



Review of Standard Practice U-27-W and Related Accounting Procedures

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Overview

- CPI Increases
- Expense Offsets
- Rate Base Offsets
- Establishing/Amortizing Memorandum and Balancing Accounts
- Tariff Rule 14.1/Schedule 14.1 and Lost Revenue Recovery





CPI Increases

- Procedure:
 - DWA issues Annual Memo every April
 - Utilities earning less than their authorized rate of return should file for an increase based on the CPI amount
 - Sample Advice Letter and Worksheet can be found on the CPUC Website
 - <http://www.cpuc.ca.gov/PUC/Water/Available+Documents/Memoranda.htm>





CPI Increases

The utility calculates a CPI offset by multiplying all rates in its existing rate schedules by one plus the amount contained in the memo from DWA.

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 a	Actual 2014 b	CPI Increase @ 0.8% on Recent Adopted Revenue Only c=a * 0.8%	Revenue After CPI Increase, Actual Expenses, & Actual Rate Base (Revenues) d =b + c
Operating Revenues:				
Flat Rate	50,000	45,000	400	45,400
Metered	150,000	135,000	1,200	136,200
Private Fire Protection	10,000	8,000	80	8,080
TOTAL OPERATING REVENUES	210,000	188,000		189,680
RATE OF RETURN	13.47%	7.75%		8.13%





Expense Offsets

- When a utility incurs or will incur changes in its offsettable expenses resulting in an annual revenue requirement change of over 1%, it shall submit a Tier 1 advice letter requesting an offset surcharge to account for those changes and associated changes to other expenses such as franchise tax.
- Class B, C and D expense offset filings require an earnings test.





Rate Base Offsets

- Filing for rate base offset recovery generally requires a Tier 3 advice letter.
- Rate base offsets will be disposed of under Tier 2 when staff determines that:
 - The Rate base offset was previously approved by the Commission in a decision or resolution;
 - The project scope is consistent with what the Commission approved; and
 - The Commission approval included a budget cap and the rate base offset request is at or below the budget cap.



Rate Base Offsets

- 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.
- Any rate base offset not authorized in a general rate case requires an earnings test.
- Rate base offsets are available for used-and-useful utility plant only (unless specifically exempted by the Commission).





Establishing Memorandum Accounts

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





Establishing Memorandum Accounts

- Each advice letter requesting a new memo account must address the following:
 - The expense is caused by an event of an exceptional nature that is not under the utility's control;
 - 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;
 - The expense is of a substantial nature as to the amount of money involved when any offsetting costs decreases are taken into account; and
 - The ratepayers will benefit by the memo account treatment.





Amortizing Memorandum Accounts

- 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.
- The average monthly balance in the account accrues interest at the 90-day commercial paper rate.





Establishing Balancing Accounts

- A balancing account tracks monies that the Commission has authorized for recovery or amortization.
- 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.
- The purpose of the balancing accounts is to recover expenses that occurred in the past.





Establishing Balancing Accounts

- Purchased water, purchased power, pump tax offsets, and payroll offsets are booked to balancing accounts as established in Res. W-4467.
- Water Quality and User fees are booked to balancing accounts as established in Res. W-4698.
- See the following Sample Preliminary Statement that includes listed balancing accounts.





PRELIMINARY STATEMENT
(Continued)

G. BALANCING ACCOUNTS

The company has established the following balancing accounts. The purpose of these accounts is to track changes in costs for the named expense category. The balance in these accounts will be recovered in rates after COUC review and audit of the reasonableness of the costs recorded therein. The accounts are listed with the authorizing CPUC Resolution, Decision or Public Utilities Code (PU Code). Additional description can be found in the authorizing document (s).

1. Purchased Power, Resolution W-4467, April 22, 2004.
2. Purchased Water, Resolution W-4467, April 22, 2004.
3. Pump Tax, Resolution W-4467, April 22, 2004.
4. Payroll, Resolution W-4467, April 22, 2004.
5. Payroll Taxes, Resolution W-4467, April 22, 2004.
6. Contract Labor, Resolution W-4467, April 22, 2004 Note: Restricted to the Operational and Maintenance portion of contract labor.
7. Water Quality Balancing Account (WQBA), Resolution W-4698, July 31, 2008.
8. California Department of Public Health User Fees Balancing Account (UFBA), Resolution W-4698, July 31, 2008 Notes: Pertains to fees that are billed under Section 4019.10 of the California Health and Safety Code.





Amortizing Balancing Accounts

- 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, the reserve account must be amortized.
- The reserve account amortization requires an earnings test based on recorded quantities.
- Undercollected reserve accounts are amortized by a surcharge on the service charge or the commodity charge, depending upon the type of expense.
- An overcollection in a reserve account is refunded by a surcredit applied only to service charges.





Tariff Rule 14.1/Schedule 14.1 and Lost Revenue Recovery

- A lost revenue memorandum account is used to track revenue shortfalls associated with reduced sales from either activation of voluntary conservation measures or a mandatory rationing plan pursuant to a declared drought emergency.
- Utilities requesting a lost revenue memorandum account should activate either voluntary conservation measures pursuant to Rule 14.1 or mandatory rationing pursuant to Schedule 14.1 before booking revenue shortfalls to the memorandum account.
- Lost revenues should be tracked only so long as conservation measures are in effect.
- This memo account is available only to utilities that do not have an existing full revenue decoupling WRAM





PRELIMINARY STATEMENT
(continued)

(5) Conservation Lost Revenue Memorandum Account (CLRMA) (N)

- A. **PURPOSE:** The purpose of the Conservation Lost Revenue Memorandum account (CLRMA) is to remove the financial disincentive to conserve water under the policy of the California Public Utilities Commission (CPUC), and promote water conservation consistent with Senate Bill 7 (SB X7-7) 20% reduction requirement and with the Governor's Emergency Drought Declaration of January 17, 2014.

The utility shall activate either voluntary conservation measures pursuant to Rule 14.1 or mandatory rationing pursuant to Schedule 14.1 before booking revenue shortfalls to the CLRMA. The following will be tracked in the CLRMA: Lost revenues associated with reduced sales as a result of activation of either Tariff Rule 14.1 or Schedule 14.1, together with associated expenses not otherwise accounted for in rates.

- B. **Applicability:** The CLRMA balance will be recovered from all customer classes, except those specifically excluded by the CPUC.

C. **Definitions:**

1. Non-Memorandum Account Revenue is all revenue excluded from the CLRMA, such as metered service charges and public and private fire protection services revenues. In addition, surcharge and surcredits, unless specifically adopted in the CPUC-adopted revenue requirement for the utility, will be excluded from CLRMA tracking.
2. CLRMA Revenue is all revenue not excluded in C.1., above.
3. Recorded CLRMA Revenue is the amount of quantity rate revenue billed to customers in any particular period.
4. Adopted Revenue is the quantity rate revenue calculated using CPUC-adopted quantities by specific customer class (per Res. W-4801), the actual number of service connections per corresponding customer class, and authorized rates and applicable surcharges.

(N)





D. Accounting Procedure:

(N)

1. The following entries shall be recorded monthly in the CLRMA:
 - (a.) The most recent Adopted Revenue adjusted for all relevant rate increases.
 - (b.) Recorded CLRMA Revenue for the same period.
 - (c.) Most recently CPUC-adopted variable expense.
 - (d.) Recorded sales quantity in CCF, multiplied by CPUC-adopted unit variable expense per CCF of water sold (CPUC-adopted variable expense divided by CPUC-adopted quantity in CCF).
 - (e.) Total net CLRMA Balance = [(a.) minus (b.)] minus [(c.) minus (d.)]
 - (f.) A negative balance in the CLRMA reflects a utility over-collection to be refunded, while a positive balance in the CLRMA reflects a utility under-collection to be recovered in rates.
2. The utility will record the accumulated CLRMA balance monthly by adding its entry in Section D.1., above, to the prior accumulated balance.
3. Interest shall accrue on a monthly basis by applying a rate equal to one-twelfth of the 3-month non-financial Commercial Paper rate, as reported in the Federal Reserve Statistical Release, to the average of the beginning-of-month and the end-of-month balances.
4. Before seeking recovery of the CLRMA balance, if any, the balance shall be reduced by an amount equal to a 20-basis point reduction in the most recently adopted return on equity for the utility. Then, if necessary, the utility shall further reduce the balance in the CLRMA to a level sufficient to ensure that such recovery does not cause the utility to exceed its authorized rate of return for the period covered by the CLRMA.

(N)





Summary

- CPI Increases
- Expense Offsets
- Rate Base Offsets
- Establishing/Amortizing Memorandum and Balancing Accounts
- Tariff Rule 14.1/Schedule 14.1 and Lost Revenue Recovery





Questions or Concerns?

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