



California Water Association Small Company Committee

2009-10 CPUC Decisions & Resolutions
Monterey Plaza Hotel
November 8, 2010



Agenda

- Welcome
- Review of Oct. 22nd “How To” Workshop
 - Understanding California PUC Procedures
 - Preparation of Annual Reports
 - Cost Recovery Opportunities – Advice Letters
- 2009-10 Small Company Decisions/Resolutions
- Remarks from the California PUC
- Roundtable Discussion



Scope of 10/22 Workshop

- Review of CPUC Accounting Practices
- Objectives
 - Increase understanding of CPUC accounting procedures
 - Assist in preparation of Annual Reports and Advice Letters
- Agenda Highlights
 - Ratemaking and regulatory procedures overview
 - Annual reports: It begins here
 - Advice Letter filings: opportunities for cost recovery
 - Questions and answers



Competing Objectives Of Water Rates

- Water Utility Wants Rates That Are . . .
 - Financially Viable, Provide Stable Revenue
- Customers Want Rates That Are . . .
 - Equitable
 - Affordable
 - Easily Understood
- Society Wants Rates That Are . . .
 - Economically Efficient
 - Designed To Promote Public Health And Safety



Criteria For A Sound Rate Structure

- Simple, Understandable
- Freedom From Controversy
- Effective In Yielding Total Revenue Requirement
- Revenue Stability For The Utility
- Revenue Stability For Customers
- Fairness Among Customer Classes
- Avoid “Undue Discrimination”
- Efficient (Discourages Wasteful Use)



How Small Company Revenue Requirement Is Established Return On Investment Method

- + Allowable Expenses \$ _____
- + Taxes Other Than Income \$ _____
- + Income Taxes \$ _____
- + Depreciation \$ _____
- + Return On Investment \$ _____

- = Revenue Requirement \$ _____



Small Company Rate Of Return Method

How Return On Investment Is Calculated

- + Allowable Expenses
- + Taxes Other Than Income
- + Income Taxes
- + Depreciation
- + Return On Investment
- = Revenue Requirement

- + Avg. Plant
- + Allowance For Working Capital
- + Materials & Supplies
- Avg. Accumulated Depreciation
- Avg. Contributions In Aid Of Construction
- Avg. Advances For Construction

= Rate Base

x Authorized Rate Of Return

(Class C = 12% to 13%, Class D = 12.75 to 13.75%)

= Return On Investment



How Small Company Revenue Requirement Is Established Rate Of Margin Method

- + Allowable Expenses \$ _____
- + Taxes Other Than Income \$ _____
- + Income Taxes \$ _____
- + Depreciation \$ _____
- + Rate Of Margin \$ _____

- = Revenue Requirement \$ _____



Small Company Rate Of Margin Method

- + Allowable Expenses
- + Taxes Other Than Income
- + Depreciation
- + Rate Of Margin (\$)
- + Income Taxes

- = Revenue Requirement

How Rate Of Margin Amount Is Calculated

+ Allowable expenses
+ Taxes Other Than Income
+ Depreciation

= Operating Expenses


x Authorized Rate Of Margin (%)
(Class C = 19%, Class D = 20%)

= Rate of Margin (\$)




Income Statement vs. Revenue Requirement

Income Statement (Unregulated Business)


$$\begin{aligned} &+ \text{Revenue} \\ &- \text{Expenses} \\ &- \text{Depreciation} \\ &- \underline{\text{Taxes}} \\ &= \text{Net Operating Income} \\ &- \underline{\text{Interest}} \\ &= \text{Net Income} \end{aligned}$$

Revenue Requirement (Regulated Utility)


$$\begin{aligned} &= \underline{\text{Revenue Requirement}} \\ &+ \text{Expenses} \\ &+ \text{Depreciation} \\ &+ \text{Taxes} \\ &= \text{Net Operating Income} \\ &+ \text{Interest} \\ &+ \text{Net Income} \end{aligned}$$



CPUC System Of Accounts – “What You Really Need” Version

- Operating Revenue Accounts
 - 460: Unmetered water revenue
 - 462: Fire Protection revenue
 - 465: Irrigation revenue
 - 470: Metered water revenue
 - 480: Other water revenue
- Operating Expense Accounts
 - 610: Purchased water
 - 615: Purchased power
 - 618: Other volume-related expenses
 - 630: Employee labor
 - 640: Materials
 - 650: Contract work (exclude water testing)
 - 660: Transportation expense
 - 664: Other plant maintenance
 - 670: Office salaries
 - 671: Management salaries
 - 674: Employee pensions & benefits
 - 676: Uncollectibles expense
 - 678: Office services and rentals
 - 681: Office supplies and expenses
 - 682: Professional services
 - 684: Insurance
 - 688: Regulatory Commission expense
 - 689: General expenses
 - 403: Depreciation expenses
 - 408: Taxes other than income taxes
 - 409: Income tax on proposed net income



Small Company Standard Practices

- SP U-03-SM** Preparing Results of Operation Reports for General Rate Increase Requests of Water Utilities other Than Major Companies
- SP U-04-SM** Depreciation Procedures for Small Water and Sewer System Utilities
- SP U-05-SM** Determining Fixed Capital and Rate Base of Class B, C, & D Water Utilities
- SP U-08-W** Creating and Processing Water and Sewer System Advice Letter Filings and Resolutions; and Maintaining Tariffs Under General Order No. 96-B
- SP U-09-SM** Processing Informal General Rate Cases of Class B, C and D Water and Sewer Utilities and the Service Guarantee Plan
- SP U-13-W** Preparing and Processing Small Water Company Advice Letter Filings for Financing
- SP U-27-W** Processing Rate Offsets; Establishing and Amortizing Memorandum Accounts
- SP U-28-W** Collecting and Processing Customer Rates, Fees and Charges Under General Order 96-B
- SP U-39-W** Uniform System of Accounts for Class B, C, and D Water Utilities



Annual Report Preparation

- Class D Companies
- Class C Companies



Introduction

Class C & D Water Utility Annual Reports (ARs):

- Must be filed by March 31 each year
- On forms provided by the CPUC
- C & D forms are different, but are conceptually the same and require similar information
- In addition to requisite reporting, use ARs for internal utility analyses and evaluations



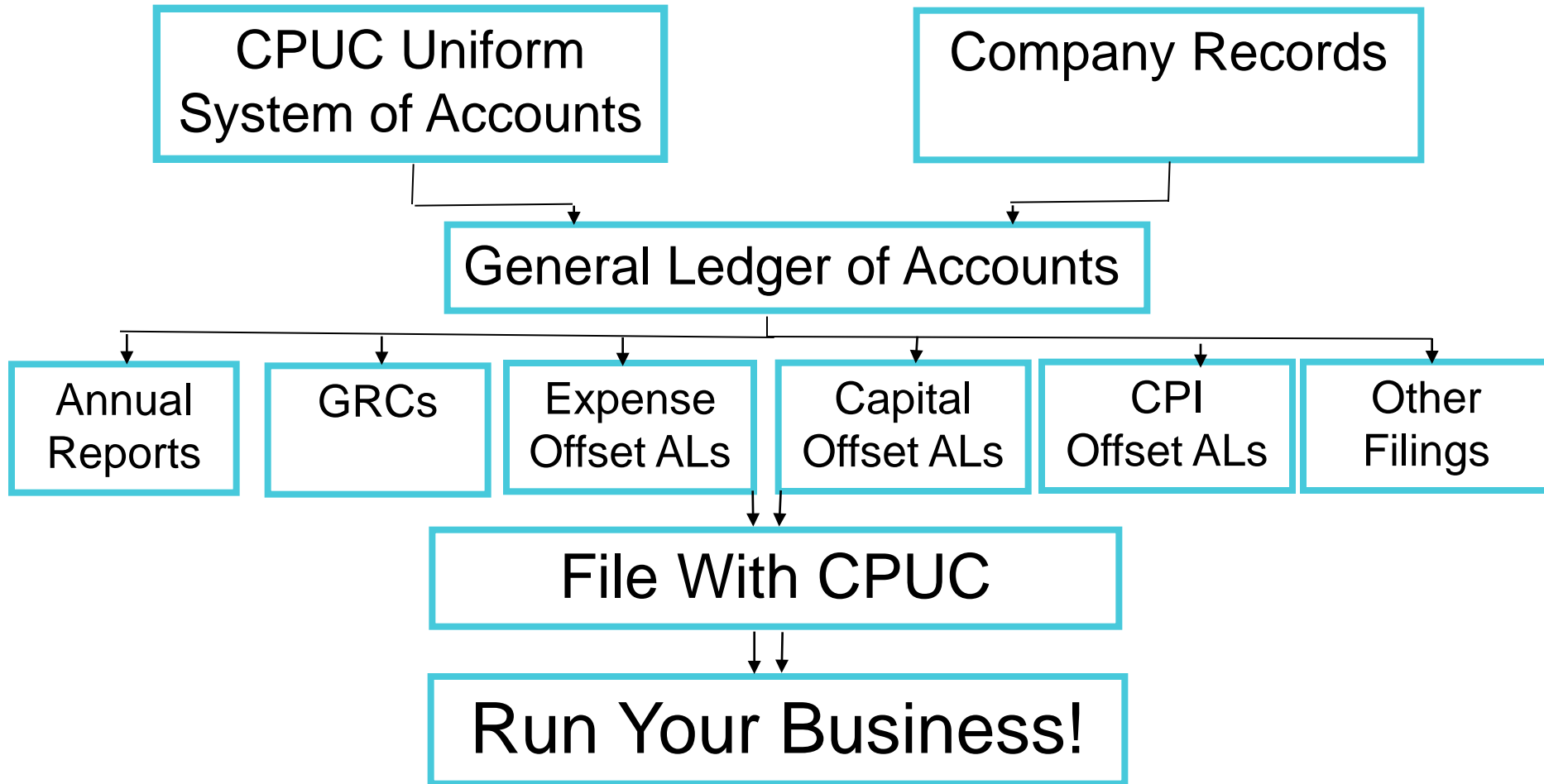
Annual Report Preparation

Annual Report Prerequisites

- Prior year AR (contains report year-beginning data)
- Complete and accurate database supported with records, receipts, paid bills, cancelled checks, etc.
- Familiarity with CPUC Uniform System of Accounts for Class B, C, and D Water Utilities (Decision 85-04-076)



Accounting Flowchart



CPUC System Of Accounts – Formal Version

- Balance Sheet Accounts
 - Assets (e.g., plant in service, depreciation, cash, accounts receivable, materials and supplies, etc.)
 - Equity and Liabilities (e.g., common stock, paid-in capital, retained earnings, long-term debt, accounts payable, accrued taxes and interest, current liabilities, advances for construction, etc.)
- Plant Accounts
 - Non-Depreciable (land, intangible plant)
 - Depreciable (structures, wells, pumping equipment, water treatment plant, reservoirs, tanks, mains, meters, hydrants, etc.)
- Income Accounts (revenues, expenses, taxes)
- Operating Revenue Accounts (metered and unmetered revenue, fire protection revenue, irrigation revenue)
- Operating Expense Accounts (plant O&M, administrative and general)



Record-Keeping

- Regulation is fact-based
 - You are in a better position when you can prove you've spent the money in the past
- Keep records on all your expense items
- Keep receipts
- Keep your general ledger by system of accounts
- Code properly



Capital Investment vs. Expenses

- What is a Capital Investment?
 - Generally anything that will benefit the customer for multiple (>2) years
 - Anything that extends the life of an asset
 - Coating a storage tank
 - Even small things, for example:
 - Laptop computer (\$1,000)
 - Chlorinator pump (\$300)



Annual Reports: Core Data

1.) Plant Valuation:

- Water Plant in Service Sch B
- Depreciation Sch C
- Long Term Debt Sch E
- Balance Sheet Sch A

2.) Income:

- Income Statement Sch F

3.) Quantities and Physical Plant:

- Water Sources Sch G
- Water Deliveries Sch H
- Physical Plant Sch K, L, M, N, O



Optional AR Core Section: Explanatory Notes

- Notes may be incorporated into AR to explain, categorize, and memorialize the nature and details of AR account data entries
- Notes help reviewer understand the report – and help the utility to “recall” data sources during future analyses
- Inclusion of income tax calculations explain SIT and FIT data entries



Annual Report Preparation Sequence

Refer to General Instructions – included in report form package
Inquiries versus complaints

- STEP 1: Complete the Balance Sheet (Sch A)
 - Complete, in sequence, Sch's B, C, D (if applicable), and E, and transfer results to appropriate accounts on Sch A
 - Refer to *Balance Sheet Preparation* handout for detailed sequential process explanation



Annual Report Preparation Sequence

- STEP 2: Complete the Income Statement (Sch F)
 - Operating revenues, expenses, and other taxes are entered directly from General Ledger
 - Depreciation Expense (Acct 403) is entered from Sch C
 - SIT and FIT are calculated using CPUC tax brackets
 - Refer to *Income Statement Preparation* handout for detailed example



Annual Report Preparation Sequence

STEP 3: Compile Explanatory Notes

- The Notes should follow the sequence of report preparation in Steps 1 and 2 above
- Cross-reference the Notes (numerically) in the line item data entries on schedules in Steps 1 and 2 as preparation proceeds
- Place compilation of Notes at the back of the report package



Annual Report Preparation Sequence

STEP 4: Enter Operating Quantity and Physical Plant Data

- Complete Sch's G, H, K, L, M, N, O with data from operating records and prior year AR, plus current year additions to plant (from Sch B and associated Notes)
- Refer to listed schedules in *Example Annual Report* handout



Annual Report Preparation Sequence

(Now that the heavy lifting is over ...)

- STEP 5: Complete the General Information Sheet and the Cover Title Sheet
- STEP 6: Complete requested SDWBA data sheets (if applicable)
- STEP 7: Complete requested Facilities Fees data sheet



Annual Report Preparation Sequence

STEP 8: Compute the Earnings Summary for Report Year

- Calculate and record average balance sheet data
- Record Earnings Summary:
 - Income Statement (repeat from Sch F)
 - Compute average rate base
 - Calculate Rate of Return (ROR)
- Refer to *Earnings Summary Example* handout
- Place Earnings Summary first behind Cover Title Sheet



Annual Report Completion

- Check data entries for accuracy
- Check calculations
- Sign the Declaration
- Prepare “clean” copies
- File Report



Class C Annual Report Format

- Presents the same information as Class D Report
- Balance Sheet is Sch A in two pages: Assets, Liabilities
- Sch A supporting schedules are labeled A-1 thru A-17
- Income Statement is Sch B
- Sch B supporting schedules are labeled B-1 thru B-6
- Water Source Quantities and Physical Plant data are presented on Schedules D-1 thru D-9
- Notes, SDWBA data, Facilities Fees data, Earnings Summary, and Declaration are same as for Class D Report



Advice Letters

- (see separate presentation)

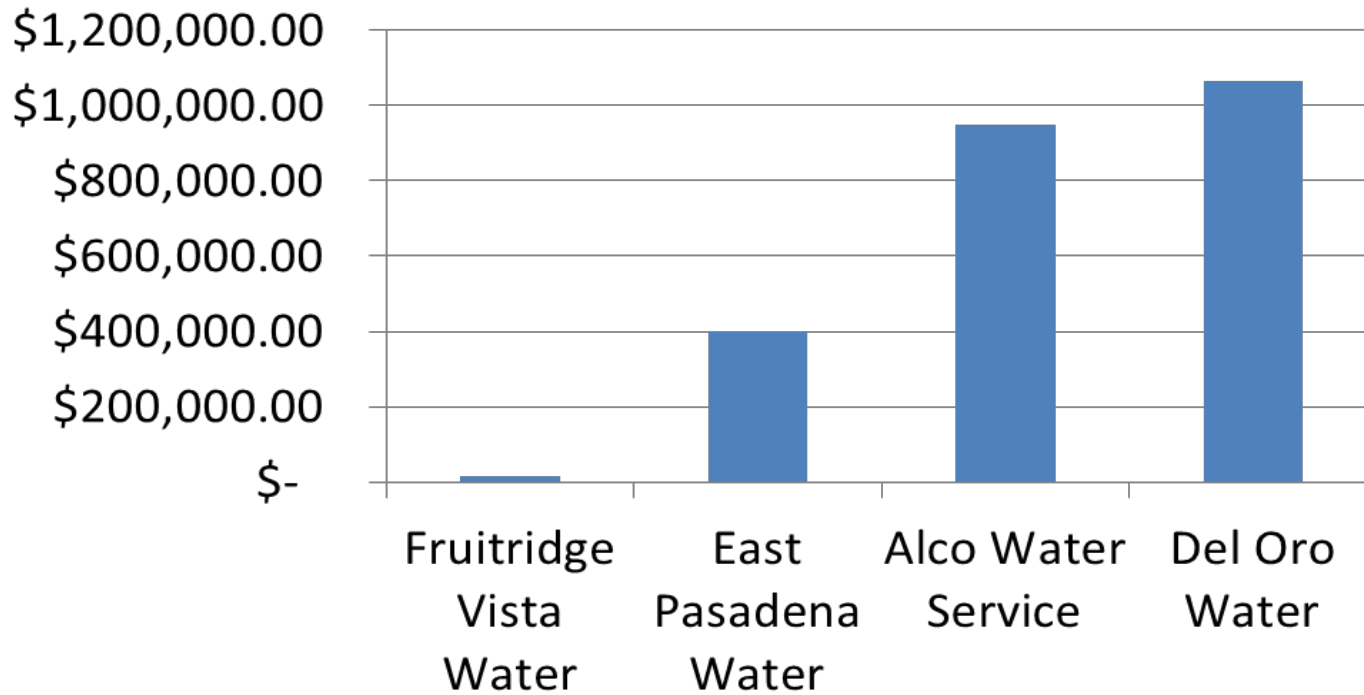


2009-10 Small Company Decisions & Resolutions

- Six Decisions and 74 Resolutions: \$5,434,776
- Class B Companies
 - 3 Decisions; 22 Resolutions; \$2,440,433
 - Alco Water Service – 5 resolutions
 - Del Oro Water – 2 decisions, 17 resolutions
 - East Pasadena Water – 1 resolution (2009 GRC)
 - Fruitridge Vista Water – 1 decision, 1 resolution



Class B Utilities Total Rate Increases



Source: CPUC Resolutions 2009–10



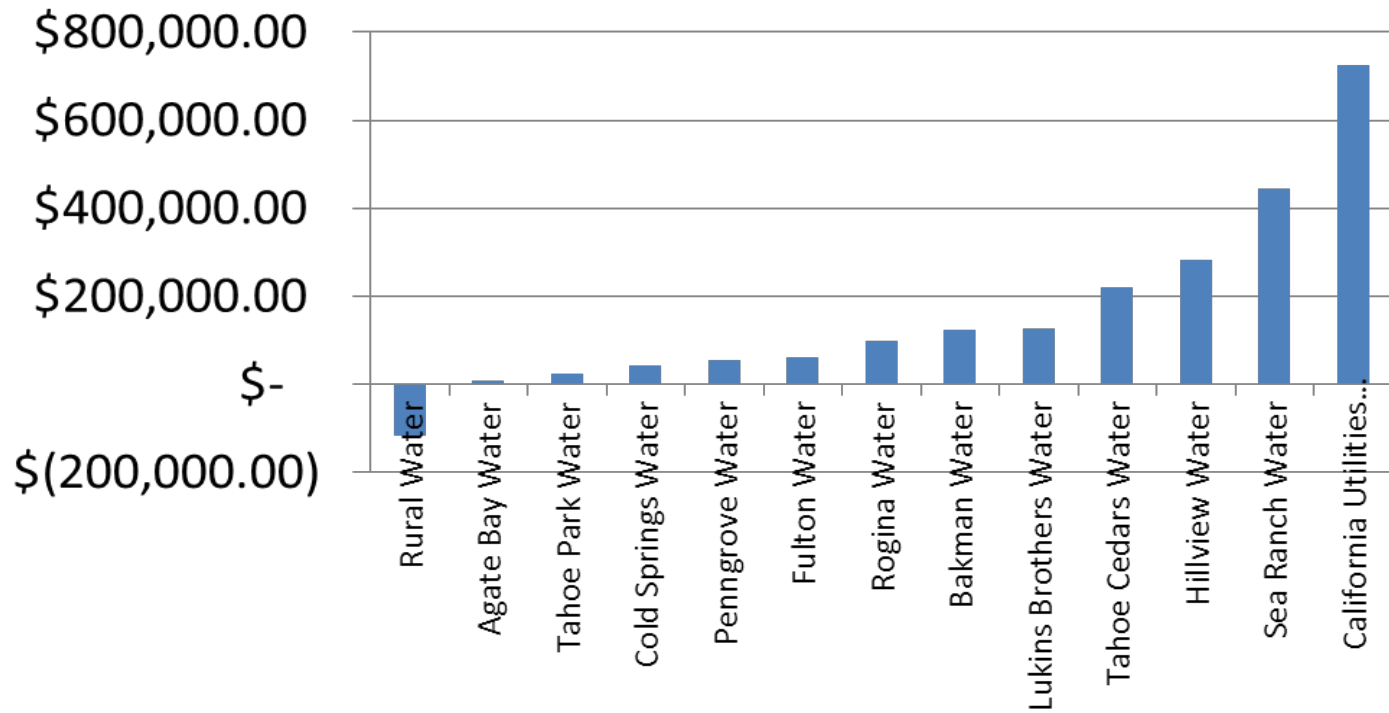
2009-10 Small Company Decisions & Resolutions

■ Class C Companies

- 1 Decisions; 22 Resolutions; \$2,099,499
- Agate Bay Water, Bakman Water, Bass Lake Water (2)
- California Utilities Service, Cold Springs Water (2)
- Fulton Water, Hillview Water, Little Bear Water
- Lukins Brothers Water, North Gualala Water (2)
- Penngrove Water, Rogina Water (2), Rural Water
- Sea Ranch Water (2), Tahoe Cedars Water (2), Tahoe Park Water (2)



Class C Utilities Revenue Increases



Source: CPUC Resolutions 2009–10



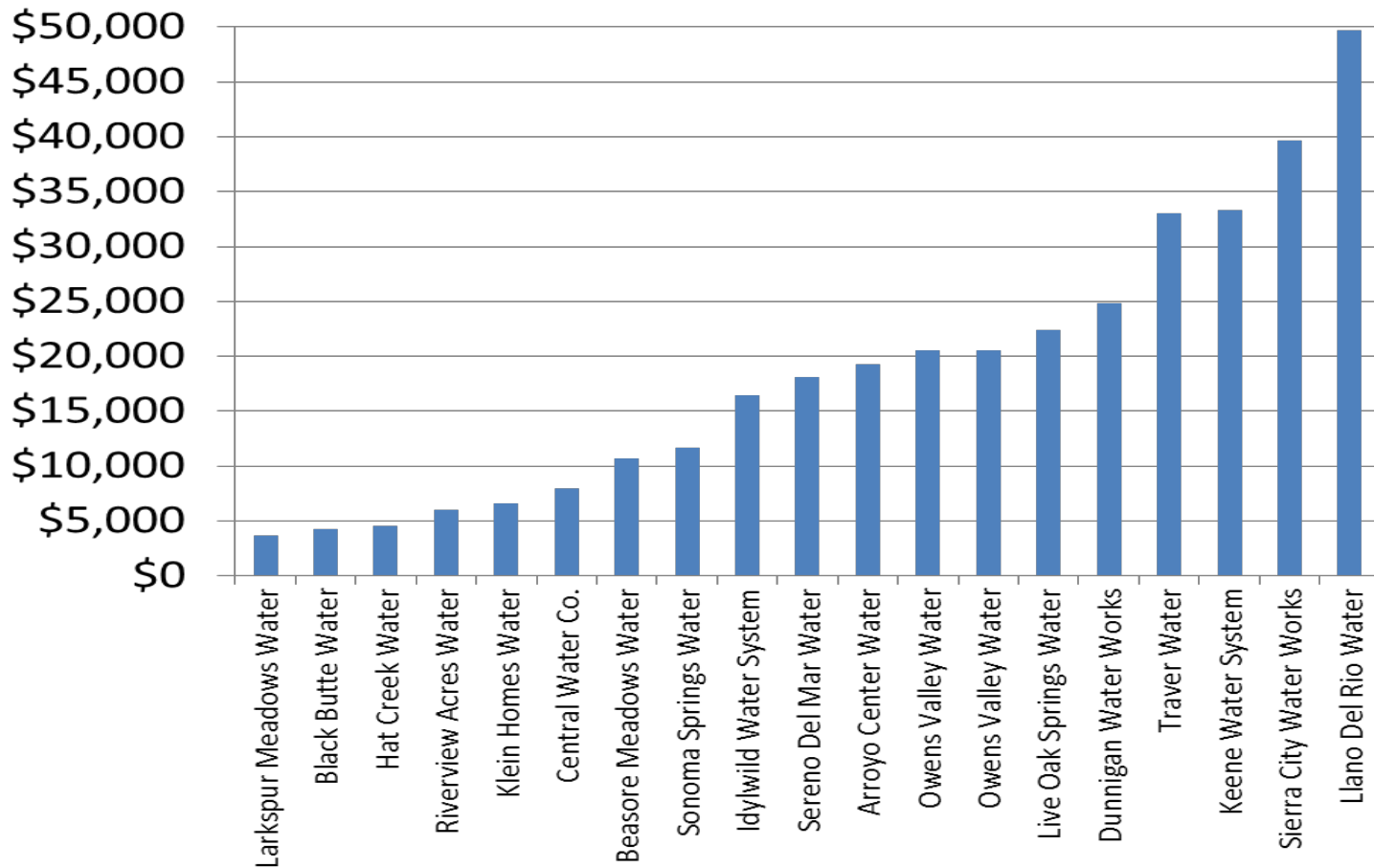
2009-10 Small Company Decisions & Resolutions

■ Class D Companies

- 2 Decisions; 30 Resolutions; \$894,844
- Arroyo Center, Beasore Meadows, Central, Cypress Ridge Sewer
- Dunnigan, Garrapata, Golden Hills Sanitation, Hat Creek, Idylwild
- Keene, Klein Homes (2), Lake Alpine (2), Lake Forest, Larkspur Meadows, Live Oak Springs, Llano Del Rio, Owens Valley (2)
- Riverview Acres
- RR Lewis (2), Sereno Del Mar, Sierra City, Sonoma Springs
- Traver, Warring Water, Weimar Water, West San Martin, Yermo



Class D Utilities Revenue Increases



Source: CPUC Resolutions 2009–10



Concluding Remarks & Questions

