapers justifying this increase are enclosed.

### BACKGROUND

The present rates became effective on ###, pursuant to Resolution W-###, which authorized an offset (CPI) rate increase of \$###, or ###%.

The last general rate increase became effective on ###, pursuant to Resolution W-###, which authorized a general rate increase of \$###, or ###%, and a rate of return of ###%.

AL ### is filed pursuant to Ordering Paragraphs No. 1 of **Decision 92-03-093** and **Resolution W-4493**, which authorized Class C and D water and sewer utilities to file a request for a CPI increase once a year by AL. The increase is to be passed on to the utility's customers in their quantity rate and service charge.

## Attachment 2

### WATER COMPANY

Address

Telephone ###

Email: ###

### TIER DESIGNATION AND REQUESTED EFFECTIVE DATE

This AL and the enclosed tariff sheets are submitted pursuant to General Order (GO.) 96-B. AL ### is designated as a Tier 1 AL and the enclosed tariff sheets will become effective upon filing.<sup>6</sup>

### NOTICE

This AL does not require notice;<sup>7</sup> however, the utility shall inform its customers, by bill insert in the first bill that includes the increase, of the amount of the increase expressed in dollar and percentage terms.<sup>8</sup> A copy of this AL has been served to all parties listed on the service list<sup>9</sup> on the last page of this AL. This filing will not cause withdrawal of service nor conflict with any other schedule or rule.

### RESPONSE OR PROTEST<sup>10</sup>

Anyone may respond to or protest this AL. A response supports the filing and may contain information that proves useful to the Commission in evaluating the AL. A protest objects to the AL 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 AL.
2. The relief requested in the AL 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 AL contain material error or omissions.
4. The relief requested in the AL is pending before the Commission in a formal proceeding or
5. The relief requested in the AL requires consideration in a formal hearing, or is otherwise inappropriate for the AL process or
6. The relief requested in the AL 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.

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<sup>6</sup> GO. 96-B, Water Industry Rule 7.3.1

<sup>7</sup> GO. 96-B, General Rule 4.2

<sup>8</sup> GO. 96-B, Water Industry Rule 3.2

<sup>9</sup> GO. 96-B, Water Industry Rule 4.1

<sup>10</sup> GO. 96-B, General Rule 7.4.1

## Attachment 2

### ### WATER COMPANY

Address

Telephone ###

Email: ###

A protest may not rely on policy objections to an AL where the relief requested in the AL follows rules or directions established by statute or Commission order applicable to the utility.

A protest shall provide citations or proofs where available to allow staff to properly consider the protest. The Water Division (WD) must receive a response or protest via email (or postal mail) within 20 days of the date the AL is filed. The addresses for submitting a response or protest are:

**Email Address:**

[Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov)

**Mailing Address:**

California Public Utilities Commission  
Water Division, 3rd Floor  
505 Van Ness Avenue  
San Francisco, CA 94102

On the same day the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy of the protest to ### at:

**Email Address:**

###

**Mailing Address:**

###

Cities and counties that need Board of Supervisors or Board of Commissioners approval to protest should inform WD 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.

### **REPLIES**

The utility shall reply to each protest and may reply to any response. Any reply must be received by WD within five business days after the end of the protest period, and shall be served on the same day on each person who filed the protest or response to the AL.<sup>11</sup>

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<sup>11</sup> GO. 96-B, General Rule 7.4.3

## Attachment 2

**### WATER COMPANY**

Address

Telephone ###

Email: ###

### SERVICE LIST

Recipient 1

Recipient 2

Recipient 3

I hereby certify that the above service list has been served a copy of AL ### on DATE.

Executed in ###, California on the DATE.

### Water Company

By: /s/NAME

Name

Title

Enclosures



# Attachment 3

## CALIFORNIA PUBLIC UTILITIES COMMISSION WATER DIVISION

### Advice Letter Cover Sheet

Utility Name: ### Date Mailed to Service List: ###  
District: ###  
CPUC Utility #: ### Protest Deadline (20<sup>th</sup> Day): ###  
Advice Letter #: ### Review Deadline (30<sup>th</sup> Day): ###  
Tier 1 2 3  Compliance Requested Effective Date: ###  
Authorization D.92-03-093 Rate Impact: \$###  
Description: 2024 CPI Adjustment ###%

The protest or response deadline for this advice letter is 20 days from the date that this advice letter was mailed to the service list. Please see the "Response or Protest" section in the advice letter for more information.

Utility Contact: ### Utility Contact: ###  
Phone: ### Phone: ###  
Email: ### Email: ###

WD Contact: Tariff Unit  
Phone: (415) 703-1133  
Email: [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov)

#### WD USE ONLY

<u>DATE</u>	<u>STAFF</u>	<u>COMMENTS</u>
_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

[ ] APPROVED [ ] WITHDRAWN [ ] REJECTED

Signature: \_\_\_\_\_ Comments: \_\_\_\_\_

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  $1 - \text{Operating Ratio}$ , 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.