

**DRAFT**

**WATER/RSK/JB5/SRW/jlj**

**AGENDA ITEM #7859**

**PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA**

**DIVISION OF WATER AND AUDITS  
Water and Sewer Advisory Branch**

**RESOLUTION NO. W-4705  
September 4, 2008**

**R E S O L U T I O N**

**(RES. W-4705), SAN JOSE WATER COMPANY (SJWC).  
ORDER AUTHORIZING A RATE BASE OFFSET INCREASE  
IN RATES PRODUCING ADDITIONAL GROSS ANNUAL  
REVENUES OF \$726,875 OR 0.39%.**

---

**SUMMARY**

By Advice Letter 389 filed on May 22, 2008, San Jose Water Company (SJWC) requests a revenue increase of \$726,875 or 0.39%, to provide a return on the addition to its rate base of \$3,682,981 for various system upgrades including an electronic master control system, a 30-inch main replacement, a drive-by meter reading system, a records storage facility, and a bulk construction materials facility.

This resolution grants SJWC's request. The increase will not result in a rate of return greater than that last authorized for SJWC in Decision (D.) 06-11-015.

**BACKGROUND**

SJWC provides water service to approximately 217,000 residential and industrial customers in parts of Cupertino and San Jose, and in the cities of Campbell, Los Gatos, Monte Sereno, and Saratoga – and in contiguous territory in Santa Clara County.

D.06-11-015 authorized SJWC to file advice letters to recover in rates the costs for certain capital projects that were determined to be prudent, necessary and in the public interest.

SJWC filed Advice Letter 389 to request approval of a rate base increase for five completed plant additions included in the Joint Settlement of the Division of Ratepayer Advocates and SJWC approved in D.06-11-015. These include: (1) SCADA (Supervisory

SJWC/AL 389/RSK/SRW/jlj

Control and Data Acquisition) Master Control Replacement; (2) AMR (Automatic Meter Reading) Drive-By Systems Phase 1; (3) Construction of Will Wool Drive Records

Storage Facility; (4) Will Wool Drive Bulk Materials Storage Bins; and (5) Replacement of a 30-inch Main at Lexington Reservoir. Advice Letter 389 is the first advice letter filed this calendar year for a rate base offset increase. D.06-11-015 authorizes SJWC to file up to two such advice letters in a calendar year.

## **DISCUSSION**

### *The Projects*

The Division of Water and Audits (DWA) has reviewed the five projects proposed for inclusion into rate base. DWA confirmed that each project is included in the list of authorized projects in D.06-11-015. DWA further confirmed that each project's requested cost recovery did not exceed that amount authorized, and made sure that each project had been completed and is currently used and useful. In addition, DWA reviewed invoices supporting expenditures for all of the projects.

The SCADA Master Control System provides a computer system for gathering and analyzing real time data for water operations. It automates water system operations, thereby increasing energy management efficiency. This project has been completed. It replaces the original system that was first installed in 1972. Total project costs totaled \$540,800. DWA recommends that these costs be authorized in rate base.

The AMR Drive-by System included the purchase and installation of AMR registers and transmitters for SJWC's largest customer accounts. These devices allow for remote meter reading – especially important as these accounts are billed monthly and the meters are typically located in difficult to read locations. SJWC purchased some 5,200 AMR devices at a total cost of \$819,471 and completed installation of these devices by February 2008. DWA recommends that these costs be allowed in rate base.

SJWC completed construction of a new 9,000 square foot records storage facility that was placed in service January 31, 2008. This storage facility replaced an existing storage building which was no longer large enough to meet SJWC's needs. SJWC chose to increase the building size from 6,000 to 9,000 square feet to better meet its needs. The larger building's cost was greater than authorized. SJWC is requesting only the inclusion of \$897,700 in rate base as was authorized by D.06-11-015. DWA concurs.

SJWC had to move its bulk storage facility which was located in the City of Campbell because it was not in conformance with the city's master plan. The bulk storage facility

SJWC/AL 389/RSK/SRW/jlj

is used for the storage of construction materials such as gravel, sand, and trenching equipment. SJWC completed construction of a new bulk storage facility in April of 2008 at a total cost of \$585,424 – more than the original projected cost of \$468,000 as

authorized by D.06-11-015. SJWC requests that the authorized amount of \$468,000 be allowed in rate base and DWA concurs.

The final project consists of the completion of a pipeline replacement at Lexington reservoir. The replacement of 11,148 feet of 30-inch diameter steel pipeline is required by the Santa Clara Valley Water District. In 2006, SJWC replaced 4,737 feet of pipeline – the costs of which have already been included in rate base. The remaining length of pipeline was replaced in 2007. SJWC is requesting that \$957,010 be included in rate base for this portion of the project. DWA concurs.

The total of these five projects is \$3,682,981. DWA recommends that SJWC be authorized to add this amount to rate base.

*Revenue Requirement*

To determine the necessary revenue requirement to recover the addition of \$3,682,981 to rate base, DWA used Commission approved rates in D.06-11-015 for rate base, rate of return, net-to-gross multiplier, depreciation rate and ad valorem taxes.

Using the authorized Rate of Return of 8.88%, a depreciation rate of 3.65%, an ad valorem rate of 1.03% and a Net-to-Gross multiplier of 1.6955, DWA calculates an additional revenue requirement of \$726,875, or 0.39%. The following table shows the revenue calculation.

Rate Base Increase	ROR	Net/Gross	Depreciation Rate	Ad Valorem Rate	Required Revenue
\$3,682,981	8.88%	1.6955			\$554,511
\$3,682,981			3.65%		\$134,429
\$3,682,981				1.03%	\$37,935
Total:					\$726,875

The total revenue requirement of \$726,875 matches SJWC’s request.

DRAFT

Resolution W-4705

September 4, 2008

SJWC/AL 389/RSK/SRW/jlj

For an average customer who uses 1,500 cubic feet (15ccf) of water per month with a 3/4-inch meter, this additional revenue requirement will result in a monthly bill increase from \$47.35 to \$47.55, or 0.42%.

**NOTICE AND PROTESTS**

Public notice is not required because notice was completed by SJWC at the time of its general rate case proceeding Application 06-02-014. In compliance with General Rule 4.3 of General Order 96-B, a copy of this advice letter was mailed to all interested and affected parties as detailed in Advice Letter No. 389 for SJWC. DWA received no protests against the rate base adjustment or the projected rate increase related to the rate base adjustment.

**COMPLIANCE**

SJWC has no outstanding compliance orders. There are no Commission orders requiring system improvements. The utility has been filing annual reports as required.

**COMMENTS**

This is an uncontested matter subject to the public review and notice comment exclusion provided in Public Utilities Code 311(g) (3).

**FINDINGS**

1. The requested increase in rate base of \$3,682,981 and the resulting annual revenue requirement increase of \$726,875 or 0.39% are reasonable and should be adopted.
2. The Commission finds that, after investigation by the Division of Water and Audits, the rate base and revenue requirement increases and the resulting rate increase hereby authorized are just and reasonable.
3. This is an uncontested matter subject to the public notice comment exclusion provided in Public Utilities Code 311(g) (3).

**THEREFORE IT IS ORDERED THAT:**

1. San Jose Water Company is authorized, five days after the effective date of this resolution, to make effective the increased rates in rate Schedules Nos.: 1, General Metered Service; 1BA, General Metered Service with Automatic Fire Sprinkler System; and RW, Raw Water Service, which are shown in Appendix A of this resolution.
2. Expenditures for the five completed projects totaling \$3,682,981 are allowed into the rate base of San Jose Water Company.

3. The revenue requirements of San Jose Water Company are allowed to increase annually by \$726,875 or 0.39% to provide a return for the increase in rate base.

DRAFT

Resolution W-4705  
SJWC/AL 389/RSK/SRW/jlj

September 4, 2008

4. This resolution is effective today.

I certify that the foregoing resolution was duly introduced, passed and adopted at a conference of the Public Utilities Commission of the State of California on September 4, 2008, with the following Commissioners voting favorably thereon:

---

PAUL CLANON  
Executive Director