FILED
7-31-14
04:59 PM

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of San Jose Water Company (U168W) for an Order authorizing it to increase rates charged for water service by $47,394,000 or 21.5% in 2013, by $12,963,000 or 4.87% in 2014, and by $34,797,000 or 12.59% in 2015.	A.12-01-003 (Filed January 3, 2012)

OPENING COMMENTS OF THE OFFICE OF RATEPAYER ADVOCATES ON THE PROPOSED DECISION RESOLVING THE GENERAL RATE CASE OF SAN JOSE WATER COMPANY

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July 31, 2014

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I. INTRODUCTION

Pursuant to Rule 14.3 of the Rules of Practice and Procedure of the California Public Utilities Commission (the "Commission"), The Office of Ratepayer Advocates ("ORA") hereby submits the following Opening Comments on the Proposed Decision Resolving General Rate Case of San Jose Water Company (the "Proposed Decision" or "PD") issued on July 11, 2014, in the above-captioned proceeding.

ORA appreciates the well-reasoned and judicious disposition of issues undertaken by Administrative Law Judge Wilson (the "ALJ") and Assigned Commissioner Sandoval. In its entirety, the PD achieves a balanced resolution of disputed issues in the proceeding. ORA thanks both the ALJ and Commissioner for their efforts and offers the following comments in order to improve upon the technical, factual or legal accuracy of the PD's findings and conclusions.

A. The Commission Commits Technical Error if it Does not Ensure That the PD Is Consistent With Amounts Presented in Attachment A

On pages 2, 126, and 130, the PD's summary of the increase in an average residential customer's bill should match the amounts indicated in the PD's Attachment A. Additionally, the PD should clarify that the summarized increase in a customer's monthly bill pertains only to base rates and does not include any authorized surcharges that may also appear on a monthly bill. Using the rates indicated in Table I of the PD's Attachment A, a residential customer with a 5/8" by 3/4" meter using 15 ccf per month would incur base rate charges of $67.41 (not including surcharges), which is significantly higher than the $46.20 indicated on page 2 of PD.

B. The Commission Commits Technical Error if it Does not Correct Either the Nominal Values or Units of Measurement in Adopted Water Consumption

On page 15, the PD adopts an estimated water consumption of 53,202 MCF for 2013 and defines the unit of measurement in footnote 14 an as "one-thousand cubic feet." If the Commission is to maintain the unit measurement of MCF, the nominal value that the Commission adopts should be corrected to be 5,320,200 MCF. Alternatively, the Commission could maintain the nominal value of 53,202 and replace the unit measurement to KCCF (one-thousand ccfs).

C. The Commission Commits Factual Error if it Does not Clarify and Reference the Basis of ORA's Stipulation

On page 110, the PD authorizes the removal of the $452,200 from the L-411 memorandum account, noting that "ORA has stipulated to the removal of this balance from the total memorandum account balance." The Commission should add clarifying language that ORA agreed to the removal because "it's not appropriate to estimate amounts into a memorandum account."[1] It would mischaracterize ORA's stipulation to allow $452,200 to be removed from the actual balance in the memorandum account when

[1] Evidentiary Hearing Transcript ("EH"), Vol. 5, at 337:13-15.

the actual balance is presented in the next general rate case. This correction would resolve a legal and factual error in the PD.

D. The Commission Commits Technical Error if it Does not Adopt Consistent Forecasting Methodologies

On page 5, the PD explains that when forecasting expenses, if actual recorded expenses have increased to a greater extent in recent years, a simple five-year average would result in a lower growth factor than recent history indicated as the trend. The PD then proceeds to extrapolate these trends to develop forecasts for such categories as medical insurance and chemicals, where an observable cost trend provides a more accurate forecast than a simple five-year average of recorded amounts. However, the PD is inconsistent in this approach when, on page 78, it develops it's A&G – Transferred Expenses estimate by applying a percentage that is an average of recorded percentages for the years 2007-2011. For this category of expense, a clear, observable upward trend exists, starting at 19.1% in 2007 and increasing to 22.4% in 2010, and holding steady at 22.4% in 2011. Maintaining the PD's approach to recent, observable trends, the more appropriate authorized percentage should not be 20.1%, but closer to the 22.4% taken from the most recent two years. Assuming the PD's Total A&G Expenses of $32,902,000 is adopted, the corresponding A&G Transferred Expenses amount should be ($7,370,000), instead of ($6,613,000).

E. The PD's Use of More Recent Data Can Be Extended to Achieve a More Reasonable Overall Outcome

In its disposition of both the requested Chromium VI memorandum account and the forecasted transfer of A&G expenses, the PD relies upon information that was either not specifically introduced into the record or not available at the time the evidentiary record was closed.[2] On page 78, the PD rejects both SJWC's and ORA's forecasting

[2] Page 109 of the PD cites a final regulation for Chromium 6 that was set July 1, 2014. That regulation of Chromium 6 is repeated in finding of fact 64 on page 125.

methodologies of transferred A&G expenses and instead develops an estimate using data contained in recent annual reports filed with the Commission by SJWC.[3]

SJWC's most recent annual report[4] with the Commission, on pages 8 and 9, indicates that SJWC earned an actual return on equity in 2013 of 8.14%.[5] Since the PD increases rates by amounts designed to increase revenue by $22,063,000 in 2013 (a year now concluded—in which no new expenses or capital costs will be incurred) an additional $22,063,000 of revenue translates into additional income of approximately $13,000,000, after taxes, and an effective return on equity of 12.16%.[6]

The Commission's PD implicitly endorses a return on equity of 12.16% for SJWC, and the PD should provide an explanation on how such implicit endorsement reconciles with SJWC's most recent cost of capital decision. In that decision, the Commission expressed concern that the settled 9.99% return on equity "may be somewhat excessive."[7] If the Commission is not prepared to implicitly endorse a return on equity greater than 12% for a regulated monopoly, the PD should consider further adoption of ORA's recommendations contained within the evidentiary record.

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[3] SJWC is required to file those reports with the Commission, but they were not specifically introduced into the evidentiary record.

[4] Like the reports referenced on page 78 of the PD, the 2013 report was not specifically introduced into the evidentiary record, ORA offers this information to ensure that the Commission is aware of SJWC's rate of return. The Commission could, if necessary, take administrative notice that SJWC filed the 2013 annual report under Rule 13.9 and Evidence Code § 452(g).

[5] SJWC's actual 2013 net income of $23,468,619 found on page 9 divided by the average 2013 equity of $288,358,667 (paid-in capital + retained earnings) found on page 8 yields the average return on equity for 2013.

[6] Actual 2013 net income of $23,468,619 plus additional after-tax income of $13,000,000 divided by the average 2013 equity of $288,358,667.

[7] Decision 12-07-009, page 17.

Respectfully submitted,

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