

Decision 01-04-034 April 19, 2001

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

In the Matter of the Application of SAN JOSE WATER COMPANY (U-168-W), a corporation, for an order authorizing it to increase rates charged for water service.

Application 00-02-035  
(Filed February 18, 2000)

Steeffel, Levitt & Weiss, by Lenard G. Weiss and Anne Marie Murphy, Attorneys at Law, and Palle Jensen, for San Jose Water Company, applicant.  
Peter G. Fairchild, Attorney at Law, for the Ratepayer Representation Branch of the Water Division.  
Donald McCrea, for the Water Division.

**O P I N I O N**

**I. Summary**

San Jose Water Company (SJWC) is authorized to increase its rates by amounts designed to increase revenue by \$8,434,000 (7.40%) for 2001; \$3,583,000 (2.93%) for 2002; and \$3,930,100 (3.12%) for 2003. We authorize rates of return on rate base of 9.10% for the year 2001; 9.11% in 2002; and 9.11% in 2003. The return on common equity (ROE) authorized by this decision is 9.95%.

As a result of the revenue increase granted by this decision, the monthly bill for the average residential customer using 1,500 cubic feet per month would increase by \$2.32 or 8.03% from \$28.88 to \$31.20 for year 2001.

Also, the Commission adopts a Settlement entered into by the Ratepayer Representation Branch (RRB) of the Water Division and SJWC. The Settlement resolves all issues between RRB and SJWC except for ROE. Following evidentiary hearings on

this one issue, the Commission concludes the appropriate ROE is 9.95% and that such a rate is just and reasonable for the years 2001-2003.

## **II. SJWC's Application**

SJWC seeks to increase its water revenues by \$14,093,000 or 12.63% in 2001, \$2,950,000 or 2.34% in 2002, and \$3,193,000 or 2.47% in 2003.

SJWC states that since its last authorized general rate increase became effective on July 22, 1996, the cost of providing water service has increased. According to SJWC, during the last four years, the same inflationary factors that have affected the general economy have also affected SJWC's operating costs and administrative expenses. Additionally, SJWC states that new costs associated with monitoring and the implementation of expanded regulatory requirements in the area of water quality, as well as improvements to and replacement of operational plant, have increased the costs of providing water service significantly.

## **III. Procedural Summary**

A prehearing conference was held on April 13, 2000. On July 10, 2000, Assigned Commissioner Henry M. Duque issued a Scoping Memo and Ruling categorizing this proceeding as a ratesetting proceeding and designating Administrative Law Judge Bertram Patrick as the principal hearing officer.

A public participation hearing was held in San Jose on June 6, 2000. The hearing was sparsely attended. Customers generally complained about SJWC's need for a rate increase at a time of low inflation and voiced their objections to the utility's Service Charge.

One day of evidentiary hearing was held on July 11, 2000, on rate of return. Opening briefs were filed on August 7 and reply briefs were filed on August 21, 2000, by RRB and SJWC, and this matter was submitted for decision.

## **IV. The SJWC System**

SJWC is an investor-owned public utility in the business of providing water service to a population of approximately 971,000 people in the metropolitan San Jose

area. SJWC's service area encompasses 138 square miles, including most of San Jose, most of Cupertino and parts of unincorporated Santa Clara County as well as the entire cities of Campbell, Monte Sereno, Saratoga, and the town of Los Gatos.

SJWC has three general sources of supply: (a) groundwater, (b) imported surface water, and (c) local surface water.

In an average year, 140 wells supply 45% of customer needs. The wells pump water from the major water-bearing aquifers of the Santa Clara Groundwater Basin. These aquifers are recharged naturally by rainfall and artificially by a system of local reservoirs and percolation ponds operated by the Santa Clara Valley Water District (District).

Approximately 50% of the Company's water supply originates from the State Water Project and the federally funded Central Valley Project San Felipe Division. This "imported" water is purchased from the District and piped into SJWC's system after treatment at one of the District's three water filtration plants.

In normal rainfall years surface water from local watersheds in the Santa Cruz Mountains provides approximately five to 8% of the total water supply. This figure can be much lower in drought years. A series of dams and automated intakes collect water released from Lakes Elsmann and McKenzie. The water is then treated at SJWC's Montevina or Saratoga Filtration Plants, before it enters the distribution system.

## **V. Proposed Settlement**

On August 8, 2000, pursuant to Rule 51 of the Rules of Practice and Procedure, RRB and SJWC filed a Motion for Adoption of Settlement. They reached agreement on all issues except for the proper ROE for SJWC. The Settlement addresses: SJWC's capital structures, cost of long-term debt, consumption and operating revenues, operation and maintenance expenses, administrative and general expenses, taxes, plant in service, depreciation expense and rate base. The Settlement discusses the issues and sets forth the original positions of the parties and the adopted settlement. The Settlement is attached to this decision as Appendix A.

We will approve the Settlement. The Settlement meets the Commission's standards for all-party settlements, is reasonable in light of the record as a whole, is consistent with the law, and is in the public interest. The Commission has developed criteria for evaluating all-party settlements. These criteria are that: (1) all active parties must sponsor the settlement, (2) the sponsoring parties must be fairly reflective of the affected interests, (3) the settlement cannot contravene statutory provisions of prior Commission decisions, and (4) the settlement must convey sufficient information to allow the Commission to discharge future regulatory obligations with respect to the parties and their interests.<sup>1</sup>

The Settlement meets these requirements with respect to the issues it resolves. RRB and SJWC are the only two parties in the proceeding. The sponsoring parties, RRB and SJWC, are fairly reflective of the interests affected by this ratemaking proceeding, RRB representing ratepayer interests and SJWC representing its own interests. No party has proposed that the Settlement or any part of it contravenes statutory provisions or prior Commission decisions, and it does not. Finally, the Settlement conveys sufficient information for the Commission to discharge its regulatory duties. The Settlement sets forth clearly the ratemaking treatment associated with each issue it resolves. Thus, the Settlement between RRB and SJWC meets these all-party criteria, and so should be approved.

Turning from the all-party criteria, the Commission's Rules of Practice and Procedure also address criteria for the adoption of settlements. Under its rules, the Commission will not approve a settlement unless it is reasonable in light of the whole record, consistent with the law, and in the public interest.<sup>2</sup> The Settlement between RRB and SJWC meets these requirements, as well.

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<sup>1</sup> D.92-12-019, 46 CPUC2d 538, 550-551 (1992).

<sup>2</sup> Rule 51.1(e), Commission's Rules of Practice and Procedure.

The Settlement is consistent with the whole record. The record in this proceeding, as it relates to issues resolved by the Settlement, consists of the Settlement itself, the relevant portions of SJWC’s direct testimony,<sup>3</sup> and ORA’s report.<sup>4</sup> No other party filed testimony, and there was no oral testimony relating to issues resolved by the Settlement.

The Settlement is consistent with the law. Neither RRB nor SJWC has suggested that the Settlement’s resolution of any issue is inconsistent with the law, and none is.

The Settlement is in the public interest. The public interest is served because the active parties agreed on a mutually beneficial outcome, while representing the major interests of the proceeding. The Settlement is a reasonable compromise that fairly serves the interests of SJWC, its shareholders, customers, and employees and the public. Commission and party resources are freed up and the cost of litigation is avoided.

We now address below the one contested issue in this proceeding.

**VI. Rate of Return**

The rate of return (ROR) is the amount earned, or allowed to be earned, by a utility, expressed as a percentage of the utility’s rate base. In our proceedings, it is calculated as weighted average of the utility’s cost of capital: the cost of long-term debt, the cost of preferred stock, and the return on common stock equity (ROE). In this proceeding, there is little dispute over the debt and preferred stock portions of the cost of capital.<sup>5</sup> It is the ROE that is at issue. While SJWC requests 11.75%, RRB recommends 8.40% for ROE.

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<sup>3</sup> Exh. 2 – Results of Operations, Exh. 3 – Financial Requirements.

<sup>4</sup> Exh. 6 – Results of Operations, Exh. 8 – Cost of Capital.

<sup>5</sup> The parties agreed as follows:

<u>Test Year</u>	<u>Weighted Cost of Debt</u>	<u>Equity</u>	<u>Debt</u>
2001	8.17%	52.24%	47.76%
2002	8.20%	52.01%	47.99%

## **A. Position of SJWC**

SJWC contends that: (1) the economic models, fairly applied, fully justify an ROE in excess of 11.75%; (2) interest rates have risen steadily over the past two years and dramatically over the last six months; (3) the marketplace now views water utilities' risks as being comparable to those of other major utilities; and (4) SJWC's operating risks require that there be a compensating upward ROE adjustment.

According to SJWC, the relevant risks to investors are: (a) SJWC's small market capitalization; (b) its single geographic location; (c) its growing capital intensity from escalating capital additions and its infrastructure replacement program, exacerbated by the growing infrastructure demands of the Safe Drinking Water Act regulations and increasing operating leverage; and (d) the resulting need to maintain an equivalent AA/A bond credit rating and associated pre-tax interest coverages.

SJWC argues that RRB's 8.40% ROE recommendation is the simple average of two financial model runs which does not look to the market place for validation. According to SJWC, the "application of judgment" standard required by the Commission should consider the following:

First, an investor would plainly be better off investing in no risk debt securities than an equity earning only the 8.4% recommended by RRB.

Second, RRB ignores the fact that interest rates have been on a steady climb the past two years and particularly this past year. Between May 1999 and May 2000, there was a 46 basis point increase in T-Bond yields and a 123 basis point increase in A-rated utility bond yields. According to SJWC, that translates to a 7.6% one-year increase in T-Bond yields and a 16.5% one-year increase in A-rated utility bonds or a combined 12% increase over that 12-month period.

Third, RRB ignores the professional advisors such as Value Line which, for example, has projected an 11% ROE for 2000 and a 12% ROE for 2003-2005 for the investor-owned water utility industry.

Fourth, Standard & Poors has recognized that the investor-owned water utilities have the same risk profile as investor-owned electric and natural gas utilities.

Fifth, the Commission has previously acknowledged the fact that SJWC being a single-district water company has increased business risk (D.96-07-036, Finding of Fact 17).

Sixth, SJWC's small size in the marketplace, stiff investment needs and higher percentages of non-residential customers are additional risk elements that should be recognized in its ROE.

Finally, SJWC points out that the Commission has recognized as reasonable a 62 point upward change in Pacific Gas and Electric Company's ROE to reflect the upward change in the marketplace over the past year alone, specifically excluding any change in risks (D.00-06-040, mimeo., pp. 18-19).

## **B. Position of RRB**

The starting point in RRB's analysis was to select a group of 10 water companies, including SJWC, of comparable characteristics. Next, RRB used the Discounted Cashflow Model to calculate the present value of their future dividends and the Risk Premium Model to determine the greater return required for stocks relative to risk free investment. Based on this analysis, RRB concluded that investors presently expect these companies to earn a return on equity of 7.61% under the Discounted Cashflow Model and 9.14% under the Risk Premium Model, for an overall average of 8.37%.

RRB then examined the risks facing SJWC to determine whether investors would reasonably require it to earn more or less than the average expected return. According to RRB, pertinent here is that the price at which SJWC's corporate parent trades is higher than its book value per share (thus indicating that SJWC's return is greater than that required by investors); that the regulatory environment in California is very supportive of water companies (thus providing SJWC a good opportunity to earn its authorized return); and that SJWC's ratio of common equity to total capital is greater than

the average of the comparable group (thus establishing that SJWC has low financial risk). Accordingly, RRB recommended, given its relatively low overall risk, that SJWC be authorized a return on equity of 8.40%, or approximately the average investors would expect to earn from the companies of the comparable group of water companies selected by RRB.

RRB argues that SJWC is no riskier than the average water company. With regard to the various “business and financial risk concerns” cited by SJWC, as listed below:

- (1) “[SJWC’s] *small market capitalization.*” RRB contends that the Commission has consistently determined that water companies are less risky than the more highly capitalized electric utilities. (See, e.g., Re San Jose Water Co., 67 CPUC2d 6, 17 (1996).) And any comparison between water companies and nonregulated industries is far more attenuated. Even among Class A water companies, size is not a factor: without exception, all are financially sound and should be treated the same. (Re Financial and Operational Risks of Commission-regulated Water Utilities. D.94-06-033, 55 CPUC2d 158.)
- (2) “[SJWC’s] *single geographic location.*” RRB contends SJWC’s location in economically strong Santa Clara County reduces risk by increasing the predictability of revenues.
- (3) “[SJWC’s] *growing capital intensity from escalating capital additions and its infrastructure replacement program, exacerbated by the growing infrastructure demands of the Safe Drinking Water Act regulations and increasing operating leverage.*” RRB contends that construction proposed under this program is far from extraordinary. Rather, it is perfectly inline with the trend of what SJWC has spent during the past three years.
- (4) “[T]he *resulting need to maintain an equivalent AA/A bond credit rating and associated pre-tax interest coverages and times-fixed charges earned coverages.*” RRB contends that given its strong financial position, SJWC would need only

achieve Pretax Interest Coverage of 3.40, the midpoint between the minimum for AA and A, to maintain its credit. This closely corresponds to the return on equity of 8.40% recommended by RRB. By contrast, with its requested return on equity of 11.75%, SJWC would achieve Pretax Interest Coverage of 3.96 – an amount far more than needed to maintain a rating of AA/A.

Regarding SJWC's criticism that possibly the most significant deficiency with RRB's analysis is RRB's use of only two analytical methods, RRB argues that the Commission's consistent practice has been to use as the basis for its determination of the appropriate return on equity the exact methodology followed by RRB in the present proceeding. (See Re San Jose Water Co., supra, 67 CPUC2d at 17.) Further, RRB argues that SJWC's use of the Comparative Earnings Method is directly contrary to the Commission's admonition that water companies should not be compared with companies in other industries. (Id.) Also, according to RRB, just as problematic is SJWC's use of the Capital Asset Pricing Model, which shows very little correlation here between risk and reward.

Lastly, with regard to SJWC's arguments that "interest rates are trending distinctly upwards" and the 62 basis points increase in ROE granted to PG&E by D.00-06-040, RRB responds that a more pertinent comparison here is

between interest rates at the time the Commission last reviewed SJWC's cost of capital and interest rates. RRB points out that in fact, on July 17, 1996, when the Commission issued D.96-07-036, authorizing a return on equity of 10.20% for SJWC, the rate on bonds issued by the United States Treasury for a duration of 30 years was 7.06%. By contrast, on April 30, 2000, the date used by RRB in preparing its testimony in the present proceeding, the rate for Treasuries was 5.85%. RRB points out that this represents a decline of some 121 basis points, and indicates, if anything, that a return on equity of 8.40%, as recommended by RRB, is more in keeping with changes in the financial markets than SJWC's recommendation of 11.75%. Further, RRB argues that the direction of interest rates has no direct bearing on the cost of capital. According to RRB, the return on equity should be determined comprehensively through the use of financial models and not on the basis of transitory changes in interest rates.

### **C. Discussion**

The legal standard for setting the fair rate of return has been established by the United States Supreme Court in the Bluefield and Hope cases.<sup>6</sup> The Bluefield decision states that a public utility is entitled to earn a return upon the value of its property employed for the convenience of the public and sets forth parameters to assess a reasonable return. Such return should be equal to that generally being made at the same time and in the same general part of the country on investments in other business undertakings attended by corresponding risks and uncertainties. That return should also be reasonably sufficient to assure confidence in the financial soundness of the utility, and adequate, under efficient management, to maintain and support its credit, and to enable it to raise the money necessary for the proper discharge of its public duties.

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<sup>6</sup> Bluefield Water Works & Improvement Company v. Public Service Commission of the State of Virginia, 262 U.S. 679 (1923) and the Federal Power Commission v. Hope Natural Gas Company, 320 U.S. 591 (1944).

The Hope decision reinforces the Bluefield decision and emphasizes that such returns should be sufficient to cover operating expenses and capital costs of the business. The capital cost of business includes debt service and stock dividends. The return should also be commensurate with returns available on alternative investments of comparable risk. However, in applying these parameters, we must not lose sight of our duty to utility ratepayers to protect them from unreasonable risks including risks of imprudent management.

Forecasting the prospective cost of common equity for a utility whose stock is not publicly traded is a relatively complex undertaking. It involves consideration of such matters as business and financial risks, investor expectations and capital ratios. It commonly involves the use and application of recognized financial models as proxies to provide a range of ROE appropriate to the specific applicant. But it also involves testing the results from those mathematical models against common sense, all of it informed by the exercise of sound judgment and an understanding of business and investment risks peculiar to the specific applicant. Stated otherwise, the traditional models (discussed above) create a range against which to measure one's conclusions; they are, however, only a part of the forecasting process and are themselves subject to material disagreements as to their inputs and assumptions and to wide interpretation in their use and application. As stated by the Commission: "We believe that results of various financial models are good starting points as well as analytical guides for establishing ROE. However, *the actual determination of a reasonable ROE is a matter of judgment.*" (D.96-07-036, 67 CPUC2d 6, 17 (1996) (San Jose Water Company GRC; emphasis added.)

Turning to the testimony before us in this proceeding, we find that SJWC continues to labor under the misconception that investor-owned water utilities face risk factors comparable to electric utilities. The Commission has historically not authorized the same returns for water utilities as it does for electric utilities. And the Commission

has consistently determined that no connection exists between returns authorized water companies and electric utilities. For example, as the Commission stated in D.96-07-036:

“[T]here is no constant spread between ROEs authorized for energy utilities and water utilities. There is no reason that ROEs for energy and water utilities should move in lock-step, because to do so ignores not only the underlying financial criteria (e.g., debt-equity ratios, interest coverage, etc.) but also the relative financial business risks faced by each utility sector. In the past, we have considered water utilities to be lower risk investments than energy utilities. With the imminent restructuring of the electric industry, the difference in business risk between water utility sector and the electric utility sector may become even more significant from an investor’s point of view. Also, business risks of water utilities are minimized because a variety of mechanisms exist through the general rate case process to address any increased risks resulting from the costs of water shortage or water-quality problems. These mechanisms include revising sales forecasts, inclusion of needed capital improvement in forecasted plant addition, and pass-through (through balancing account treatment) of any increase in cost of purchased water or power.” (67 CPUC2d at 17.)

The current woes facing the electric utilities following deregulation of generation are fully discussed in the news media and need not be repeated here. However, one may readily conclude from these news articles that the California investor-owned water utilities do not have comparable risk factors to the electric utilities. For example, this summer’s electricity crisis forced the state’s investor-owned utilities to purchase wholesale electricity costing \$4 billion more than what they charge customers under existing rates. Southern California Edison Company and PG&E have filed petitions to modify the post-transition electricity rate decisions<sup>7</sup> which specify that liabilities remaining in a transition recovery account after the rate freeze ends cannot be collected by the utility. Responsibility for these shortfalls is a large risk, and the risk

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<sup>7</sup> D.99-10-057 and D.00-03-058 in A.99-01-016.

factors facing water utilities pale in comparison. Thus, we reject SJWC’s comparable risk factor argument.

We now turn to the financial models used by the parties. The financial models are used only to establish a range from which the parties apply their individual judgment to determine a fair ROE. Although the parties agree that the models are objective, the results are dependent on the subjective inputs. From these subjective inputs the parties advance arguments in support of their respective analyses and in criticism of the input assumptions used by other parties. These arguments will not be addressed extensively in this opinion, since they do not alter the model results. In the final analysis, it is the application of judgment, not the precision of these models, which is the key to selecting a specific ROE estimate within the range predicted by analysis.

We view the output of the financial models provided by the parties with some skepticism. We give little weight to the outputs of SJWC’s Comparable Earnings Model, and Capital Asset Pricing Model, in this instance, because these models yield implausible results. The table below compares the output of the other two models used by the parties.

	SJWC November 1999	RRB May 2000
Risk Premium	12.08%	9.14%
Discounted Cash Flow	11.85	7.61
Recommended ROE	11.75%	8.40%

These results provide a range for establishing ROE. As we stated, the actual determination of a reasonable ROE is a matter of judgment.

First, we are not persuaded by SJWC’s argument that its requested 11.75% ROE is reasonable in light of Value Line’s projection of a 11% ROE for 2000 and a 12% ROE for 2003-2005 for the investor-owned water utility industry. Value Line’s recommendation is not California specific. For example, it may not sufficiently recognize the reduced risk to SJWC’s investors because of the availability of various

balancing accounts which shift much of the business risk to ratepayers. SJWC has balancing accounts for purchased water, purchased power and pump tax. Also, the Commission has on occasion authorized Catastrophic Event Memorandum Accounts, Water Quality Memorandum Accounts, and Drought and Water Conservation Expense Memorandum Accounts for water utilities in specific situations. These balancing accounts underscore the fact that water utilities enjoy a relatively protected regulatory environment in California.

Next, we will discuss the business, regulatory, and financial risk expected during the year 2001-2003 period to arrive at our adopted ROE.

Business risk is defined to be the degree of variability in operating results. That is, a company that has the most variability in operating results has the most business risk. An increase in business risk for utilities can be caused by a variety of events, for example: deregulation, or greater fixed costs in relationship to sales volume. Because no measurable change in risk through years 2001-2003 is anticipated for SJWC, there is no basis to reflect an upward or downward adjustment to SJWC's cost of equity, previously found reasonable, to reflect a change in business risk.

Regulatory risk pertains to new risks that may result from future regulatory action that this and other regulatory agencies might take. It also includes the potential disallowance of operating expenses and rate base additions.

Aside from infrastructure construction to meet the demand of pending Drinking Water Act regulations, SJWC has not cited any new risks that would require upward adjustment of ROE. Construction capital requirements are following the trend compared to past years (Exhibit 10). Even with regard to pending Safe Drinking Water Act regulations, SJWC has the option to file an application with the Commission seeking recovery of these costs. On balance, we conclude that there has been little, if any, change in the risk factors that would require upward or downward adjustment of the ROE last found reasonable by the Commission.

Financial risk is tied to the utility's capital structure. The proportion of its debt to permanent capital determines the level of financial risk that a utility faces. As a stand-alone factor, the lower the proportion of a utility's total capitalization consisting of common equity, the higher the financial risk. Therefore, as a utility's debt ratio increases, a higher ROE may be needed to compensate for that increased risk. With regard to SJWC, since the Commission reviewed SJWC's capital structure for 1996 and 1997 in D.96-07-036, there is a slight decrease in the debt ratio proposed for 2001 and 2002. However, the change is not significant enough to warrant any change to the ROE. However, two other related factors are significant. Interest rates and investors' expectations also play a role in determining the appropriate ROE. As RRB mentions in its comments, the rate on 30-year Treasury Bonds has decreased by 121 basis points in the period between July 1996 and April 2000. A 30-year Treasury Bond instrument is but one of numerous investment vehicles and therefore is not dispositive of how we should set SJWC's ROE. However, this dramatic decline does provide guidance as to an appropriate ROE in terms of what investors may expect. Another source of information to gauge investor expectations is a review of recently authorized ROEs that this Commission has set for other Class A water companies. In 2000, the Commission set RORs for three Class A water companies. Two of these companies had explicitly set ROEs. Both California American (D.00-03-053) and Dominguez (D.00-10-027) had ROEs set at 9.95%. Dominguez is especially helpful in providing guidance for an appropriate ROE in that it is approximately the same size as SJWC.<sup>8</sup> In fact, Dominguez is actually slightly smaller which has the effect of slightly more risk. On the other hand, SJWC is a single district utility which has an offsetting effect to the fact that it is larger than Dominguez.

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<sup>8</sup> We are aware that Dominguez has recently merged. However, Dominguez still operates as a separate district.

The consideration of factors such as interest rates and investors' expectations leads conclusively to the decision that SJWC's ROE should be lower than its last authorized ROE of 10.20%. The question is simply how much lower. We will lower SJWC's ROE to 9.95% which is identical to the two Class A water companies that had ROEs set in 2000. We find a 9.95% ROE to be reasonable especially in light of Dominguez which is fairly similar to SJWC. This represents a slight reduction to the ROE previously found reasonable for the prior test years. Pre-tax interest coverage for SJWC based on the agreed-upon capital structure would be 3.43 times and 3.41 times for the years 2001 and 2002, respectively. This coverage is more than adequate and should not negatively affect the utility's bond ratings. The adopted ROE will produce rates of return on rate base of 9.10% and 9.11% for 2001 and 2002, respectively.<sup>9</sup>

## **VII. Comments on Proposed Decision**

The alternate decision of Commissioner Bilas in this matter was mailed to the parties in accordance with Section 311(d) of the Public Utilities Code and Rule 77.1 of the Rules of Practice and Procedure. Comments were filed by Water Branch (WB) and SJWC. We have reviewed the comments and made changes where appropriate.

### **Findings of Fact**

1. The Settlement, attached as Appendix A to this decision, resolves all issues between RRB and SJWC except for ROE for the test years 2001-2002.
2. No difference exists between RRB and SJWC regarding capital structure and cost of long-term debt.
3. SJWC requests a constant ROE of no less than 11.75% for the test years.
4. RRB recommends a constant ROE of 8.40% for the test years.

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<sup>9</sup> In D.96-07-036, 67 CPUC2d 19, the Commission adopted for SJWC a 10.20% ROE to produce an ROR of 9.28% and 9.25% for the years 1997 and 1998, respectively, based on a capital structure of debt 49.73% and common equity 50.27% for 1996; and debt 50.24% and common equity of 49.76% for 1997, respectively.

5. The financial models offered in this proceeding are not determinative and must be tempered with a great deal of judgment. They are useful in establishing a range of required returns to consider in selecting the authorized return and in evaluating trends of investor expectations.

6. The reasonable range of ROE suggested by the output of the financial models utilized by the parties is 8.40% to 11.75%.

7. Interest rates are currently lower than SJWC's last GRC.

8. A ROE of 9.95% would be consistent with recent decisions on Class A water companies.

### **Conclusions of Law**

1. The Settlement proffered by RRB and SJWC complies with the criteria established in D.91-12-019. The Settlement: (1) is approved by all active parties, which represent affected interests; (2) no component of the settlement conflicts with applicable law or prior decisions; and (3) we have sufficient information to conclude that it is a reasonable compromise.

2. The Settlement is reasonable in light of the whole record, consistent with applicable law, and in the public interest. The Commission should adopt the Settlement in its entirety as a resolution of all issues, except for ROE.

3. Considering the evidence on the market conditions, trends, interest rate forecasts, quantitative financial models, risk factors, and interest coverage presented by the parties and applying our informed judgment, a ROE of 9.95% is just and reasonable for the years 2001-2003 for SJWC.

4. SJWC should be authorized revenue increases for the years 2001-2003 consistent with the Stipulation and ROE adopted in this decision.

5. The increased revenue requirement authorized by this order for the years 2001-2003 should be reflected in rates consistent with the rate design previously approved for SJWC, and should be implemented through advice letter filings. Such advice letter filings shall be filed no later than November 15 of each year.

6. SJWC should be authorized an attrition year increase of \$8,622,100 for the year 2003. The attrition increase should be implemented through an advice letter filed no later than November 15, 2002.

**O R D E R**

**IT IS ORDERED** that:

1. San Jose Water Company’s (SJWC) adopted cost of capital is as follows:

Year 2001 Component	Capital Ratio	Cost Factor	Weighted Cost
Long-Term Debt	47.76%	8.17%	3.90%
Common Equity	52.24	9.95%	5.20
<b>Total</b>	100.00%		9.10%

Year 2002 Component	Capital Ratio	Cost Factor	Weighted Cost
Long-Term Debt	47.99%	8.20%	3.94%
Common Equity	52.01	9.95	5.17
<b>Total</b>	100.00%		9.11%

2. The adopted return on equity (ROE) is 9.95%.

3. For the year 2001, an ROE of 9.95% results in a corresponding return on rate base of 9.10%, requiring a revenue requirement increase of \$8,434,000, or 7.40%.

4. For the year 2002, an ROE of 9.95% results in a corresponding return on rate base of 9.11%, requiring a revenue requirement increase, of \$3,583,000, or 2.93%.

5. For the year 2003, SJWC is authorized an attrition increase of \$3,931,000 (3.12%).

6. SJWC is authorized to file in accordance with General Order (GO) 96 and make effective not sooner than January 1, 2001, revised tariffs implementing the rate increase

for 2001 shown in Appendix B to this order. The revised rates shall apply to service rendered on and after the tariffs' effective date.

7. On or after November 5, 2001, SJWC is authorized to file an advice letter, with appropriate workpapers, requesting the step-rate increase for 2002 included in Appendix C, or to file a proportionate lesser increase for those rates in Appendix C in the event that a SJWC's rate of return on ratebase, adjusted to reflect rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 2001, exceeds 9.10%. This filing shall comply with GO96-A. The requested step rates shall be reviewed by the Commission's Water Division (WD) to determine their conformity with this order and shall go into effect upon WD's determination of conformity. WD shall inform the Commission if it finds that the proposed step rates are not in accord with this decision or other Commission decisions. The effective date of the revised schedules shall be not earlier than January 1, 2002, or 30 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

8. On or after November 5, 2002, SJWC is authorized to file an advice letter, with appropriate workpapers, requesting the step-rate increase for 2003, included in Appendix C or to file a proportionate lesser increase for those rates in Appendix C in the event that SJWC's rate of return on ratebase, adjusted to reflect rates then in effect and normal ratemaking adjustments for the 12 months ended September 30, 2002, exceeds 9.11%. This filing shall comply with GO96-A. The requested step rates shall be reviewed by WD to determine their conformity with this order and shall go into effect upon WD's determination of conformity. WD shall inform the Commission if it finds that the proposed step rates are not in accord with this decision or other Commission decisions. The effective date of the revised schedules shall be not earlier than January 1, 2003, or 30 days after filing, whichever is later. The revised schedules shall apply only to service rendered on and after their effective date.

9. The Settlement attached as Appendix A to this decision is adopted. The summary of earnings at authorized rate of returns and the related income tax calculations are contained in Appendixes D and E.

10. Application 00-02-035 is closed.

This order is effective today.

Dated April 19, 2001, at San Francisco, California.

LORETTA M. LYNCH  
President  
RICHARD A. BILAS  
CARL W. WOOD  
GEOFFREY F. BROWN  
Commissioners

Commissioner Henry M. Duque, being necessarily absent, did not participate.

**APPENDIX A**

In the Matter of the Application of SAN JOSE )  
 WATER COMPANY, (U-168-W), a Corporation, ) Application 00-02-035  
 for an Order Authorizing it to Increase Rates for )  
 Water Service. )  
 \_\_\_\_\_ )

**SETTLEMENT**

**1.00 GENERAL**

- 1.01** The Parties to this Settlement before the California Public Utilities Commission (Commission) are San Jose Water Company ("SJWC") and the Ratepayer Representation Branch ("RRB") of the Water Division, - collectively, "the Parties." The Parties, desiring to avoid the expense, inconvenience, and uncertainty attendant to litigation of the matters in dispute between them, have agreed on this Settlement ("Settlement), which they now submit for approval.
- 1.02** In addition, since this Settlement represents a compromise by them, the Parties have entered into each stipulation on the basis that its approval by the Commission not be construed as an admission or concession by any Party regarding any fact or matter of law in dispute in this proceeding. Furthermore, the Parties intend that the approval of this Settlement by the Commission not be construed as a precedent or statement of policy of any kind for or against any Party in any current or future proceeding.
- 1.03** The Parties agree that no signatory to this Settlement or any member of RRB assumes any personal liability as a result of their agreement. The Parties agree that no legal action may be brought by any Party in any state or federal court, or any other forum, against any individual signatory representing the interests of RRB, attorneys representing RRB, or the RRB itself related to this Settlement. All rights and remedies of the Parties are limited to those available before the Commission.
- 1.04** No Party to this Settlement should provide, either privately or publicly, before this Commission any rationale or strategy for support of any compromise reached herein beyond that stated herein unless otherwise agreed to by the Parties.
- 1.05** All issues between the Parties have been resolved except return on equity, which will be litigated by the Parties and resolved by the Commission.
- 1.06** The following discussion addresses each item stipulated by the Parties. Attached as **Appendix A** to this Settlement are tables which show RRB's and SJWC's stipulated estimates.

## APPENDIX A

### 2.0 COST OF CAPITAL

RRB and SJWC agree to a ratio of 47.76% debt to 52.24% equity for Test Year 2001 and 47.99% debt to 52.01% equity for Test Year 2002. Based upon interest information from DRI and Moody's, RRB and SJWC agree to a weighted cost of debt of 8.17% for Test Year 2001 and 8.20% for Test Year 2002. ROE remains at issue before the Commission. The original and stipulated positions of RRB and SJWC are listed below.

Capital Structure and cost of debt for Test Year 2001:

	<u>Original Positions</u>				<u>Settlement</u>	
	<u>SJWC</u>		<u>RRB</u>		<u>Capital Structure</u>	<u>Cost</u>
	<u>Capital Structure</u>	<u>Cost</u>	<u>Capital Structure</u>	<u>Cost</u>		
Long-Term Debt	47.76%	8.04%	47.76%	8.02%	47.76%	8.17%
Common Equity	52.24%	11.75%	52.24%	8.40%	52.24%	Not Settled

Capital Structure and cost of debt for Test Year 2002:

	<u>Original Positions</u>				<u>Settlement</u>	
	<u>SJWC</u>		<u>RRB</u>		<u>Capital Structure</u>	<u>Cost</u>
	<u>Capital Structure</u>	<u>Cost</u>	<u>Capital Structure</u>	<u>Cost</u>		
Long-Term Debt	47.99%	8.04%	47.99%	8.00%	47.99%	8.20%
Common Equity	52.01%	11.75%	52.01%	8.40%	52.01%	Not Settled

### 3.0 CONSUMPTION AND OPERATING REVENUES

#### 3.01 Average Number of Connections

The initial differences between SJWC and RRB in the estimates of the average number of connections were due to variations in methodology. For both Test Years, the Parties estimated the same number of projected connections for customers in the following classes: Industrial, Resale, Recycled Water, and Flat Rate Services (2001). For both Test Years, SJWC accepts RRB's estimates of the number of projected connections in the following classes: Residential & Business, Public Authority, Other, and Flat Rate Services (2002). The original and stipulated estimates are set forth below:

## APPENDIX A

Test Year 2001	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
Residential & Business	209,215	209,227	209,227
Industrial	77	77	77
Public Authorities	1,638	1,642	1,642
Resale	31	31	31
Other	200	206	206
Recycled Water	23	23	23
Flat Rate Services	2,639	2,639	2,639

Test Year 2002	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
Residential & Business	210,215	210,233	210,233
Industrial	77	77	77
Public Authorities	1,648	1,654	1,654
Resale	31	31	31
Other	200	201	201
Recycled Water	23	23	23
Flat Rate Services	2,639	2,694	2,694

**3.02 Average Consumption per Service for each Customer Class**

Only slight differences existed between the original estimates proposed by SJWC and RRB. Generally, these differences were due to interpretation of statistical data. SJWC accepts RRB's estimates of average consumption for Resale and Other classes. RRB accepts SJWC's estimates of average consumption for Residential & Business, Industrial, Public Authority, and Recycled Water. The original and stipulated estimates are set forth below:

Test Year 2001 & 2002	<u>Original Positions</u> (ccf/yr)		<u>Settlement</u> (ccf/yr)
	<u>SJWC</u>	<u>RRB</u>	
Residential & Business	264	266	264
Industrial	6,552	6,552	6,552
Public Authorities	2,300	2,300	2,300
Resale	8,226	8,323	8,323
Other	400	408	408
Recycled Water	17,478	17,478	17,478

**3.03 Unaccounted Water**

The Parties agreed to Unaccounted Water of 8% for both Test Years 2001 and 2002 based on the average volume of unaccounted water during the most recent years.

## APPENDIX A

**3.04 Total Sales and Supply**

SJWC and RRB agree that total sales should be adjusted to reflect stipulated customers and stipulated average consumption per service for each class for Test Years 2001 and 2002.

<b>Sales</b>		
Test Year	<u>2001</u>	<u>2002</u>
	(Kccf)	(Kccf)
Residential & Business	55,236	55,502
Industrial	505	505
Public Authorities	3,777	3,804
Resale	258	258
Other	84	82
Subtotal	59,860	60,151
Unaccounted for Water	<u>5,205</u>	<u>5,230</u>
Total Potable Sales	65,065	65,381
Recycled Water	<u>402</u>	<u>402</u>
Total Sales	65,467	65,783

<b>Supply</b>		
Test Year	<u>2001</u>	<u>2002</u>
	(Kccf)	(Kccf)
Ground Supply	31,907	31,555
Purchased Water	28,736	29,404
Surface Supply	4,422	4,422
Total Potable Supply	65,065	65,381
Recycled Water	<u>402</u>	<u>402</u>
Total Supply	65,467	65,783

**4.00 OPERATION AND MAINTENANCE**

SJWC and RRB had similar estimates for most Operation and Maintenance, except for the following items:

**4.01 Purchased Water**

The Parties agree to use the most recent purchased water (\$1,166.23/MG = \$380/AF) and pump taxes (\$951.40/MG = \$310/AF) from Santa Clara Valley Water District effective July 1, 2000, as approved for SJWC's Advice Letter No. 321.

**4.02 Inflation**

SJWC accepts RRB's updated non-labor inflation which is based on the latest national numbers forecasted by Standard and Poor's DRI. RRB and SJWC agree that the appropriate escalation is 3.5% in order to reflect the higher cost of living in Silicon Valley.

## APPENDIX A

	<u>Original Positions</u>				<u>Settlement</u>	
	<u>SJWC</u>		<u>RRB</u>			
	Non-Labor	Labor	Non-Labor	Labor	Non-Labor	Labor
2001	0.9%	4.8%	0.8%	2.4%	0.8%	3.5%
2002	0.9%	4.8%	1.4%	2.2%	1.4%	3.5%

**4.03 Purchased Power**

The Parties agree that Purchased Power should be adjusted to reflect the stipulated consumption and production for Test Years 2001 and 2002 using a methodology of applying a factor of \$.087951/kWh to a projected kWh/Kccf Ratio of .7133.

**4.04 Labor**

RRB and SJWC agree that Labor should be adjusted to the stipulated escalation of 3.5% in order to properly reflect the higher cost of living in Silicon Valley.

**4.05 Conservation**

The Parties agree that SJWC should be allowed the regular ongoing annual expense of \$32,000 for conservation. SJWC also intends to launch a program to retrofit and repair toilets and showerheads and to repair leaks in certain targeted areas. SJWC and RRB agree that SJWC should be authorized to establish a balancing account for expenses associated with this program. The balancing account would become effective at the inception of new rates in January, 2001. SJWC and RRB agree that this balancing account should be capped at a total annual expenditure of \$50,000.

	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
2001	\$83,000	\$0	\$32,000
2002	\$83,000	\$0	\$32,000

**4.06 Transportation**

SJWC accepts RRB's methodology for calculation of the Transportation Depreciation Expense (five-year average of 23.1%) and RRB's adjusted escalation for Insurance (1.4%).

Depreciation:

	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
2001	\$392,100	\$342,500	\$342,500
2002	\$427,100	\$295,000	\$295,000

## APPENDIX A

Insurance:

	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
2001	\$140,800	\$131,500	\$131,500
2002	\$147,800	\$133,300	\$133,300

### 4.07 Non-Tariffed Services

The Parties have agreed that the adjustment to the revenue requirement associated with SJWC's non-tariffed activities should be based on the methodology set forth in Decision 00-07-018, dated July 6, 2000 (R.97-10-049).

	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
2001	\$259,000	\$806,000	\$431,879
2002	\$262,000	\$809,000	\$436,630

## 5.00 ADMINISTRATIVE AND GENERAL EXPENSES

SJWC and RRB had similar estimates for most Administrative and General expenses, except for the following items:

### 5.01 Salaries

RRB and SJWC agree to a revised escalation of 3.5% in order to reflect the increased cost of labor in Silicon Valley.

### 5.02 Office Supplies and Other Expenses

SJWC accepts RRB's methodology of using an adjusted average of the last three years to forecast Office Supplies and Other Expenses for Test Years 2001 and 2002.

### 5.03 Liability Insurance

SJWC and RRB agree to use an escalation of 5% for Test Year 2001 and Test Year 2002, based upon information recently provided by SJWC's insurance carrier.

### 5.04 Provision for Injuries and Damages

RRB accepts SJWC's estimate of a provision for injuries and damages of \$200,000 for Test Year 2001 and Test Year 2002.

### 5.05 Pensions, Benefits and Post-Retirement Benefits Other Than Pensions

SJWC accepts RRB's estimates in the "Report on the Results of Operations," except for two items:

## APPENDIX A

### Medical Insurance

RRB and SJWC agree to escalation of 9% for Test Year 2001 and Test Year 2002 for medical insurance based on information provided by SJWC's carriers.

### Dental Insurance

RRB and SJWC agree to escalation of 9% for Test Year 2001 and Test Year 2002 for dental insurance based on information provided by SJWC's carriers.

#### **5.06 Dues and Memberships**

SJWC accepts RRB's estimate of dues and memberships of \$102,400 for Test Year 2001 and \$104,100 for Test Year 2002.

#### **5.07 Administrative and General Transfer**

SJWC accepts RRB's estimate of Administrative and General Transfer.

	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
2001	\$1,361,100	\$1,251,900	\$1,251,900
2002	\$1,443,800	\$1,286,600	\$1,286,600

#### **6.0 TAXES ON INCOME**

RRB and SJWC agree that the estimate of Income Taxes should be adjusted to reflect the terms of this Settlement.

#### **7.0 NET-TO-GROSS MULTIPLIER**

The Parties agree to use a Net-to-Gross Multiplier of 1.7894, based on the adopted rates for franchise tax, uncollectibles, state corporation tax, and federal tax.

#### **8.0 PLANT IN SERVICE**

The Parties agree that items to be included for ratemaking by Advice Letter should be allowed in rates only if they are completed during either the two Test Years or the Attrition Year (2001-2003).

RRB accepts SJWC's estimates of Plant in Service, except for the following items:

##### **8.01 Saratoga Water Treatment Plant.**

RRB and SJWC agree that the estimates of the Saratoga Water Treatment Plan for Year 2000 and Test Year 2001 should be excluded from rates until CALTRANS completes repairs in the area. RRB and SJWC agree that the project should be included in ratebase upon completion of the repairs with the filing and acceptance of an advice letter requesting an offset capped at \$1,818,000. RRB accepts SJWC's revised estimate for 2002 with escalation of 1.7% per year to be added to the cost if the advice letter is filed after 2001.

## APPENDIX A

**8.02 Paving for Willow Glen Way and Almaden Way.**

SJWC agrees that the paving of Willow Glen Way Yard for \$46,100 and Almaden Way for \$52,400 can be delayed beyond 2002 and therefore should be removed from the budgets for the Test Years.

**8.03 Pump Station at Lexington Reservoir.**

The Parties agree that the pump station at Lexington Reservoir should be removed from the budget for Test Year 2001. RRB and SJWC agree that SJWC should be authorized to file an Advice Letter capped at \$2,000,000 to begin recovering the costs of this project once it has been placed into service. RRB accepts SJWC's revised estimate for 2002 with escalation of 1.7% per year to be added to the cost if the advice letter is filed after 2001.

**8.04 Water Diversion Facility at Montevina.**

SJWC accepts RRB's exclusion of \$1,091,000 for a project to divert water at Montevina from the budget for Test Year 2001. RRB agrees that SJWC should be authorized to submit an Advice Letter specifying the technical need and the least expensive alternative not to exceed \$1,091,000 if the proposed requirements in the Enhanced Surface Water Treatment Rule become effective prior to the filing of the next General Rate Case. RRB accepts SJWC's revised estimate for Test Year 2002 with escalation of 1.7% per year to be added to the cost if the advice letter is filed after 2001.

**8.05 Roof at Overlook Reservoir**

SJWC accepts RRB's exclusion of the replacement of the roof at Overlook Reservoir at a cost of \$50,000 from the budget in Test Year 2002.

**8.06 Pumphouses at High Street and Mireval Stations**

SJWC accepts RRB's exclusion from Test Year 2002's budget of the replacement of two pumphouses at High Street Station and Mireval Station for \$22,900 and \$22,380, respectively.

**8.07 Remote Telemetry Units**

SJWC accepts RRB's revised estimate for Remote Telemetry Units of \$1,937,320 for Test Year 2002. The reduction of \$97,680 from SJWC's estimate is due to a revision in schedule. SJWC had previously reduced the estimate by \$321,600 subsequent to submission of the original budget.

**8.08 Vehicles**

RRB accepts SJWC's reduction of \$15,971 in the cost of vehicles estimated for Test Year 2000 due to purchase of a less expensive model.

## APPENDIX A

### 8.09 Standby Generators

RRB agrees that SJWC needs two standby generators, and that the \$195,000 originally removed will be included in the budget for Test Year 2001.

### 8.10 Aqua Ammonia System at Montevina

SJWC accepts RRB's elimination of an Aqua Ammonia System at Montevina. RRB and SJWC agree that, if applicable regulations change prior to filing of the next GRC, SJWC should be allowed to file an advice letter for inclusion in ratebase of this item.

### 8.11 Replacement of Mains

SJWC accepts RRB's adjustments for the replacement of mains. RRB removed \$2,224,400 of replacements from Test Year 2000's budget, while adding \$3,147,000 to Test Year 2001's budget, in accordance with SJWC's Infrastructure Replacement Program previously submitted to the Commission.

### 8.12 Interest During Construction and Acquisition Adjustments

SJWC accepts RRB's estimates of Interest During Construction and Acquisition Adjustments which remove \$1,652,000 from SJWC's ratebase estimated in the Application.

### 8.13 Inflation

SJWC accepts RRB's estimates of inflation of 1.4% for Test Year 2001 and 1.7% for Test Year 2002, except where noted previously in this Settlement, and agrees to apply them instead of 5%.

## 9.0 DEPRECIATION

RRB and SJWC agree that Depreciation Expense for Test Years 2001 and 2002 should be based on the stipulated composite of 3.01%, which is in line with SJWC's historical rate.

	<u>Original Positions</u>		<u>Settlement</u>
	<u>SJWC</u>	<u>RRB</u>	
2001	3.54%	2.91%	3.01%
2002	3.43%	2.91%	3.01%

## 10.0 RATEBASE

RRB and SJWC agree that Ratebase should be based on stipulated estimates as follows:

	<u>Original Positions (000s)</u>		<u>Settlement (000s)</u>
	<u>SJWC</u>	<u>RRB</u>	
2001	\$216,279.7	\$211,936.3	\$ 212,518.9
2002	\$228,772.5	\$223,761.1	\$ 224,113.7

**APPENDIX A****10.01 General Ratebase**

SJWC and RRB agree that \$68,128 associated with the acquisition of the Campbell Water Company in 1980 is in fact an organizational expense and not a cost associated with issuance of bonds, and that SJWC acted in good faith when the expense was originally classified. SJWC and RRB further agree that due to the passage of time the \$68,128 should be written off and removed from ratebase.

**10.02 Working Cash**

SJWC accepts RRB's deduction of deposits for portable meters (\$247,000) from the estimate of Working Cash for Test Year 2001 and Test Year 2002. RRB accepts SJWC's inclusion of the Injuries and Damages Reserve (\$667,942), Bad Debt Reserve (\$100,000), and Minimum Bank Balance (\$200,000) in the estimate of Working Cash for Test Year 2001 and Test Year 2002.

**Deposits for Portable Meters.** SJWC accepts RRB's recommendation to deduct \$247,000 in deposits for meters from the estimate of Working Cash for Years 2000-2002.

**Reserve for Injuries and Damages and Bad Debts.** RRB agrees that operational cash and ratebase should not be reduced by \$767,942, as SJWC has demonstrated that these funds have in fact been provided by shareholders and not by ratepayers.

**Minimum Bank Balance.** RRB agrees that SJWC should be allowed to include \$200,000 as an allowance for a minimum balance, as set forth in the application, based upon the agreement SJWC has with its bank.

**11.0 OTHER ITEMS****11.01 Radon and Arsenic Memorandum Account.**

SJWC withdraws its proposal to book the costs and expenses of removing Radon and Arsenic into a Water Quality Memorandum Account. The Parties agree, however, that SJWC should be allowed to file an application seeking recovery of these costs if the facilities are required by a final policy of the United States Environmental Protection Agency.

**11.02 Drinking Water Source Assessment and Protection Program**

The Parties agree that SJWC should be authorized to establish a memorandum account capped at \$35,000 to track expenses incurred to comply with the Drinking Water Source Assessment and Protection Program required pursuant to the Safe Drinking Water Act.

**APPENDIX A****11.03 Water Quality Memorandum Account**

SJWC and RRB agree that SJWC should be allowed to recover the undercollection in its Water Quality Memorandum Account of \$911,422 as of August 31, 1999, by imposing a surcharge of \$0.0073 / ccf for 24 months.

**11.04 Catastrophic Events Memorandum Account**

SJWC and RRB agree that SJWC should be allowed to recover the undercollection in its Catastrophic Events Memorandum Account of \$401,124 as of August 31, 1999, by imposing a surcharge of \$0.0034/ccf for 24 months.

**11.05 Excess Capacity is Stipulated as Discussed in Section 4.07.****11.06 Fire Hydrants**

SJWC and RRB agree that SJWC should be authorized to file an advice letter no more than once a year after plant has been placed in service to begin recovering in rates the cost to implement the City of San Jose's Fire Hydrant Program as detailed in SJWC's Results of Operations Report.

**11.07 Full Cost Balancing Account for Water Production**

SJWC withdraws the request for a Full Cost Balancing Account for Water Production.

**11.08 Depreciation**

SJWC withdraws the request to change its method of depreciation. Depreciation will be treated as stipulated in Section 9.0.

**11.09 Capitalization of Expense of Painting Tanks**

RRB agrees that SJWC should be authorized to capitalize the expenses of painting tanks in excess of \$100,000 per project.

**11.10 Rates for Private Fire Service**

The Parties agree that SJWC should be allowed to increase the flat fee for private fire service from \$5.00 per inch per month to \$5.50 per inch per month in Test Year 2001 and to \$6.00 per inch per month in Test Year 2002. This increase will bring SJWC's charges in line with charges of other Class A water utilities.

**12.0 AUDIT****12.01 Ratebase**

**Organizational Expense is Stipulated as Discussed in Section 10.01**

**Working Cash is Stipulated as Discussed in Section 10.02.**

APPENDIX A

12.02 Expenses

**Bank Charges for the City of Cupertino**

SJWC and RRB agree that bank charges for Cupertino are already allocated from SJWC to Cupertino, as discussed in Section 5.07.

**Provision for Injuries and Damages are Stipulated as Discussed in Section 5.04.**

**Directors' Pensions**

RRB and SJWC agree that, in line with the common practice of the industry, directors' pensions should be included for ratemaking as follows: \$113,210 for Test Year 2001 and \$114,110 for Test Year 2002.

**Retirement is Stipulated as Discussed in Section 5.05**

**Corporate Expenses**

RRB and SJWC agree that certain corporate expenses should be allowed for ratemaking (\$194,764), since SJWC has proven that they are incurred in the provision of service to the ratepayers.

**Legal Expenses**

RRB and SJWC agree that certain legal expenses (\$16,870) should be allowed for ratemaking since they are not associated with the issuance of bonds for the City of Cupertino.

**RATEPAYER REPRESENTATION  
BRANCH OF THE WATER DIVISION**

**SAN JOSE WATER COMPANY**

By: \_\_\_\_\_  
Donald McCrea  
Project Manager  
Ratepayer Representation Branch  
Water Division  
California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102  
(415) 703-3087

By: \_\_\_\_\_  
Palle Jensen  
Director of Regulatory Affairs  
San Jose Water Company  
374 West Santa Clara Street  
San Jose, CA 95196  
(408) 279-7970

Dated:

Dated:

**SAN JOSE WATER COMPANY**  
**(U-168-W)**  
**STIPULATED QUANTITIES**

	<u>2001</u>		<u>2002</u>	
<u>Water Production:</u>	<u>MG</u>	<u>Kccf</u>	<u>MG</u>	<u>Kccf</u>
Purchased Water	21,496	28,736	21,996	29,404
Surface Water	3,308	4,422	3,308	4,422
Well Supply	23,865	31,903	23,603	31,553
Recycled Water	301	402	301	402
Total Production	48,669	65,463	48,907	65,781

	<u>2001</u>	<u>2002</u>
<u>Purchased Water/Pump Tax Rates:</u>		
Purchased Water Costs Per MG	\$1,166.23	\$1,166.23
Pump Tax Cost per MG	\$951.40	\$951.40

	<u>2001</u>	<u>2002</u>
<u>Purchased Water/Pump Tax Costs:</u>		
Purchased Water Costs	\$25,069,280	\$25,652,175
Pump Tax	\$22,705,161	\$22,456,257
Cost		
Total Purchased Water/Pump Tax Costs	\$47,774,441	\$48,108,432

	<u>2001</u>	<u>2002</u>
<u>Purchased Power:</u>		
Mixed Power Cost (\$/kWh)	\$0.087951	\$0.087951
Total Power Usage (kWh)	46,405,000	46,632,000
Total Power Costs	\$4,081,366	\$4,101,331

<u>Other:</u>	<u>2001</u>	<u>2002</u>
Conservation Expense	\$32,000	\$32,000
Net-to-Gross Multiplier	1.7894	1.7894
Uncollectible Rate	0.1774%	0.1774%
Business License & Local Franchise Tax Rate	0.3119%	0.3119%
California Corporate Franchise Tax Rate	8.84%	8.84%
Federal Tax Rate	35.00%	35.00%

**SAN JOSE WATER COMPANY  
(U-168-W)  
STIPULATED QUANTITIES**

**Number of Services by Meter Size:**

	<b>Schedule No. 1</b>		<b>Schedule No. 6</b>		<b>Schedule No. RCW</b>	
	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
5/8 x 3/4 inch	29,896	30,040	0	0	0	0
3/4 inch	147,161	147,868	1	1	0	0
1 inch	24,673	24,813	5	5	0	0
1-1/2 inch	3,427	3,445	3	3	0	0
2 inch	4,248	4,297	16	16	0	0
3 inch	1,220	1,269	3	3	5	5
4 inch	332	334	2	2	16	16
6 inch	150	151	0	0	0	0
8 inch	31	31	1	1	1	1
10 inch	14	17	0	0	1	1
12 inch	0	0	0	0	0	0
	211,152	212,265	31	31	23	23

**Metered Sales (Kccf):**

	<b>No. of Services</b>		<b>Usage ( Kccf)</b>		<b>Avg. Usage (ccf)</b>	
	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
Residential & Business	209,227	210,233	55,236	55,502	264	264
Industrial	77	77	505	505	6,552	6,552
Public Authority	1,642	1,654	3,777	3,804	2,300	2,300
Resale	31	31	258	258	8,323	8,323
Other	206	201	84	82	408	408
	211,183	212,196	59,860	60,151		
Private Fire	2,639	2,694				
	213,822	214,890	59,860	60,151		
Water Loss (8.0%)			5,201	5,228		
Total Potable Water Production			65,061	65,379		
Recycled Water	23	23	402	402	17,478	17,478
Total Water Production (Kccf)			65,463	65,781		

**SAN JOSE WATER COMPANY**  
**(U-168-W)**

**STIPULATED RATE BASE**  
**(Thousands of Dollars)**

<b><u>Item</u></b>	<b><u>2001</u></b>	<b><u>2002</u></b>
Utility Plant	\$458,633.1	\$484,579.1
Materials & Supplies	\$560.7	\$560.7
Working Cash	\$6,327.8	\$6,394.7
Depreciation Reserve	(\$147,092.4)	(\$158,499.1)
Advances	(\$44,082.4)	(\$44,976.8)
Contributions	(\$42,555.4)	(\$43,871.2)
Reserve for Amortization	(\$226.0)	(\$242.3)
Deferred Taxes	(\$25,512.8)	(\$26,309.7)
Deferred Tax	(\$412.9)	(\$412.9)
Rate Base, Taxed Contributions	\$2,911.4	\$2,898.0
Rate Base, Taxed Advances	\$3,967.8	\$3,993.2
<b>Rate Base</b>	<b>\$212,518.9</b>	<b>\$224,113.7</b>

**SAN JOSE WATER COMPANY  
(U-168-W)**

**COMPARISON OF UTILITY AND RRB SUMMARY OF EARNINGS**

**TEST YEAR 2001**

**PRESENT RATES  
(Thousands of Dollars)**

	SJWC		Utility Exceeds RRB		RRB	
	Original	Revised	Difference	Percent	Revised	Original
<b><u>Operating Revenue</u></b>	\$111,769.7	\$114,031.0	\$0.0	0.00%	\$114,031.0	\$112,394.0
<b><u>Operating Expenses</u></b>						
Operations & Maintenance	\$19,105.0	\$18,659.5	\$0.0	0.00%	\$18,659.5	\$18,115.4
Purchased Water	\$23,419.0	\$25,069.0	\$0.0	0.00%	\$25,069.0	\$23,419.0
Pump Taxes	\$20,861.0	\$22,705.0	\$0.0	0.00%	\$22,705.0	\$21,174.0
Purchased Power	\$4,080.0	\$4,081.4	\$0.0	0.00%	\$4,081.4	\$4,110.0
Uncollectibles	\$198.0	\$202.0	\$0.0	0.00%	\$202.0	\$199.0
Administrative & General	\$8,928.0	\$8,536.8	\$0.0	0.00%	\$8,536.8	\$8,075.5
Depreciation & Amortization	\$14,132.0	\$11,833.4	\$0.0	0.00%	\$11,833.4	\$11,258.3
Taxes Other Than Income	\$4,206.6	\$4,178.8	\$0.0	0.00%	\$4,178.8	\$4,158.9
State Corporation Franchise Tax	\$657.2	\$550.1	\$0.0	0.00%	\$550.1	\$894.2
Federal Income Tax	\$3,670.4	\$3,204.8	\$0.0	0.00%	\$3,204.8	\$4,598.6
	<u>\$99,257.2</u>	<u>\$99,020.8</u>	\$0.0	0.00%	\$99,020.8	\$96,002.9
<b>Total Operating Expenses</b>	\$99,257.2	\$99,020.8	\$0.0	0.00%	\$99,020.8	\$96,002.9
<b>Net Operating Revenue</b>	\$12,512.5	\$15,010.2	\$0.0	0.00%	\$15,010.2	\$16,391.1
<b>Rate Base</b>	<u>\$216,279.7</u>	<u>\$212,518.9</u>	\$0.0	0.00%	<u>\$212,518.9</u>	<u>\$211,936.3</u>
<b>Return on Rate Base</b>	5.79%	7.06%			7.06%	7.73%

**SAN JOSE WATER COMPANY**

**COMPARISON OF UTILITY AND RRB SUMMARY OF EARNINGS**

**TEST YEAR 2002**

**PRESENT RATES**

**(Thousands of Dollars)**

	SJWC		Utility Exceeds RRB		RRB	
	Original	Revised	Difference	Percent	Revised	Original
<b><u>Operating Revenue</u></b>	\$112,299.0	\$114,576.9	\$0.0	0.00%	\$114,576.9	\$112,932.0
<b><u>Operating Expenses</u></b>						
Operations & Maintenance	\$20,063.0	\$19,365.8	\$0.0	0.00%	\$19,365.8	\$18,648.3
Purchased Water	\$23,964.0	\$25,652.0	\$0.0	0.00%	\$25,652.0	\$23,964.0
Pump Taxes	\$20,629.0	\$22,456.0	\$0.0	0.00%	\$22,456.0	\$20,944.0
Purchased Power	\$4,100.0	\$4,101.3	\$0.0	0.00%	\$4,101.3	\$4,130.0
Uncollectibles	\$199.0	\$203.0	\$0.0	0.00%	\$203.0	\$200.0
Administrative & General	\$9,365.3	\$8,918.9	\$0.0	0.00%	\$8,918.9	\$8,273.7
Depreciation & Amortization	\$14,547.1	\$12,701.9	\$0.0	0.00%	\$12,701.9	\$12,002.6
Taxes Other Than Income	\$4,400.3	\$4,352.3	\$0.0	0.00%	\$4,352.3	\$4,317.8
State Corporation Franchise Tax	\$415.6	\$417.8	\$0.0	0.00%	\$417.8	\$625.1
Federal Income Tax	<u>\$2,886.6</u>	<u>\$2,778.0</u>	\$0.0	0.00%	<u>\$2,778.0</u>	<u>\$3,620.5</u>
Total Operating Expenses	\$100,569.9	\$100,947.0	\$0.0	0.00%	\$100,947.0	\$96,726.0
<b><u>Net Operating Revenue</u></b>	<u>\$11,729.1</u>	<u>\$13,629.9</u>	\$0.0	0.00%	<u>\$13,629.9</u>	<u>\$16,206.0</u>
<b>Rate Base</b>	\$228,772.5	\$224,113.7	\$0.0	0.00%	\$224,113.7	\$223,761.1
<b>Return on Rate Base</b>	5.13%	6.08%			6.08%	7.24%

**SAN JOSE WATER COMPANY  
(U-168-W)**

**COMPARISON OF UTILITY AND RRB SUMMARY OF EARNINGS**

**TEST YEAR 2001**

**PROPOSED RATES  
(Thousands of Dollars)**

	SJWC		Utility Exceeds RRB		RRB	
	Original	Revised	Difference	Percent	Revised	Original
<b><u>Operating Revenue</u></b>	\$127,845.0	\$126,095.0	\$6,659.0	5.58%	\$119,436.0	\$114,222.7
<b><u>Operating Expenses</u></b>						
Operations & Maintenance	\$19,105.0	\$18,637.4	(\$12.0)	-0.06%	\$18,649.4	\$18,088.6
Purchased Water	\$23,419.0	\$25,069.0	\$0.0	0.00%	\$25,069.0	\$23,419.0
Pump Taxes	\$20,861.0	\$22,705.0	\$0.0	0.00%	\$22,705.0	\$21,174.0
Purchased Power	\$4,080.0	\$4,081.4	\$0.0	0.00%	\$4,081.4	\$4,111.0
Uncollectibles	\$198.0	\$224.0	\$12.0	5.66%	\$212.0	\$228.0
Administrative & General	\$8,928.0	\$8,536.8	\$0.0	0.00%	\$8,536.8	\$8,075.5
Depreciation & Amortization	\$14,132.4	\$11,833.4	\$0.0	0.00%	\$11,833.4	\$11,258.3
Taxes Other Than Income	\$4,256.7	\$4,216.5	\$20.8	0.50%	\$4,195.7	\$4,158.9
State Corporation Franchise Tax	\$2,073.9	\$1,720.0	\$586.8	51.78%	\$1,133.2	\$1,055.4
Federal Income Tax	\$9,177.5	\$7,724.8	\$2,323.4	43.01%	\$5,401.4	\$5,231.0
Total Operating Expenses	\$106,231.5	\$104,748.3	\$2,931.0	2.88%	\$101,817.3	\$96,799.7
<b><u>Net Operating Revenue</u></b>	<u>\$21,613.5</u>	<u>\$21,346.7</u>	\$3,728.0	21.16%	<u>\$17,618.7</u>	<u>\$17,423.0</u>
<b>Rate Base</b>	\$216,279.7	\$212,518.9	\$0.0	0.00%	\$212,518.9	\$211,936.3
<b>Return on Rate Base</b>	9.99%	10.04%	1.75%		8.29%	8.22%

**SAN JOSE WATER COMPANY  
(U-168-W)**

**COMPARISON OF UTILITY AND RRB SUMMARY OF EARNINGS**

**TEST YEAR 2002**

**PROPOSED RATES  
(Thousands of Dollars)**

	SJWC		Utility Exceeds RRB		RRB	
	<u>Original</u>	<u>Revised</u>	<u>Difference</u>	<u>Percent</u>	<u>Revised</u>	<u>Original</u>
<b><u>Operating Revenue</u></b>	\$131,185.0	\$129,667.9	\$6,623.0	5.38%	\$123,044.9	\$116,797.9
<b><u>Operating Expenses</u></b>						
Operations & Maintenance	\$20,063.0	\$19,338.6	(\$12.2)	-0.06%	\$19,350.8	\$18,621.2
Purchased Water	\$23,964.0	\$25,652.0	\$0.0	0.00%	\$25,652.0	\$23,964.0
Pump Taxes	\$20,629.0	\$22,456.0	\$0.0	0.00%	\$22,456.0	\$20,944.0
Purchased Power	\$4,100.0	\$4,101.3	\$0.0	0.00%	\$4,101.3	\$4,130.0
Uncollectibles	\$199.0	\$230.0	\$12.0	5.50%	\$218.0	\$234.0
Administrative & General	\$9,365.3	\$8,918.9	\$0.0	0.00%	\$8,918.9	\$8,273.7
Depreciation & Amortization	\$14,547.1	\$12,701.9	\$0.0	0.00%	\$12,701.9	\$12,002.6
Taxes Other Than Income	\$4,459.2	\$4,399.5	\$20.8	0.48%	\$4,378.7	\$4,317.8
State Corporation Franchise Tax	\$2,079.9	\$1,747.7	\$583.6	50.13%	\$1,164.1	\$965.9
Federal Income Tax	<u>\$8,895.7</u>	<u>\$7,587.6</u>	\$2,105.4	38.40%	<u>\$5,482.2</u>	<u>\$4,969.7</u>
Total Operating Expenses	\$108,302.2	\$107,133.5	\$2,709.6	2.59%	\$104,423.9	\$98,422.9
<b><u>Net Operating Revenue</u></b>	<u>\$22,882.8</u>	<u>\$22,534.4</u>	\$3,913.4	21.02%	<u>\$18,621.0</u>	<u>\$18,375.0</u>
<b>Rate Base</b>	\$228,772.5	\$224,113.7	(\$8.9)	0.00%	\$224,122.6	\$223,761.1
<b>Return on Rate Base</b>	10.00%	10.05%	1.75%		8.31%	8.21%

(END OF APPENDIX A)

**APPENDIX B**

**Page 1**

Scheduled No. 1

GENERAL METERED SERVICE

**APPLICABILITY**

Applicable to general metered water service.

**TERRITORY**

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

**RATES**

Quantity Rates:

Per 100 cu. ft. .... \$1.4886 (I)

Service Charges:

Per Meter Per Month

For 5/8 x 3/4-inch meter .....	\$ 8.87 (I)
For 3/4 -inch meter .....	8.87
For 1-inch meter .....	15.00
For 1-1/2-inch meter .....	37.00
For 2-inch meter .....	59.00
For 3-inch meter .....	114.00
For 4-inch meter .....	188.00
For 6-inch meter .....	357.00
For 8-inch meter .....	600.00
For 10-inch meter .....	790.00 (I)

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

**SPECIAL CONDITIONS**

1. To amortize the under-collection of the Water Quality Memorandum Account, a surcharge of \$0.0073 per 100 cu. ft. is to be added to the Quantity Rate shown above for a 24-month period beginning with the effective date of this tariff.
2. To amortize the under-collection of the Catastrophic Events Memorandum Account, a surcharge of \$0.0034 per 100 cu. ft. is to be added to the Quantity Rate shown above for a 24-month period beginning with the effective date of this tariff.

## **APPENDIX B**

### **Page 2**

3. Customers who receive water deliveries for agricultural purposes under this schedule, and who present evidence to the utility that such deliveries qualify for the lower pump tax rates levied by the Santa Clara Valley Water District for agricultural water, shall receive a credit of \$0.6405 cents per 100 cubic feet on each water bill for the quantities of water used during the period covered by that bill.
4. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**APPENDIX B**

**Page 3**

Scheduled No. 1B  
**GENERAL METERED SERVICE WITH  
AUTOMATIC FIRE SPRINKLER SYSTEM**

**APPLICABILITY**

Applicable to all detached single family structures whose automatic fire sprinkler system is served through the meter providing residential water service.

**TERRITORY**

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

**RATES**

Quantity Rates:

Per 100 cu. ft. .... \$1.4886 (I)

Service Charges:

Per Meter Per Month

For 5/8 x 3/4-inch meter .....	\$ 8.87 (I)
For 3/4 -inch meter .....	8.87
For 1-inch meter .....	15.00
For 1-1/2-inch meter .....	37.00
For 2-inch meter .....	59.00 (I)

Upsize Charges:

For 1/4-inch meter upsize .....	\$ 1.25
For 1/2-inch meter upsize .....	2.50
For 3/4-inch meter upsize .....	3.75
For 1-inch meter upsize .....	5.00

## APPENDIX B

### Page 4

Scheduled No. 1B  
GENERAL METERED SERVICE WITH  
AUTOMATIC FIRE SPRINKLER SYSTEM  
(continued)

1. To amortize the under-collection of the Water Quality Memorandum Account, a surcharge of \$0.0073 per 100 cu. ft. is to be added to the Quantity Rate shown above for a 24-month period beginning with the effective date of this tariff.
2. To amortize the under-collection of the Catastrophic Events Memorandum Account, a surcharge of \$0.0034 per 100 cu. ft. is to be added to the Quantity Rate shown above for a 24-month period beginning with the effective date of this tariff.
3. Any service to a residential customer who requires a larger water meter because of fire flow requirement to a fire sprinkler system will be billed (i) a meter service charge, for the appropriate meter size determined based on the normal water use of the customer excluding the fire flow requirement; and (ii) an upsize charge, determined by the difference between the actual meter size required including the fire flow requirement and the appropriate meter size required without the fire flow requirement; and (iii) the quantity rate based on the quantity of water used.
4. For the purpose of fire protection under this schedule, the utility will supply only such water at such pressure as may be available from time to time as a result of its operation of the system. Section 774 of the Public Utilities Code limits the liability of the utility resulting from a claim regarding the provision or maintenance of an adequate water supply, water pressure, equipment or other fire protection facility or service. Acceptance of service under this tariff is acknowledgment of notice of the provisions of Section 774 of the Public Utilities Code.
5. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

**APPENDIX B**

**Page 5**

Scheduled No. 4

**PRIVATE FIRE SERVICE**

**APPLICABILITY**

Applicable to all water service furnished to privately owned fire protection systems.

**TERRITORY**

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

**RATES**

Service Charges:	Per Service Connection <u>Per Month</u>
For each 2-inch meter .....	\$12.00 (I)
For each 3-inch meter .....	18.00
For each 4-inch meter .....	24.00
For each 6-inch meter .....	36.00
For each 8-inch meter .....	48.00
For each 10-inch meter .....	60.00
For each 12-inch meter .....	72.00 (I)

**SPECIAL CONDITIONS**

1. The fire protection service connection shall be installed by the utility and the cost paid by the applicant. Such payment shall not be subject to refund. The facilities paid for by the applicant shall be the sole property of the applicant.
2. If a distribution main of adequate size to serve a private fire protection system, in addition to all other normal service, does not exist in the street or alley adjacent to the premises to be served, then a service main from the nearest existing main of adequate capacity shall then be installed by the utility and the cost paid by applicant. Such payment shall not be subject to refund.
3. Service hereunder is for private fire protection systems to which no connections for other than fire protection purposes are allowed and which are regularly inspected by the underwriters having jurisdiction, are installed according to specifications of the utility, and are maintained to the satisfaction of the utility. The utility may install the standard detector type meter approved by the Board of Fire Underwriters for protection against theft, leakage or waste of water and the cost paid by the applicant. Such payment shall not be subject to refund.

**APPENDIX B**

**Page 6**

Scheduled No. 4

**PRIVATE FIRE SERVICE**

(Continued)

4. For water delivered for other than fire protection purposes, charges shall be made under Schedule No. 1, General Metered Service.
5. The utility undertakes to supply only such water at such pressure as may be available any time through the normal operation of its system. Section 774 of the Public Utilities Code limits the liability of the utility resulting from a claim regarding the provision or maintenance of an adequate water supply, water pressure, equipment or other fire protection facility or service. Acceptance of service under this tariff is acknowledgment of notice of the provisions of Section 774 of the Public Utilities Code.
6. The minimum diameter for fire protection service shall be two inches, and the maximum diameter shall be not more than the diameter of the main to which the service is connected.
7. All bills are subject to the reimbursement fee set forth on Schedule No. UF.

**APPENDIX B**

**Page 7**

Scheduled No. 6  
RESALE SERVICE

**APPLICABILITY**

Applicable to all water service furnished for resale purposes.

**TERRITORY**

Portions of Cupertino, San Jose, and Santa Clara, and in Campbell, Los Gatos, Monte Sereno, and Saratoga and in contiguous territory in the County of Santa Clara.

**RATES**

Quantity Rates:

Per 100 cu. ft. .... \$1.2225 (I)

Service Charges:

Per Meter Per Month

For 5/8 x 3/4-inch meter .....	\$ 8.87 (I)
For 3/4 -inch meter .....	8.87
For 1-inch meter .....	15.00
For 1-1/2-inch meter .....	37.00
For 2-inch meter .....	59.00
For 3-inch meter .....	114.00
For 4-inch meter .....	188.00
For 6-inch meter .....	357.00
For 8-inch meter .....	600.00
For 10-inch meter .....	790.00 (I)

The service charge is a readiness-to-serve charge which is applicable to all metered service and to which is added the charge for water used computed at the Quantity Rate.

## **APPENDIX B**

**Page 8**

### **SPECIAL CONDITIONS**

1. To amortize the under-collection of the Water Quality Memorandum Account, a surcharge of \$0.0073 per 100 cu. ft. is to be added to the Quantity Rate shown above for a 24-month period beginning with the effective date of this tariff.
2. To amortize the under-collection of the Catastrophic Events Memorandum Account, a surcharge of \$0.0034 per 100 cu. ft. is to be added to the Quantity Rate shown above for a 24-month period beginning with the effective date of this tariff.
3. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

**(END OF APPENDIX B)**

**APPENDIX C**  
**San Jose Water Company**

Each of the following increases in rates may be put into effect on the indicated date by filing a rate schedule which adds the appropriate increase to the rate which would otherwise be in effect on that date.

	2002	2003
<b>SCHEDULE No. 1, No. 6</b>		
Service Charges:		
For 5/8 x 3/4-inch meter .....	0.00	0.22
For 3/4 -inch meter .....	0.00	0.22
For 1-inch meter .....	0.00	0.41
For 1-1/2-inch meter .....	0.00	0.70
For 2-inch meter .....	0.00	1.00
For 3-inch meter .....	0.00	3.00
For 4-inch meter .....	0.00	5.00
For 6-inch meter .....	0.00	6.00
For 8-inch meter .....	0.00	7.00
For 10-inch meter .....	0.00	8.00
 Quantity Rates:		
For all water delivered, per 100 cu. ft.	.0494	0.0521
 <b>SCHEDULE No. 1B</b>		
Service Charges:		
For 5/8 x 3/4-inch meter .....	0.00	0.22
For 3/4 -inch meter .....	0.00	0.22
For 1-inch meter .....	0.00	0.41
For 1-1/2-inch meter .....	0.00	0.70
For 2-inch meter .....	0.00	1.00
Upsize Charge:		
For 1/4-inch meter upsize .....	0	0
For 1/2-inch meter upsize .....	0	0
For 3/4-inch meter upsize .....	0	0
For 1-inch meter upsize .....	0	0
 Quantity Rates:		
For all water delivered, per 100 cu. ft.	.0494	0.0521
 <b>SCHEDULE No. 4</b>		
For each 2-inch service .....	0.00	0
For each 3-inch service .....	0.00	0
For each 4-inch service .....	0.00	0
For each 6-inch service .....	0.00	0
For each 8-inch service .....	0.00	0
For each 10-inch service .....	0.00	0
For each 12-inch service .....	0.00	0

**(END OF APPENDIX C)**

## APPENDIX D

### SAN JOSE WATER COMPANY

#### Summary of Earnings at Authorized Rate of Return

(Thousands of Dollars)

	<u>2001</u>	<u>2002</u>
<b><u>Operating Revenue</u></b>		
Operating Revenue	\$122,465.0	\$126,048.0
<b><u>Operating Expenses</u></b>		
Operations & Maintenance	\$18,658.5	\$19,365.9
Purchased Water	\$25,069.0	\$25,652.0
Pump Taxes	\$22,705.0	\$22,456.0
Purchased Power	\$4,081.4	\$4,101.3
Uncollectibles	\$217.2	\$223.6
Administrative & General	\$8,536.8	\$8,918.6
Depreciation & Amortization	\$11,833.4	\$12,701.9
Taxes Other Than Income	\$4,206.5	\$4,389.2
State Corporation Franchise Tax	\$1,388.5	\$1,419.2
Federal Income Tax	\$6,429.9	\$6,403.0
Total Operating Expenses	\$103,126.2	\$105,630.7
<b>Net Operating Revenue</b>	\$19,339.2	\$20,416.8
<b>Rate Base</b>	\$212,518.9	\$224,113.7
<b>Return on Rate Base</b>	9.10%	9.11%
Net Rev	\$19,338.8	\$20,417.8

## APPENDIX E

### SAN JOSE WATER COMPANY

### INCOME TAX CALCULATION

(Thousands of Dollars)

	<u>2001</u>	<u>2002</u>
<b><u>Operating Revenue</u></b>		
Operating Revenue	\$122,465.0	\$126,048.5
<b><u>Operating Expenses</u></b>		
Purchased Water	\$25,069.0	\$25,652.0
Pump Taxes	\$22,705.0	\$22,456.0
Purchased Power	\$4,081.4	\$4,101.3
Operations & Maintenance	\$18,658.5	\$19,365.9
Administrative & General	\$8,536.8	\$8,918.9
Uncollectibles	\$217.25	\$223.61
Taxes Other Than Income Taxes:		
Ad Valorem	\$2,559.9	\$2,679.1
Business Licenses	\$31.40	\$31.4
Franchise Tax	\$381.97	\$393.15
Payroll Tax	\$1,233.2	\$1,285.7
Transportation Depreciation	\$342.5	\$295.0
Meals Disallowed, 50%	(\$33.7)	(\$33.7)
Interest Expense	\$8,075.0	\$8,990.0
	<u>          </u>	<u>          </u>
Subtotal	\$91,858.2	\$94,358.4
<b><u>State Tax</u></b>		
State Tax Depreciation	\$15,161.3	\$15,886.5
Deferred Revenue (Net of Tax)	\$261.7	\$250.5
State Taxable Income	\$15,707.2	\$16,054.1
	<u>          </u>	<u>          </u>
State Tax @ 8.84%	\$1,388.5	\$1,419.2
<b><u>Federal Tax</u></b>		
Federal Tax Depreciation	\$11,432.3	\$12,024.3
State Tax Deduction	\$820.1	\$1,388.5
Federal Taxable Income	\$18,354.4	\$18,277.3
	<u>          </u>	<u>          </u>
Federal Tax @ 35.00%	\$6,424.0	\$6,397.1
Amortization of Prepaid Tax on CIAC	\$5.9	\$5.9
	<u>          </u>	<u>          </u>
Total Federal Tax	\$6,429.9	\$6,403.0
	<u>          </u>	<u>          </u>
<b>Total Income Tax</b>	<u>\$7,818.4</u>	<u>\$7,822.2</u>