

California Water Association  
Small Company Workshop  
November 10, 2008

---

---

# Advice Letters

---

---

The Means to  
Financial Viability  
for Your Utility



# Workshop Agenda

- I. Introduction
  - Definition of Advice Letter (AL)
  - AL Categories
  - AL Tiers
- II. General Order 96-B: The Guiding Light
- III. Contents of AL “Filing Package”
- IV. Examples of Advice Letters
- V. Informal GRC AL Filings
- VI. Standard Practice U-8-SM
- VII. AL Numbering System
- VIII. Advice Letter Guidance
- IX. Interfacing with PUC Staff for AL Processing
- X. Concluding Comments



## What Is An Advice Letter?

*“An informal request by a utility for Commission approval, authorization, or other relief, including an informal request for approval to furnish service under rates, charges, terms or conditions other than those contained in the utility’s tariffs then in effect”*

In other words, an informal request to change rates, charges, terms or conditions of existing tariffs.

General Order 96-B, Sec 3.1



## Commonly Filed AL Categories

1. Informal General Rate Case (GRC), With Co-Filed CPI Offset:
  - Rate of Return Approach
  - Rate of Margin Approach
2. Rate Base Offset
  - Recover Cost Of New Capital At Authorized ROR
3. CPI Offset
  - A Must Do Every Year – When Allowable



## Commonly Filed AL Categories (cont.)

4. Offsettable Expense Recovery Offsets:
  - Purchased Water Cost Increase
  - Purchased Power Cost Increase
  - Labor Cost increase
  - Pass-through Additional Taxes
  - Other Expenses
5. California DPH Fee Offset (If Not In Rates)
6. Balancing Account and Memorandum Account Offsets
7. Numerous Other Categories – See GO 96-B, Industry Rule 7.3, For Complete Listing



# Advice Letter Tiers

1. Advice Letters are classified as Tier 1, 2, or 3 for purposes of review and disposition by PUC staff or the Commission.
  - TIER 1: Effective at date of filing; Subject to approval or rejection by Division of Water & Audits staff.
  - TIER 2: Effective only upon approval of staff. DWA staff disposition is appropriate where statutes or Commission Orders have required the action proposed in the Advice Letter.
  - TIER 3: Approval required by Commission Resolution.
2. Refer to GO 96-B Water Industry Rule 7.3 for AL category listings by Tier



# General Order 96-B: The Guiding Light

- Contains General Rules, Energy Industry Rules and Water Industry Rules
- General Rules govern all informal matters – i.e. Advice Letters and Information-only Filings
- Water Industry Rules apply to water and sewer system utilities
- Water Industry Rules contain specific rules for a particular type of utility or Advice Letter
- Water Industry Rules distinguish between those ALs subject to disposition by the Division of Water & Audits (DWA) and by Commission resolution



## Contents of AL Filing Package

1. CPUC Advice Letter Cover Sheet
2. AL itself, with explanation of request
3. Proposed new tariff schedule(s)
4. Summary of authorized revenue – going back to last GRC
5. Earnings test from most recent year – demonstrating the need for the requested action
6. Documentation (work papers) to justify the request
7. Service list





# CPUC AL Cover Sheet Format

- State the date utility served AL and filed with DWA
- Provide AL Number
- Indicate requested effective date
- Indicate the Tier level
- Indicate requested rate increase and percentage
- Provide company contact information
- Justify requested Tier level
- Indicate service affected by the AL and how
- If AL replaces a withdrawn or rejected AL, identify the prior AL and state the differences
- Form includes DWA contact info for potential protests



# Requirements for the AL Itself

1. Number the AL sequentially to previous company ALs (except GRC ALs)
2. Include pertinent background information affecting request
3. Cite any statute and/or Commission order establishing requirements
4. If seeking approval of a contract or other deviation, attach copy
5. State whether any deviations from current tariffed service would be created
6. File three copies with the affected tariff sheets
  - Two copies must include work papers
  - Third copy with self-addressed stamped envelop for return of utility's acknowledged copy



# Examples of Advice Letters

## 1. Tier 1

- Consumer Price Index (CPI) Offset
- Compliance with mandatory statute, decision or resolution
- Recover offsettable expense offsets and additional taxes (Res. W-4664)
- Emergency voluntary conservation program

## 2. Tier 2

- Contract or other deviation (or tariff sheets for service to a single customer)
- Department of Public Health (DPH) fee offset
- Service extension into contiguous area or where service is already provided
- Transfer of ownership interest

## 3. Tier 3

- Informal GRC
- Rate base offset



# Informal GRC AL Filings

1. Informal AL Filing, Pursuant to Standard Practice U-9-SM
  - Submission of workpapers to justify a requested General Rate Increase (GRI); submitted without AL number
  - Use AL format, PUC–issued forms, earnings test, last annual report, and support documentation.
2. Concurrently, File a CPI Offset (W-4658, W-4664)
  - Establishes interim rate on effective date of CPI adjustment, pending resolution of ultimate GRI
  - CPI increase is subject to adjustment up or down depending on the amount of the GRI
3. Commission Approval of GRI by Resolution
  - Revenue lost between CPI effective date and effective date of new tariffs approved per GRI Resolution may be recovered by surcharge per W-4658 and Decision D.04-06-019 (another AL required).
4. PUC Staff assigns the AL number with a summary AL and new tariff schedules.



# Standard Practice U-8-SM

## 1. Standard Data Request

- Copies of electric bills for the last twelve months;
- Copies of purchased water bills for the last twelve months;
- Employee salary records (or wage rates and hours worked) and job descriptions for all employees;
- Copy of the latest liability, auto, and worker's compensation insurance premium bills;
- Summary of property, payroll, and franchise taxes with copies of the latest tax statements;
- Statement of whether the utility expects to require major changes in operating expense or plant investment due to water quality regulation and what those changes will consist of;
- Statement of needed or completed major repairs; and
- Any changes to rate structures you wish to propose in this rate case.

## 2. Summary of Earnings – Rate of Return and Rate of Margin

## 3. Proposed New Tariff Schedules



# Advice Letter Numbering System

1. Sequential for Each Utility
2. If AL is Rejected or Withdrawn, Number Remains in Sequence, but not Used Again
3. Replacement AL Next in Sequence
4. Amendment to Original AL: “Slip Sheet” or Revised AL Becomes #-A
5. Informal GRC Filing Package Submitted Without AL Number; AL Number Assigned by DWA Staff for Approved GRC



# Advice Letter Guidance

- Be sure to assign the proper tier to your AL filing
- Make sure what you filed for is what you actually want: a rate base offset is different from a GRC AL
- Provide complete back-up work papers with filing
- Work papers should be neatly organized and cross referenced
- Every calculated number should have a work paper reference detailing how the number was derived
- Provide step-by-step calculations, if necessary
- Every adopted figure should reference a decision or resolution.



## Advice Letter Guidance (cont.)

- Do not include the entire reference decision in the AL
- Include Decision cover page along with the pages that refer to language, adopted figures, and ordering paragraphs directly associated with the filing.
- Include the current tariff sheet with handwritten changes
- Keep it simple: The more organized the file, the quicker the analyst will be able to recommend the AL for approval.
- Utility can request a regulatory expense offset if it hires someone to prepare an AL for it
- File for CPI increase every year.





# Interfacing with PUC Staff for AL Processing

## 1. Before Filing an Advice Letter

- Clearly know what you are filing for
- Review the applicable Standard Practice
- Consult with DWA on your AL before filing (“heads up”).

## 2. After Filing an Advice Letter

- Within 5 days after filing your AL, you should make contact with the assigned analyst.
- Make an appointment to walk through the work papers.
- A week before the effective date you should make a final contact to be sure all is well and everything will be on time.



## Miscellaneous

- Slip Sheets
- Supplements
- Suspensions
- Rejections
- Appeals
- G O 96-B
- Commission Outreach Program.



# Concluding Comments

1. Operating expenses grow continuously
2. If revenues do not keep pace, the utility operation is not sustainable on a continuous basis
3. Appropriate and timely Advice Letter filings enable your utility to achieve and maintain financial viability



# Remarks from CPUC Division of Water & Audits



# Questions

