

**CALIFORNIA PUBLIC UTILITIES COMMISSION  
DIVISION OF WATER AND AUDITS**

**Advice Letter Cover Sheet**

**Utility Name:** San Jose Water Company

**Date Mailed to Service List:** 3/22/2018

**District:** N/A

**CPUC Utility #:** U-168-W

**Protest Deadline (20<sup>th</sup> Day):** 4/11/2018

**Advice Letter #:** 518

**Review Deadline (30<sup>th</sup> Day):** 4/21/2018

**Tier**    ☒ 1    ☐ 2    ☐ 3    ☒ Compliance

**Requested Effective Date:** 3/22/2018

**Authorization**    Commission Direction

**Rate Impact:** (\$5,843,000)  
(1.57%)

**Description:** Modify current rates to reflect the  
Commission's March 22, 2018, decision on  
SJWC's Cost of Capital Application 17-04-  
001

The protest or response deadline for this advice letter is 20 days from the date that this advice letter was mailed to the service list. Please see the "Response or Protest" section in the advice letter for more information.

**Utility Contact:** John Tang

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**Phone:** 408-279-7933

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**Phone:** (415) 703-1133

**Email:** [Water.Division@cpuc.ca.gov](mailto:Water.Division@cpuc.ca.gov)

**DWA USE ONLY**

DATE

STAFF

COMMENTS

_____	_____	_____
_____	_____	_____
_____	_____	_____
_____	_____	_____

☐ APPROVED

☐ WITHDRAWN

☐ REJECTED

**Signature:** \_\_\_\_\_

**Comments:** \_\_\_\_\_

**Date:** \_\_\_\_\_

\_\_\_\_\_



110 W. Taylor Street  
San Jose, CA 95110-2131

March 22, 2018

California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Advice Letter No. 518

San Jose Water Company (U-168-W) (SJWC) hereby transmits for filing the following changes in tariff schedules applicable to its service area and which are attached hereto:

<u>Cal. P.U.C Sheet No.</u>	<u>Title of Sheet</u>	<u>Cancelling Cal. P.U.C. Sheet No.</u>
1891-W	Schedule No. 1 General Metered Service	1864-W
1892-W	Schedule No. 1B General Metered Service with Automatic Fire Sprinkler System	1865-W
1893-W	Schedule No. 1C General Metered Service Mountain District	1866-W
1894-W	Schedule No. 4 Private Fire Service	1867-W
1895-W	Schedule RW Raw Water Service	1868-W
1897-W	Table of Contents	1890-W

These tariffs are submitted pursuant to General Orders Nos. 96-B and pursuant to the authority established by the California Public Utilities Commission (Commission) in its decision on March 22, 2018, on SJWC's Cost of Capital Application (A.) 17-04-001 (Attachment A). This advice letter is designated a Tier I Advice Letter.

With this advice letter SJWC seeks authorization to decrease present rates by \$5,843,000 or 1.57%. SJWC requests that the rates become effective immediately as required in the Decision.

### Background

The Commission's decision on A.17-04-001 adopted a cost of capital for SJWC, Golden State Water Company, California Water Service Company, California-American Water Company for the years 2018, 2019, and 2020. The adopted decision authorizes a cost of equity of 8.90%, a cost of debt of 6.20%, and a capital structure of 46.72% debt to 53.28% equity for SJWC. This provides a rate of return of 7.64%, which is a 45 basis point reduction from SJWC's previous authorized rate of return of 8.09% adopted in Decision (D.) 12-07-009.

### Rate Calculation and Average Bill Comparison

The present rates for SJWC became effective January 1, 2018 by Advice Letter 513A.

The total impact from the reduced rate of return is a reduction of \$5,843,000 or about 1.57% of SJWC's authorized revenue for 2018 (Attachment B). Pursuant to the rate design adopted in D.16-06-004 for SJWC's 2015 General Rate Case Application, SJWC seeks a reduction to revenue collected through the service charge component of \$1,752,900 or 30% of the total reduction, and a reduction to revenue collected through the quantity charge component of \$4,090,100 or 70% of the total reduction. As a result of this rate calculation, the service charge for a standard 3/4-inch meter will decrease by \$0.47 per month from \$26.68 to \$26.21. The uniform quantity rate will decrease from \$4.9806 per ccf to \$4.8994 per ccf. The bill for the calculations are set forth in Attachment C

### Effective Date

SJWC requests that the updated tariff sheets become effective March 22, 2018.

### Protests and Responses

Anyone may respond to or protest this advice letter. A response does not oppose the filing but presents information that may prove useful to the Commission in evaluating the advice letter. A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds may include the following:

- (1) The utility did not properly serve or give notice of the advice letter;
- (2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;
- (3) The analysis, calculations, or data in the advice letter contain material error or omissions;

- (4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;
- (5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- (6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require relitigating a prior order of the Commission).

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Water Division, 3<sup>rd</sup> floor  
California Public Utilities Commission,  
505 Van Ness Avenue  
San Francisco, CA 94102  
water\_division@cpuc.ca.gov

On the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy of the protest by mail to us, addressed to:

Regulatory Affairs  
San Jose Water Company  
110 West Taylor Street  
San Jose, CA 95110  
Fax 408.279.7934  
regulatoryaffairs@sjwater.com.

The advice letter process does not provide for any responses, protests or comments, except for the utility's reply, after the 20-day comment period. Public notice is not required.

In compliance with Paragraph 4.3 of General Order 96-B, a copy of this advice letter has been mailed to all interested and affected parties as detailed in Attachment D.

SJWC has Advice Letter 517A pending before the Commission.

This filing will not cause the withdrawal of service, nor conflict with other schedules or rules.

Very truly yours,

/S/ JOHN TANG

JOHN TANG  
Vice President of Regulatory Affairs

Enclosure

**SAN JOSE WATER COMPANY**

**ADVICE LETTER NO. 518**

**ATTACHMENT A**

Decision **PROPOSED DECISION OF ALJ BEMESDERFER**  
**(Mailed February 6, 2018)**

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

In the Matter of the Application of SAN JOSE WATER COMPANY (U168W) for Authority to Adjust Its Cost of Capital and to Reflect That Cost of Capital in Its Rates for the Period from January 1, 2018 through December 31, 2020.

Application 17-04-001

And Related Matters.

Application 17-04-002

Application 17-04-003

Application 17-04-006

**DECISION FIXING COST OF CAPITAL FOR  
CALENDAR YEARS 2018, 2019 AND 2020 FOR CALIFORNIA WATER  
SERVICE COMPANY, CALIFORNIA-AMERICAN WATER COMPANY,  
GOLDEN STATE WATER COMPANY AND SAN JOSE WATER COMPANY**

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**DECISION FIXING COST OF CAPITAL FOR  
CALENDAR YEARS 2018, 2019 AND 2020 FOR CALIFORNIA WATER  
SERVICE COMPANY, CALIFORNIA-AMERICAN WATER COMPANY,  
GOLDEN STATE WATER COMPANY AND SAN JOSE WATER COMPANY**

**Summary**

We adopt the ratemaking capital structures, costs of equity, costs of debt and overall rates of return for the three-year period commencing January 1, 2018 through December 31, 2020 for all four applicants (Applicants). We also continue the Water Cost of Capital Mechanism for the same period.

The figures shown in Table I represent each Applicant's authorized return on equity, costs of debt, debt/equity ratio and overall rate of return on rate base. In each case, we have adopted the capital structure and costs of debt proposed by the applicants. Overall rate of return has been calculated in each case by multiplying the cost of debt times the debt percentage in the capital structure and adding that product to the product of authorized return on equity times the equity percentage in the capital structure.

**Table 1  
Authorized Capital Structures, Costs of Equity, Costs of Debt  
and Overall Rate of Return for All Applicants**

<b>Company</b>	<b>Return on Equity</b>	<b>Cost of Debt</b>	<b>Debt/Equity Ratio</b>	<b>Overall Rate of Return</b>
California Water Service Company	9.20%	5.51%	46.60%/53.40%	7.48%
California-American Water Company	9.20%	5.63%	44.61%/55.39%	7.61%
Golden State Water Company	8.90%	6.60%	43.00%/57.00%	7.91%
San Jose Water Company	8.90%	6.20%	46.72%/53.28%	7.64%

## **1. Background**

In Decision (D.) 12-07-009, the Commission approved a settlement between Applicants and the Division of Ratepayer Advocates, predecessor to the Office of Ratepayer Advocates, (ORA) that fixed the return on equity (ROE) for all Applicants for the three-year period beginning January 1, 2012 at 9.99%. The terms of the settlement were extended to include the years 2015, 2016 and 2017 by annual letters to the Applicants from the Commission's Executive Director granting the requested extensions. On December 2, 2016, Applicants wrote to Executive Director Tim Sullivan proposing an additional year's extension. On February 16, 2017 Executive Director Sullivan responded to Applicants, rejecting their proposal and directing them to file cost of capital applications for the three-year period beginning January 1, 2018 on or before April 1, 2017.

The 9.99% ROE adopted for all Applicants in D.12-07-009 was adjusted downward by the operation of the Water Cost of Capital Mechanism (WCCM) for California Water Service Company (CWS), Golden State Water Company (GSW) and San Jose Water company (SJW) to its current authorized 9.43% ROE.

On April 3, 2017, Applicants CWS, California-American Water Company (CAW), GSW and SJW filed simultaneous applications for approval of their respective proposed costs of capital for the three-year period beginning January 1, 2018. On May 8, 2017, the assigned Administrative Law Judge (ALJ) issued a ruling consolidating the proceedings. On May 10, 2017, ORA filed a protest to all four applications.

Pursuant to the Scoping Memo of the assigned Commissioner issued on June 22, 2017, Applicants and ORA prepared and submitted extensive direct and rebuttal testimony addressing the methodology of determining costs of capital

and their contrasting recommendations regarding those costs. Evidentiary hearings were held September 13-15, 2017, following which the parties filed opening and reply briefs on September 28, 2017 and October 9, 2017, respectively. The proceeding was submitted on the filing of reply briefs.

In addition to the evidentiary hearings, the Commission held a series of public participation hearings (PPHs) in Los Angeles, Monterey and San Jose on October 30, November 1, and November 6, 2017. At the PPHs, members of the public made their views regarding the specific applications known and questioned representatives of the water companies and ORA regarding their positions on various issues in the proceeding. In total more than 400 ratepayers appeared at these meetings and more than 100 of them provided comments.

On December 15, 2017, ORA filed a motion to require Applicants to establish memorandum accounts to track the difference between water rates currently in effect and water rates that will go into effect upon resolution of this proceeding. With no opposition to the motion, the ALJ granted ORA's motion on December 27, 2017 and required Applicants to establish their memorandum accounts effective January 1, 2018.

## **2. Discussion**

Fixing costs of capital for the next three years is an exercise in economic and financial forecasting. In estimating such things as the future path of inflation, we rely on the opinions of experts. Different experts, employing different forecasting techniques, typically present different views of the future, leaving it to us to choose among the views presented.

In these cases, the great majority of the difference between Applicants' experts and ORA's experts results from a disagreement about what should be the authorized ROE. Underlying the clash of expert opinions on this topic are

two rather different views of the justification for ROE. Applicants' experts take the position that the authorized ROE should be not less than the average ROE of similar securities issued by comparable regulated private water companies in other states. Underlying this position is the assumption that if Applicants choose to raise money by selling stock, these are the kinds of returns that investors in water company stocks would insist on receiving. If we approve ROEs significantly lower than those allowed to similar companies by other regulatory commissions, the argument goes, investors will choose to purchase the stock of those other companies rather than the stock of Applicants.

ORA does not disagree that such comparisons are relevant. But ORA also argues that the risk-hedging and risk-spreading mechanisms adopted by this Commission over the years have effectively guaranteed that the Applicants will earn their allowed returns on rate base, mitigating the risks of investment<sup>1</sup> in their common equity and their ROEs should be adjusted downward to reflect this fact. Such mechanisms include the Water Rate Adjustment Mechanism (WRAM), which authorizes rate increases to offset declines in water use; the WCCM, which automatically adjusts authorized ROE up or down depending on changes in the capital markets; various 'balancing accounts' which permit applicants to earn back in the future certain expenses incurred in the present; an attrition or escalation adjustment mechanism which provides protection against inflation in years between general rate cases; and various specific advice letters

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<sup>1</sup> The term "risk as used herein generally refers to the rise that a company will not earn its allowed return. "Risk" may also refer to a specific risk of non-recovery of expenditures such as, for example, the risk company not be able to recover from ratepayers the full cost of fighting a wildfire in the company's service territory.

relating to particular rates and charges which, if not the subject of timely protests, typically become effective 30 days after filing.

Applicants' request to continue employing the WCCM authorized by the Commission pursuant to D.09-07-051 and D.12-07-009 for the years 2019 and 2020, using the base year 2018 that will be adopted in this proceeding, is unopposed and should be adopted.

### **3. Return on Equity**

The legal standard for setting the fair rate of return has been established by the United States Supreme Court in the *Bluefield*, *Hope* and *Duquesne* cases.<sup>2</sup> *Bluefield* stands for the proposition that a utility's overall return should be comparable to the overall return earned 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. *Hope* states that authorized rates will not be judged invalid as long as they enable a utility to maintain financial integrity, to attract capital, and to compensate investors for the risks they assume. In *Duquesne*, the Court concludes that rates must not be so low as to be confiscatory. 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.

Hence, our basic objective in a cost of capital proceeding is to set the equity return at the lowest level that meets the test of reasonableness.<sup>3</sup> At the same

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<sup>2</sup> *The Federal Power Commission v. Hope Natural Gas Company*, 320 U.S. 591 (1944), *Bluefield Water Works & Improvement Company v. Public Service Commission of the State of Virginia*, 262 U.S. 679 (1923); *Duquesne Light Co. v. Barasch*, 488 U.S. 299 (1989).

<sup>3</sup> 46 CPUC2d 319 at 369 (1992).

time, the adopted equity return should be sufficient to provide a margin of safety to pay interest, pay reasonable common dividends, and allow for some money to be kept in the business as retained earnings.<sup>4</sup> To accomplish this objective, we have consistently evaluated analytical financial models as a starting point to arrive at a range of fair equity returns.

The financial models commonly used in equity return proceedings are the Capital Asset Pricing Model (CAPM),<sup>5</sup> Risk Premium Model (RPM),<sup>6</sup> and Discounted Cash Flow Analysis (DCF).<sup>7</sup> An additional method utilizing a comparable earnings approach<sup>8</sup> was used by SJW and GSW. A Proxy Group comprised of companies with characteristics and risks comparable to those of Applicants is used for the DCF and CAPM financial models. The parties selected their Proxy Groups from the water utilities group listed in Value Line.<sup>9</sup> Screens used by the parties in selecting their comparable Proxy Group included: (1) publicly traded water utility; (2) investment grade bond rating; (3) high percentage of revenue from regulated activities; and (4) no significant merger activity in the previous five years.

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<sup>4</sup> 78 CPUC at 723 (1975).

<sup>5</sup> The CAPM is a risk premium approach that gauges an entity's cost of equity based on the sum of an interest rate on a risk-free bond and a risk premium.

<sup>6</sup> Similar to the CAPM, the RPM measures a company's cost of equity capital by adding a risk premium to a risk-free long-term treasury or utility bond yield.

<sup>7</sup> The DCF model is used to estimate an equity return from a Proxy Group by adding estimated dividend yields to investors' expected long-term dividend growth rate.

<sup>8</sup> The Comparable Earnings Approach uses a proxy of non-utility companies to estimate a comparable utility ROE.

<sup>9</sup> Value Line is an independent financial and research publishing firm.

CAW, CWS, SJW and ORA started with the same eight water companies in their Proxy Group analysis, as identified in the following table by utility, annual revenue, market capitalization and current bond rating. GSW added Artesian Resources to the companies in Table 2 to form its Proxy Group.

**Table 2**  
**Water Proxy Group Financial Data**

<b>Company</b>	<b>Annual Revenue<sup>10</sup> (Millions)</b>	<b>Market Capitalization<sup>11</sup> (Millions)</b>	<b>Standard &amp; Poors' 2016 Credit Rating</b>
American States Water	\$439	\$1,446	A+
American Water Works	\$3,283	\$13,661	A
Aqua America	\$820	\$5,449	A-
Connecticut Water Services	\$98	\$556	A
Middlesex Water	\$132	\$571	A
SJW Corporation	\$348	\$898	BBB+
York Water Co.	\$47	\$380	A-

Applicants used the CAPM, RPM and DCF financial models as a basis to derive their requested ROEs, ranging from a low of 10.75% by CWS to a high of 11.00% by GSW. ORA used the DCF and a variation of the CAPM as its basis to recommend ROEs for Applicants ranging from a low of 8.20% for CWS to a high of 8.30% for SJW. ORA's CAPM was based on a Value Line average of 30 Dow Jones Industrial companies and used by ORA to support its DCF result.

Each party utilized different subjective inputs to arrive at their DCF, RPM and CAPM financial model result. Hence, the financial model results are not based on consistent subjective inputs.

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<sup>10</sup> As of December 31, 2016.

<sup>11</sup> As of September 1, 2016.

Applicants assert that ORA's results and recommendations are too low given that the national average ROEs granted water utilities were 9.68% in 2016 and 9.43% for the first five months of 2017 and (2) major California energy utilities have ROEs of 10.05% to 10.30%.<sup>12</sup> Conversely, the 10.75% to 11.00% ROEs being requested by Applicants are more than 100 basis points<sup>13</sup> higher than the national average ROEs granted water utilities and approximately 70 basis points higher than the California energy utilities' ROEs.

Applicants did not provide any evidence to substantiate that their businesses are riskier than either the national water utilities or the major California energy utilities. Consequently, we have no reason to consider either the national water utilities' average ROEs or the California energy utilities' ROEs as benchmark in this proceeding; instead we address the parties' financial model results.

#### **4. Financial Modeling Adjustments**

Applicants included upward adjustments in their financial modeling results for: (1) flotation costs; (2) non-regulated comparable earnings approach (Non-Reg. Comp.); (3) after tax weighted average cost of capital (ATWACC); (4) financial leverage; and (5) small size. ORA did not propose any adjustments to its 7.26% to 8.63% DCF and 5.27% to 10.43% CAPM financial model results.<sup>14</sup> Applicants applied the results of these financial model adjustments differently, as summarized in the following table:

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<sup>12</sup> See for example Exhibit GSW 7 at 2-3.

<sup>13</sup> One basis point equals 0.01%.

<sup>14</sup> Exhibit ORA 20 at 62 and 68.



**Table 3**  
**Applicants' Proposed Returns on Equity**  
**by Financial Models Employed and Related Adjustments**

	<b>CAW<sup>15</sup></b>	<b>CWS<sup>16</sup></b>	<b>GSW<sup>17</sup></b>	<b>SJW<sup>18</sup></b>
<b>DCF</b> Base	6.80% - 9.00%	6.80% - 9.00%	8.80%	8.50%
ATWACC Adj.	2.70% - 2.00%	1.70% - 2.40%	n.a. <sup>19</sup>	n.a.
Leverage Adj.	n.a.	n.a.	1.33%	n.a.
Flotation Adj.	n.a.	n.a.	.25%	n.a.
<b>Total DCF</b>	<b>9.50% - 11.00%</b>	<b>8.50% - 11.40%</b>	<b>10.38%</b>	<b>8.50%</b>
<b>RPM</b> Base	10.10% - 10.20%	n.a.	11.50%	11.19%
Flotation Adj.	n.a.	n.a.	.25%	n.a.
<b>Total RPM</b>	<b>10.10% - 10.20%</b>	<b>combined<sup>20</sup></b>	<b>11.75%</b>	<b>11.19%</b>
<b>CAPM</b> Base	9.00% - 9.70%	9.00% - 9.90%	10.40%	9.41%
ATWAC Adj.	1.00% - 1.20%	.60% - 1.50%	n.a.	n.a.
Size Adj.	n.a.	n.a.	1.00%	n.a.
Flotation Adj.	n.a.	n.a.	.25%	n.a.
<b>Total CAPM</b>	<b>10.00% - 10.90%</b>	<b>9.60% - 11.40%</b>	<b>11.65%</b>	<b>9.41%</b>
<b>Separate Adjustments</b>				
Non-Reg. Comp.	n.a.	n.a.	12.30% <sup>21</sup>	10.39% <sup>22</sup>
Size Adj.	n.a.	.20%	n.a.	.10%
Flotation Adj.	n.a.	n.a.	n.a.	.17%

<sup>15</sup> Exhibit CAW 1 at 2 and Exhibit BV-4 at 23-25 and 35-36.

<sup>16</sup> Exhibit CWS 1 at 54, Exhibit E pp. 23-24 and pp. 35-36, and Exhibit CWS 3.

<sup>17</sup> Exhibit GSW 3 at 4 and 30-40.

<sup>18</sup> Exhibit SJW 4 at 5.

<sup>19</sup> Not applicable (n.a.).

<sup>20</sup> CWS combined its RPM and CAPM results.

<sup>21</sup> Exhibit GSW 3 at 43, represents average of 12.2% historical and 12.4% forecast.

<sup>22</sup> Exhibit SJW 4 at 56-57 represents average of 11.42% DCF, 10.30% RPM, and 9.68% CAPM.

#### **4.1. Flotation Cost**

Flotation costs are those costs associated with the sale of new issuances of common stock. They include the essential costs of issuance such as underwriting fees, printing, legal, and registration.<sup>23</sup> This is not a new issue. Although CWS, GSW and SJW contend that it is appropriate to recover their flotation costs, only GSW and SJW reflected a flotation adjustment in their overall ROE recommendations. GSW included a 0.25% upward flotation costs adjustment to its CAPM, RPM, and DCF analysis to arrive at an 11.65% CAPM 11.75% RPM and 10.38 DCF.<sup>24</sup> SJW included a 0.17% upward flotation costs adjustment to the average of its DCF, RPM, CAPM, and Non-Reg. Comp. financial model results.<sup>25</sup>

We have previously disallowed energy utilities from including flotation cost impacts in similar financial models.<sup>26</sup> CWS, GSW and SJW testimony did not provide any new information for the Commission to reevaluate the appropriateness of allowing water utilities to include a flotation costs adjustment in their financial models. Accordingly, we reject GSW's and SJW's proposed flotation costs adjustments.

#### **4.2. Non-Regulated Comparable Earnings Approach**

The non-regulated comparable earnings approach estimates a fair ROE by comparing returns realized by non-regulated companies to returns that a public utility with similar risk characteristics would need to realize in order to compete

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<sup>23</sup> Exhibit SJW 4 at 59.

<sup>24</sup> Exhibit GSW 3 at 4.

<sup>25</sup> Exhibit SJW 4 at 5.

<sup>26</sup> See for example D.12-12-034 at 23 (2012), D.02-11-027 at 30 (2002), D.00-12-062 at 16 (2000) and 46 CPUC2d. 319 at 361 (1992).

for capital. Both SJW and GSW included a non-regulated comparable earnings approach to compare relative risk, not a particular business activity or degree of regulation.

SJW selected 15 companies from Value Line for its non-regulated Proxy Group<sup>27</sup> which included AutoZone Inc., Kroger Co., Lilly (Eli) and Co., and Reynolds American. SJW's non-regulated Proxy Group resulted in an 11.42% non-comparable earnings factor using the DCF method, a 10.30% non-regulated comparable earnings factor using the RPM, and a 9.69% non-regulated comparable earnings factor using CAPM.<sup>28</sup> SJW took the average mean and median of these results to arrive at an overall 10.39% non-regulated comparable earnings factor.

GSW selected 17 companies for its non-regulated Proxy Group<sup>29</sup> which included Campbell Soup Co., Cheesecake Factory Inc., Erie Indemnity, and O'Reilly Automotive Inc. GSW's non-regulated Proxy Group averaged a 12.20% non-regulated comparable earnings factor based on five historical years and a 12.40% non-comparable earnings factor based on five future years, resulting in a 12.30% combined past and future average non-comparable earnings factor.<sup>30</sup>

We find that non-utility Proxy Groups are not comparable to utility Proxy Groups for purposes of risk comparison. Non-utility earnings are dependent on a company's ability to price products or services at rates a buyer is willing to pay in a competitive market. Utility earnings are limited by a regulatory return on

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<sup>27</sup> Exhibit SJW 4 at 55.

<sup>28</sup> Exhibit SJW 4 at 57.

<sup>29</sup> Exhibit GSW 3 at 1 of Schedule 13.

<sup>30</sup> Exhibit GSW 3 at 42-43.

rate base in a monopolistic market. While a non-regulated company faces the possibility of loss of business (or bankruptcy) to any number of competitors, a regulated utility in a monopolistic market faces the possibility of under-earning its allowed return but regulatory mechanism largely insulates it from factors beyond its control. This difference in the nature of the risks faced by regulated and non-regulated companies leads us to reject financial modeling results from SJW's and GSW's non-utility Proxy Groups. Accordingly, we reject SJW's and GSW's non-regulated comparable earnings adjust.

#### **4.3. After Tax Weighted Average Cost of Capital**

The ATWACC is calculated using a weighted-average of the after-tax cost of equity and the market CD. This method differs from the traditional WACC (weighted average cost of capital) which is calculated using a weighted-average of after-tax cost of equity and the pre-tax CD.

Both CWS and CAW used the ATWACC method in calculating their respective DCF and CAPM. The following table compares CAW and CWS respective CD forecast to the market CD.

**Table 4**  
**CAW and CWS Forecasted Cost of Debt vs. Market Cost of Debt**

	<b>Market Cost of Debt<sup>31</sup></b>	<b>Utility Forecasted Debt<sup>32</sup></b>
<b>CAW</b>	4.1 %	5.63 %
<b>CWS</b>	4.1 %	5.51 %

CWS acknowledged in its testimony that the Commission has not adopted the ATWACC method.<sup>33</sup> By way of background, the ATWACC method was

<sup>31</sup> Exhibit CAW 1, Tab 4 at 37 and Exhibit CWS 1, Ex E at 37.

<sup>32</sup> CAW Application at 2 and CWS Application at 2.

first brought before the Commission in an energy 1998 cost of capital proceeding<sup>34</sup> and was represented in several subsequent energy cost of capital proceedings. Each time the ATWACC method was presented to the Commission, the Commission declined to adopt it. Neither CWS nor CAW provided convincing testimony that the ATWACC method should be adopted in this proceeding. Therefore, CWS and CAW's ATWACC calculations carry no weight in this proceeding.

#### **4.4. Financial Leverage Adjustment**

GSW includes a leverage adjustment in its DCF results to reflect a financial risk difference between a book value and market value capital structure.

GSW adjusted its 8.80% DCF result upward by a 1.33%<sup>35</sup> leverage adjustment to arrive at a 10.13% DCF.<sup>36</sup> In defense of this adjustment, GSW argues that investors expect to earn returns that reflect the fact that the company is not capitalized with 100% equity but has a balanced capital structure instead. The presence of debt on the company's balance sheet adds an element of risk to investment in its common stock that should be compensated for by an adjustment in ROE.<sup>37</sup>

We decline to adopt GSW's leverage adjustment. While such an approach might be appropriate in evaluating the risk of investment in a non-utility whose success or failure reflects its ability to compete in the marketplace, it is

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<sup>33</sup> Exhibit CWS 1 at 2.

<sup>34</sup> See D.99-06-057.

<sup>35</sup> Exhibit GSW 3 at 30.

<sup>36</sup> GSW further imputes a 25 flotation adjustment to arrive at its 10.38% DCF.

<sup>37</sup> Exhibit GSW 3 at Schedule 9.

inappropriate in the context of investing in a regulated utility whose returns are effectively insulated from market fluctuations. While it is true that a water utility is guaranteed only the right to earn a certain return on its rate base, the risk reduction mechanisms that we apply to water utilities<sup>38</sup> effectively mitigate most, if not all, of the risk associated with the existence of leverage in the capital structure.

#### **4.5. Small Size Adjustment**

Three of the four Applicants seek an upward adjustment to their ROEs for the small size of their operations. SJW added a 0.10% business risk to its total financial model results so that it may be compensated for its small size in comparison to the average market capitalization of its water Proxy Group.<sup>39</sup> CWS added a 20 basis points size adjustment to its overall ROE to compensate it for risks and challenges involved in operating a series of smaller districts that are not present for larger districts.<sup>40</sup> GSW added a 1.00% adjustment in its CAPM to account for its smaller size in comparison to the market-based average equity capitalization of the Water Proxy Group as a whole.<sup>41</sup>

We reject Applicants' small size adjustments because the impact of small size districts and operations is already reflected in the financial models of their Proxy Group. Applicants have included their own operations as part of their Proxy Groups. Given the Proxy Group members' substantial spread of annual revenue and market capitalization as shown in Table 3, and inclusion of

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<sup>38</sup> See footnote 4, *supra*.

<sup>39</sup> Exhibit SJW 4 at 63.

<sup>40</sup> Exhibit CWS 3 at 15.

<sup>41</sup> Exhibit GSW 3 at 39-40 and GSW 7 at 22.

Applicants' own operations as part of the Water Proxy Group, further small size adjustments are unnecessary.

We note that a related issue, whether the Commission should identify opportunities for consolidation of troubled systems within or adjacent to utilities' service territories that are not able to provide safe, reliable and affordable drinking water, and to what extent such issues should be addressed outside the water utility's general rate case, is being addressed in Rulemaking (R.) 17-06-024. This specific issue was not raised by the parties in this proceeding, but to the extent such consolidation or acquisitions are in the public interest, they may justify a troubled system adjustment. Parties may revisit this issue in R.17-06-024 consistent with the scope set forth in the January 9, 2018 Scoping Memo issued in that proceeding. Any future adjustments in this area whether addressed in R.17-06-024 or future applications for adjustments in cost of capital will need to be supported by the record in the respective proceedings.

## **5. Financial Model Results**

Applicants and ORA derived an ROE range from the results of their financial models and used that range to recommend a specific ROE. The parties were not consistent in selecting their respective ROE range. CAW, GSW and SJW took a simple average of their individual financial model results.<sup>42</sup> CWS selected the lowest point and highest point from all of its financial model results. ORA used the results of its CAPM financial model.

The DCF financial model is investor related and assesses the equity returns based on dividend yields and growth. Unlike the DCF financial model both the

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<sup>42</sup> Although SJW applied a simple average of its financial model results it gave very limited weigh to its DCF result. Exhibit SJW 4 at 5.

RPM and CAPM financial models are risk premium related. Applicants have included several variations of the CAPM financial model in arriving at their CAPM result.<sup>43</sup> Because both the RPM and CAPM financial models are risk premium related, we have given their results equal weight. Hence, we apply a simple weighted average of these three models consisting of 1/2 DCF and 1/2 of the average RPM and CAPM results to compare Applicants' and ORA's ranges of ROE. The following table summarizes the simple weighted averages of the individual financial models used by the parties, excluding the flotation cost, Non-Reg. Comp., ATWACC, financial leverage and small size adjustments we have determined are not appropriate in this proceeding.

**Table 5**  
**Applicants' and ORA's Adjusted ROE Ranges**

	CAW	CWS	GSW	SJW	ORA <sup>44</sup>
<b>DCF</b>	6.80% - 9.00%	6.80% - 9.00%	8.80%	8.50%	7.26% - 8.63%
<b>RPM</b>	10.10% - 10.20%	n.a.	11.50%	11.19%	n.a.
<b>CAPM</b>	9.00% - 9.70%	9.00% - 9.90%	10.40%	9.41%	5.27% - 10.43%
<b>Weighted Average</b>	8.18% - 9.48%	7.90% - 9.45%	9.88%	9.40%	6.27% - 9.53%

## 6. Return on Equity Summary

The results of these financial models are used to establish a range to which parties apply risk factors and individual judgment to determine a proposed equity return. Although the parties agree that the models are objective, the results are dependent on subjective inputs. In the final analysis it is the

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<sup>43</sup> Exhibit CAW 1 at 26.

<sup>44</sup> ORA's DCF range is based on is constant growth and non-constant growth DCF results.



application of judgment, not the precision of these models, which is the key to selecting a specific equity return within the range produced by financial model analysis.

As summarized in the following table, the financial models employed by Applicants and ORA, depending on the methods of calculation used and the assumptions made, produce average ROEs ranging from 6.27% to 9.88%. The table also compares the average of ROE ranges from the financial models to Applicants' requested and ORA's proposed ROEs. In all cases, the ROEs requested by Applicants exceed the ceiling of their adjusted financial model results by more than 100 basis points.

**Table 6**  
**Comparison of the Parties' Weighted Average Return of Equity Ranges to Applicants' Requested and ORA's Proposed Return on Equity**

	Adjusted ROE Ranges		Requested/Proposed ROE	
	Utility	ORA	Utility	ORA
<b>CAW</b>	8.18% - 9.48%	6.27% - 9.53%	10.80%	8.23%
<b>CWS</b>	7.90% - 9.45%	6.27% - 9.53%	10.75%	8.22%
<b>GSW</b>	9.88%	6.27% - 9.53%	11.00%	8.22%
<b>SJW</b>	9.40%	6.27% - 9.53%	10.80%	8.30%

We find no reason to adopt the financial modeling results of any one party. Therefore, we will establish a base ROE range from the financial model results. After considering all the evidence which includes the financial model results, adjustments to financial models, interest rate forecast, CD forecast, and applying informed judgement we arrive at a base ROE range of 7.40% to 9.40%. From that ROE range we consider the appropriate ROE for each of the Applicants.

**6.a. CAW**

CAW's 10.80% requested ROE exceeds its currently authorized 9.90% ROE and the 7.40% to 9.40% ROE range found reasonable in this proceeding. We apply informed judgment to determine an authorized ROE for CAW. Among the factors considered are CAW's unique and capital-intensified challenges in providing service to its Monterey Peninsula service territory, Carmel river water rights and supply, and approximately \$450 million in capital investment needs, more than double its historical level of capital investments.

After considering the evidence on the above factors, market conditions, trends, interest rate forecasts, quantitative financial models based on subjective inputs and risks presented by the parties we conclude that a 9.20% ROE is fair and reasonable for CAW.

**6.b. CWS**

CWS revised its 10.75% ROE request downward to 9.43%, its currently authorized ROE, in its comments to the proposed decision. This revised requested ROE exceeds the 7.40% to 9.40% ROE range found reasonable in this proceeding. We apply informed judgment to determine an authorized ROE for CWS. Among the factors considered are CWS's series of smaller districts, approximately half of its water supply from groundwater and increased infrastructure needs requiring large capital expenditures going forward.

After considering the evidence on the above factors, market conditions, trends, interest rate forecasts, quantitative financial models based on subjective inputs and risks presented by the parties we conclude that a 9.20% ROE is fair and reasonable for CWS.

**6.c. GSW**

GSW revised its 11.00% ROE request downward to a 9.84% to 10.25% range in its comments to the proposed decision. This revised requested ROE exceeds the 7.40% to 9.40% ROE range found reasonable in this proceeding. We apply informed judgment to determine an authorized ROE for GSW. Among the factors considered are GSW's reliance on groundwater supplies, a collection of small distinct water systems located in remote locations where incremental costs must be bore by a limited customer base, debt/equity ratio, capital expenditure needs over the next four years representing approximately 43% of its net utility plant, and equity ratio.

After considering the evidence on the above factors, market conditions, trends, interest rate forecasts, quantitative financial models based on subjective inputs and risks presented by the parties we conclude that a 8.90% ROE is fair and reasonable for GSW.

**6.d. SJW**

SJW revised its 10.80% ROE request downward to 9.43%, its currently authorized ROE, in its comments to the proposed decision. This revised ROE request exceeds the 7.40% to 9.40% ROE range found reasonable in this proceeding. Among the factors considered are that a major portion of SJW's water supply is purchased from the Santa Clara Valley Water District, its service territory covers adjacent cities and unincorporated areas within Santa Clara County and capital expenditures going forward to exceed 60% of its 2016 net utility plant.

After considering the evidence on the above factors, market conditions, trends, interest rate forecasts, quantitative financial models based on subjective

inputs and risks presented by the parties we conclude that a 8.90% ROE is fair and reasonable for SJW.

## **7. Cost of Debt**

Applicants calculate the annual cost of debt (CD) percentage by dividing the total annual debt cost amount (both annual interest amount and annual amortization of debt cost, including redemption premium) by the existing net proceeds amount less unamortized amounts (of debt and redemption premium) associated with the debt that is already paid.<sup>45</sup> In calculating total annual debt cost, Applicants also incorporate future debt cost.<sup>46</sup> Applicants, except CAW, calculate the recommended CD percentage by taking the average of the debt cost percentages from 2018 to 2020. CAW recommends 2018 debt percentage be applied for 2019 and 2020.<sup>47</sup>

ORA calculates the annual CD percentage by dividing total annual debt cost amount (both annual interest amount and annual amortization of debt cost, including redemption premium) by the existing net proceeds amount. In calculating total annual debt cost for the test year, ORA also incorporated Applicants' proposed future debt cost. ORA calculates its recommended CD percentage by taking the average of the debt cost percentages from 2018 to 2020.

ORA's cost of debt calculation mistakenly included State Revolving Fund debt being paid for by CAW's ratepayers. ORA also departed from the traditional method used in prior cost of capital proceedings in calculating costs

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<sup>45</sup> CAW Exhibit 3 at 10 and Application, Attachment A, Chapter 3 – Table 2; SJW Exhibit 1 Schedule 4; GSW Exhibit 2, Tables 1 and 2.

<sup>46</sup> CAW Exhibit 3 at 11; GSW Exhibit 2 at 5, and 6; SJW Exhibit 1 at 5; CWS Exhibit 2 at 10, lines 6-7.

<sup>47</sup> GSW Exhibit 2, Table 2; SJW Exhibit 1, Schedule 4.

of debt by excluding issuance costs of approximately, \$3.4 million, \$420.900 and \$1.18 million proposed by SJW, GSW and CAW, respectively, and \$4.8 million of GSW's redemption premiums not associated with any existing debt issuance.

We opt for the traditional method in calculating the costs of debt in this proceeding. Hence, we adopt the applicants requested costs of debt, which are shown on Table 7, below.

**Table 7**  
**Comparison of ORA's and Applicants' Proposed Cost of Debt**

	<b>ORA Recommended</b>	<b>Utility Proposed</b>
<b>SJW</b>	5.96%	6.20%
<b>GSW</b>	6.40%	6.60%
<b>CAW</b>	5.22%	5.63%
<b>CWS</b>	5.51%	5.51%

## **8. Capital Structure**

ORA witness Dawadi arrived at his recommended capital structures by calculating the weighted average capital structures of the Applicants' regulated operations as shown in their annual reports. His recommended capital structures are not materially different from those proposed by the Applicants, which are shown on Table 8 below. Therefore, we adopt the Applicants' proposed capital structures.

**Table 8**

Comparison of ORA's and Applicants' Proposed Debt/Equity

	ORA Recommended Debt / Equity	Applicants' Proposed Debt / Equity
SJW	47.42% / 52.58%	46.72% / 53.28%
GSW	45.87% / 54.13%	43.00% / 57.00%
CAW	45.82% / 54.18%	44.61% / 55.39%
CWS	45.56% / 54.44%	46.60% / 53.40%

**9. Comments on Proposed Decision**

The proposed decision of ALJ in this matter was mailed to the parties in accordance with Section 311 of the Pub. Util. Code and comments were allowed under Rule 14.3 of the Commission's Rules of Practice and Procedure. Comments were filed on February 26, 2018 by CAW, CWS GSW, SJW and ORA. To the extent changes were necessary as a result of the filed comments they were made to in the body of this order.

**10. Assignment of Proceeding**

Martha Guzman Aceves is the assigned Commissioner for this proceeding and Karl J. Bemesderfer is the assigned ALJ.

**Findings of Fact**

1. More than 400 ratepayers appeared at the PPHs and more than 100 of them provided comments.
2. Applicants seek Commission authorization to continue with their WCCM for the years 2019 and 2020 using the base year 2018 that will be adopted in this proceeding.

3. The legal standards for setting a fair rate of return have been established by the *Bluefield*, *Hope* and *Duquesne* cases. Such a rate of return should be similar 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, should enable a utility to maintain financial integrity, to attract capital, and to compensate investors for the risks they assume and should not be confiscatory.

4. The national average ROEs granted water utilities were 9.68% in 2016 and 9.43% for the first five months of 2017.

5. The major California energy utilities' ROEs are 10.05% to 10.30%.

6. The 10.75% to 11.00% ROEs requested by Applicants are more than 100 basis points higher than the national average ROEs granted water utilities and approximately 70 basis points higher than the major California energy utilities' ROEs.

7. The parties started with the same eight water companies in their Proxy Group. In addition, GSW added Artesian Resources to its Proxy Group.

8. The parties used variations of the CAPM, RPM and DCF financial models to support their respective ROE recommendations.

9. GSW and SJW included a flotation cost adjustment in their financial model results, which the Commission has previously disallowed other utilities from using in similar financial models.

10. GSW and SJW included the impact of a non-regulated comparable earnings approach in their financial model results.

11. CWS and CAW included an ATWACC adjustment in their financial model results, which the Commission has previously disallowed other utilities from using in similar models.

12. GSW included a leverage adjustment in its DCF results.
13. CWS, GSW and SJW included a small size adjustment in their financial model results.
14. CWS's and SJW's operations are included in Proxy Group companies California Water Service Group and SJW Corp., respectively.
15. The RPM and CAPM financial models are both risk premium related.
16. The DCF financial model assesses equity returns based on dividend yields and growth.
17. ORA's recommended returns on equity range from 8.22% to 8.30%.
18. Applicants' costs of debt as calculated by ORA range from 5.22% to 6.40%.
19. The traditional method of calculating debt cost should be used in this proceeding.
20. ORA's recommended capital structures are not materially different from those proposed by Applicants.

### **Conclusions of Law**

1. The consolidation of these applications does not mean that a uniform ROE should be applied to each of the Applicants.
2. Applicants' requests to continue with their Water Cost of Capital Mechanisms are unopposed and should be adopted.
3. Applicants provided no reason to consider the average ROE of the national water utilities or major California energy utilities as an ROE benchmark in this proceeding.
4. The flotation cost and ATWACC adjustments proposed in this proceeding should be disallowed because the Commission has previously disallowed other utilities from using those adjustments in similar financial models and Applicants provided no reasons for changing this approach.



5. Non-regulated comparable earnings financial modeling results should not be considered in this proceeding for the reasons set forth in the body of this decision.

6. GSW's financial leverage adjustment in its DCF results should be disallowed for the reasons set forth in the body of this decision.

7. The small size adjustment should not be considered in this proceeding for the reasons set forth in the body of this decision.

8. A simple weighted average of financial modeling results consisting of 1/2 DCF and 1/2 of the average RPM and CAPM results should be applied.

9. Applicants did not provide any evidence to substantiate that they are riskier than either the national water utilities or the major California energy utilities.

10. A 2018, 2019 and 2020 ROE range from 7.40% to 9.40% is just and reasonable for CAW, CWS, GSW and SJW.

11. An 9.20% ROE for the 2018, 2019 and 2020 calendar year is just and reasonable for CAW.

12. An 9.20% ROE for the 2018, 2019 and 2020 calendar year is just and reasonable for CWS.

13. An 8.90% ROE for the 2018, 2019 and 2020 calendar year is just and reasonable for GSW.

14. An 8.90% ROE for the 2018, 2019 and 2020 calendar year is just and reasonable for SJW.

15. Applicants proposed costs of debt are reasonable and should be adopted.

16. Applicants proposed capital structures are reasonable and should be adopted.

17. Applicants should amortize and close their memorandum accounts that track the difference between water rates currently in effect and water rates that will go into effect due to a change in their ROE authorized by this decision as part of their next general rate adjustment.

18. The water utilities' ROE applications should be granted to the extent provided for in the following order.

### **O R D E R**

1. California Water Service Company is authorized an 9.20% return on equity and a 5.51% cost of debt with a 46.60% debt to 53.40% equity ratio resulting in a 7.48% return on rate base for the calendar years 2018, 2019 and 2020.

2. California-American Water Company is authorized an 9.20% return on equity and a 5.63% cost of debt with a 44.61% debt to 55.39% equity ratio resulting in a 7.61% return on rate base for the calendar years 2018, 2019 and 2020.

3. Golden State Water Company is authorized an 8.90% return on equity and a 6.60% cost of debt with a 43.00% debt to 57.00% equity ratio resulting in a 7.91% return on rate base for the calendar years 2018, 2019 and 2020.

4. San Jose Water Company is authorized an 8.90% return on equity and a 6.20% cost of debt with a 46.72% debt to 53.28% equity ratio resulting in a 7.64% return on rate base for the calendar years 2018, 2019 and 2020.

5. California Water Service Company, California-American Water Company, Golden State Water Company and San Jose Water Company shall continue with their Water Cost of Capital Mechanism for the years 2019 and 2020, using the base year 2018 adopted in this decision.

6. California Water Service Company, California-American Water Company, Golden State Water Company and San Jose Water Company shall amortize and close their memorandum accounts that track the difference between water rates currently in effect and water rates that will go into effect due to a change in their return on equity authorized by this decision as part of their next general rate adjustment.

7. Application (A.) 17-04-001, A.17-04-002, A.17-04-003, and A.17-04-006 are closed.

This order is effective immediately.

Dated \_\_\_\_\_, at San Francisco, California.

**SAN JOSE WATER COMPANY**

**ADVICE LETTER NO. 518**

**ATTACHMENT B**

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

**AUTHORIZED RATE OF RETURN  
(2018 - 2020)**

	<b><u>Capital Ratio</u></b>	<b>Effective Rate %</b>	<b><u>Rate of Return</u></b>
<b><u>2018</u></b>			
Long-term Debt	46.72%	6.20%	2.90%
Common Equity	<u>53.28%</u>	<u>8.90%</u>	<u>4.74%</u>
	<u>100.00%</u>		<u>7.64%</u>
<b><u>2019</u></b>			
Long-term Debt	46.72%	6.20%	2.90%
Common Equity	<u>53.28%</u>	<u>8.90%</u>	<u>4.74%</u>
	<u>100.00%</u>		<u>7.64%</u>
<b><u>2020</u></b>			
Long-term Debt	46.72%	6.20%	2.90%
Common Equity	<u>53.28%</u>	<u>8.90%</u>	<u>4.74%</u>
	<u>100.00%</u>		<u>7.64%</u>

Authorized in D. 18-03-

ADVICE LETTER 518  
ATTACHMENT B - SUMMARY OF EARNINGS  
2018 ESCALATION RATE RECALCULATION  
after COC D.18-03-  
XXX

Revenue  
Increase:  
13,025.0  
13025

Revenue  
Increase:  
9,827.0  
9827

	Escalation Year #1, 2017						Escalation Year 2018 Recalculated											
	2016					2017	2017	2017	2017							2018		
	July 1, 2016 Authorized AL 490	Customer Growth Factor	and Inflation Factor	or	Composite Non-Labor or Factor	CPI-U Inflation Factor	= Projected Escalation Year	Montevina Authorized AL 506	Authorized	SCVWD Authorized AL 509A	July 1, 2017 Authorized	Customer Growth Factor	and Inflation Factor	or	Composite Non-Labor Factor	or	CPI-U Inflation Factor	= Projected Escalation Year
		0.30%	1.30%		2.00%	1.50%						0.30%	2.10%		1.20%	2.20%		
	339,886.3						352,911.3	5,338.8	358,250.1	12,406.6	370,656.7							380,483.7
	487.0						487.0	0.0	487.0	0.0	487.0							487.0
PURCHASED WATER	82,727.4	210.5	0.0		0.0	0.0	82,937.9	0.0	82,937.9	7,270.5	90,208.5	270.6	0.0		0.0	0.0	0.0	90,479.1
PURCHASED WATER RECYCLED	1,617.5	3.8	0.0		0.0	0.0	1,621.3	0.0	1,621.3	205.7	1,827.0	5.5	0.0		0.0	0.0	0.0	1,832.5
PUMP TAX	50,809.8	127.1	0.0		0.0	0.0	50,936.9	0.0	50,936.9	4,882.0	55,818.9	167.5	0.0		0.0	0.0	0.0	55,986.3
PURCHASED POWER	8,915.0	26.7	0.0		0.0	0.0	8,941.7	0.0	8,941.7	0.0	8,941.7	26.8	0.0		0.0	0.0	0.0	8,968.6
OTHER OPERATION AND MAINTENANCE	753.0	2.3	0.0		15.1	0.0	770.3	0.0	770.3	0.0	770.3	2.3	0.0		9.2	0.0	0.0	781.9
CHEMICALS	459.0	1.4	0.0		9.2		469.6	0.0	469.6	0.0	469.6	1.4	0.0		5.6	0.0	0.0	476.6
UNCOLLECTIBLES	513.8	1.4	0.0		9.6		524.8	0.0	524.8	18.7	543.5	1.6	0.0		6.5	0.0	0.0	551.7
O&M PAYROLL	18,915.0	56.7	245.9		0.0	0.0	19,217.6	0.0	19,217.6	0.0	19,217.6	57.7	403.6		0.0	0.0	0.0	19,678.9
TRANSPORTATION	3,311.0	9.9	0.0		66.2		3,387.2	0.0	3,387.2	0.0	3,387.2	10.2	0.0		40.6	0.0	0.0	3,438.0
PURCHASED SERVICES	10,663.0	32.0	0.0			159.9	10,854.9	0.0	10,854.9	0.0	10,854.9	32.6	0.0		0.0	0.0	0.0	10,887.5
CONSERVATION	2,822.0	8.5	0.0			42.3	2,872.8	0.0	2,872.8	0.0	2,872.8	8.6	0.0		0.0	0.0	63.2	2,944.6
OTHER ADMIN AND GEN. EXP.	4,132.0	12.4	0.0		82.6		4,227.0	0.0	4,227.0	0.0	4,227.0	12.7	0.0		50.7	0.0	0.0	4,290.4
A&G PAYROLL	7,829.0	23.5	101.8				7,954.3	0.0	7,954.3	0.0	7,954.3	23.9	167.0		0.0	0.0	0.0	8,145.2
PENSION	6,700.0	20.1	87.1				6,807.2	0.0	6,807.2	0.0	6,807.2	0.0	0.0		0.0	0.0	0.0	6,807.2
BENEFITS	3,214.0	9.6	41.8				3,265.4	0.0	3,265.4	0.0	3,265.4	9.8	68.6		0.0	0.0	0.0	3,343.8
HEALTH CARE & DENTAL	6,237.0	18.7	81.1				6,336.8	0.0	6,336.8	0.0	6,336.8	19.0	82.4		0.0	0.0	0.0	6,438.2
RENTS	498.0	1.5	0.0			7.5	507.0	0.0	507.0	0.0	507.0	1.5	0.0		0.0	0.0	11.2	519.6
PROPERTY INSURANCE	234.0	0.7	0.0			3.5	238.2	0.0	238.2	0.0	238.2	0.7	0.0		0.0	0.0	5.2	244.2
LIABILITY INSURANCE	2,049.0	6.1	0.0			30.7	2,085.9	0.0	2,085.9	0.0	2,085.9	6.3	0.0		0.0	0.0	45.9	2,138.0
A&G PURCHASED SERVICES	3,328.0	10.0	0.0		0.0	49.9	3,387.9	0.0	3,387.9	0.0	3,387.9	10.2	0.0		0.0	0.0	74.5	3,472.6
A&G TRANSFERRED SERVICES	-7,462.0	-22.4	0.0		-149.2		-7,633.6	0.0	-7,633.6	0.0	-7,633.6	-22.9	0.0		0.0	0.0	0.0	-7,656.5
											222,088.1							
TOTAL O. & M., A. & G., & MISC. EXP.	208,265.5	560.6	557.6		33.5	293.9	209,711.1	0.0	209,711.1	12,376.9	222,088.1	645.8	721.6		112.8	200.0		223,768.2
AD VALOREM TAXES	8,254.0	24.4	0.0		162.9	0.0	8,441.4	346.8	8,788.2	0.0	8,788.2	26.4	0.0		105.5	0.0	0.0	8,920.0
LOCAL FRANCHISE TAXES & BUS. LICENSE	844.6	2.4	0.0		15.8	0.0	862.8	0.0	862.8	29.6	892.4	2.7	0.0		10.7	0.0	0.0	905.8
PAYROLL TAXES	2,006.0	6.0	26.1		0.0	0.0	2,038.1	0.0	2,038.1	0.0	2,038.1	6.1	0.0		0.0	0.0	0.0	2,044.2
TOTAL GENERAL TAXES	11,104.6	32.8	26.1		178.7		11,342.3	346.8	11,689.1	29.6	11,718.7	35.2	0.0		116.2			11,870.1
Depreciation	42,299.2	3566.5					45,865.7	996.8	46,862.6	0.0	46,862.6	3,566.5						50,429.1
SUB -- TOTAL -- OPERATING EXPENSES	261,669.3	4,160.0	583.7		212.2	293.9	266,919.1	1,343.7	268,262.8	12,406.5	280,669.4	4,247.5	721.6		228.9	200.0		286,067.4
STATE INCOME TAX	3,256.3						4,637.5	409.3	5,046.7	0.0	5,046.7							5,664.2
FEDERAL INCOME TAX	21,493.8						23,183.6	1,227.9	24,411.5	0.0	24,411.5							27,271.0
	286,329.3						294,740.2	2,980.8	297,721.1	12,406.5	310,127.6							319,002.5
	54,044.0						58,658.0	2,358.0	61,016.0	0.1	61,016.1							61,968.2
	668,034.1	56,696.0					724,730.1	29,147.0	753,877.1	0.0	753,877.1	56,696.0						810,573.1
	8.09%						8.09%	8.09%	8.09%		8.09%							7.64%
	8.09%						8.09%	8.09%	8.09%		8.09%							7.64%

ATTACHMENT C - SUMMARY OF EARNINGS  
2018 ESCALATION RATE  
INCREASE

Revenue  
Increase:  
13,025.0  
13025

Revenue  
Increase:  
15,670.0  
15670

	Escalation Year #1, 2017						13025	Escalation Year 2018									
	2016 July 1, 2016 Authorized AL 490	Customer Growth Factor	and Labor Inflation Factor	or Composite Non-Labor or Factor	CPI-U Inflation Factor	2017 Projected Escalation Year		2017 Montevina Authorized AL 506	2017 Authorized	2017 SCVWD Authorized AL 509A	2017 July 1, 2017 Authorized	Customer Growth Factor	and Labor Inflation Factor	or Composite Non-Labor Factor	or CPI-U Inflation Factor	=	2018 Projected Escalation Year
		0.30%	1.30%		2.00%	1.50%						0.30%	2.10%	1.20%	2.20%		
	339,886.3						352,911.3	5,338.8	358,250.1	12,406.6	370,656.7						386,326.7
	487.0						487.0	0.0	487.0	0.0	487.0						487.0
PURCHASED WATER	82,727.4	210.5	0.0		0.0	0.0	82,937.9	0.0	82,937.9	7,270.5	90,208.5	270.6	0.0	0.0	0.0		90,479.1
PURCHASED WATER RECYCLED	1,617.5	3.8	0.0		0.0	0.0	1,621.3	0.0	1,621.3	205.7	1,827.0	5.5	0.0	0.0	0.0		1,832.5
PUMP TAX	50,809.8	127.1	0.0		0.0	0.0	50,936.9	0.0	50,936.9	4,882.0	55,818.9	167.5	0.0	0.0	0.0		55,986.3
PURCHASED POWER	8,915.0	26.7	0.0		0.0	0.0	8,941.7	0.0	8,941.7	0.0	8,941.7	26.8	0.0	0.0	0.0		8,968.6
OTHER OPERATION AND MAINTENANCE	753.0	2.3	0.0		15.1	0.0	770.3	0.0	770.3	0.0	770.3	2.3	0.0	9.2	0.0		781.9
CHEMICALS	459.0	1.4	0.0		9.2		469.6	0.0	469.6	0.0	469.6	1.4	0.0	5.6	0.0		476.6
UNCOLLECTIBLES	513.8	1.4	0.0		9.6		524.8	0.0	524.8	18.7	543.5	1.6	0.0	6.5	0.0		551.7
O&M PAYROLL	18,915.0	56.7	245.9		0.0	0.0	19,217.6	0.0	19,217.6	0.0	19,217.6	57.7	403.6	0.0	0.0		19,678.9
TRANSPORTATION	3,311.0	9.9	0.0		66.2		3,387.2	0.0	3,387.2	0.0	3,387.2	10.2	0.0	40.6	0.0		3,438.0
PURCHASED SERVICES	10,663.0	32.0	0.0			159.9	10,854.9	0.0	10,854.9	0.0	10,854.9	32.6	0.0	0.0	0.0		10,887.5
CONSERVATION	2,822.0	8.5	0.0			42.3	2,872.8	0.0	2,872.8	0.0	2,872.8	8.6	0.0	0.0	63.2		2,944.6
OTHER ADMIN AND GEN. EXP.	4,132.0	12.4	0.0		82.6		4,227.0	0.0	4,227.0	0.0	4,227.0	12.7	0.0	50.7	0.0		4,290.4
A&G PAYROLL	7,829.0	23.5	101.8				7,954.3	0.0	7,954.3	0.0	7,954.3	23.9	167.0	0.0	0.0		8,145.2
PENSION	6,700.0	20.1	87.1				6,807.2	0.0	6,807.2	0.0	6,807.2	0.0	0.0	0.0	0.0		6,807.2
BENEFITS	3,214.0	9.6	41.8				3,265.4	0.0	3,265.4	0.0	3,265.4	9.8	68.6	0.0	0.0		3,343.8
HEALTH CARE & DENTAL	6,237.0	18.7	81.1				6,336.8	0.0	6,336.8	0.0	6,336.8	19.0	82.4	0.0	0.0		6,438.2
RENTS	498.0	1.5	0.0			7.5	507.0	0.0	507.0	0.0	507.0	1.5	0.0	0.0	11.2		519.6
PROPERTY INSURANCE	234.0	0.7	0.0			3.5	238.2	0.0	238.2	0.0	238.2	0.7	0.0	0.0	5.2		244.2
LIABILITY INSURANCE	2,049.0	6.1	0.0			30.7	2,085.9	0.0	2,085.9	0.0	2,085.9	6.3	0.0	0.0	45.9		2,138.0
A&G PURCHASED SERVICES	3,328.0	10.0	0.0		0.0	49.9	3,387.9	0.0	3,387.9	0.0	3,387.9	10.2	0.0	0.0	74.5		3,472.6
A&G TRANSFERRED SERVICES	-7,462.0	-22.4	0.0		-149.2		-7,633.6	0.0	-7,633.6	0.0	-7,633.6	-22.9	0.0	0.0	0.0		-7,656.5
										222,088.1							
TOTAL O. & M., A. & G., & MISC. EXP.	208,265.5	560.6	557.6		33.5	293.9	209,711.1	0.0	209,711.1	12,376.9	222,088.1	645.8	721.6	112.8	200.0		223,768.2
AD VALOREM TAXES	8,254.0	24.4	0.0		162.9	0.0	8,441.4	346.8	8,788.2	0.0	8,788.2	26.4	0.0	105.5	0.0		8,920.0
LOCAL FRANCHISE TAXES & BUS. LICENSE	844.6	2.4	0.0		15.8	0.0	862.8	0.0	862.8	29.6	892.4	2.7	0.0	10.7	0.0		905.8
PAYROLL TAXES	2,006.0	6.0	26.1		0.0	0.0	2,038.1	0.0	2,038.1	0.0	2,038.1	6.1	0.0	0.0	0.0		2,044.2
TOTAL GENERAL TAXES	11,104.6	32.8	26.1		178.7		11,342.3	346.8	11,689.1	29.6	11,718.7	35.2	0.0	116.2			11,870.1
Depreciation	42,299.2	3566.5					45,865.7	996.8	46,862.6	0.0	46,862.6	3,566.5					50,429.1
SUB -- TOTAL -- OPERATING EXPENSES	261,669.3	4,160.0	583.7		212.2	293.9	266,919.1	1,343.7	268,262.8	12,406.5	280,669.4	4,247.5	721.6	228.9	200.0		286,067.4
STATE INCOME TAX	3,256.3						4,637.5	409.3	5,046.7	0.0	5,046.7						6,180.7
FEDERAL INCOME TAX	21,493.8						23,183.6	1,227.9	24,411.5	0.0	24,411.5						28,951.4
	286,329.3						294,740.2	2,980.8	297,721.1	12,406.5	310,127.6						321,199.4
	54,044.0						58,658.0	2,358.0	61,016.0	0.1	61,016.1						65,614.3
	668,034.1	56,696.0					724,730.1	29,147.0	753,877.1	0.0	753,877.1	56,696.0					810,573.1
	8.09%						8.09%	8.09%	8.09%		8.09%						8.09%
	8.09%						8.09%	8.09%	8.09%		8.09%						8.09%

**ADVICE LETTER 518- ATTACHMENT B**

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

**COMPUTATION OF TAXES BASED ON INCOME  
(2016- 2018)**

**ESTIMATED AT PRESENT AND PROPOSED RATES**

**(Thousands of Dollars)**

	<b>AL488 2016</b>	<b>AL489/490 2016</b>	<b>Jan 2017</b>	<b>Jan 2018</b>
<b>Revenue:</b>				
Operating Revenue	\$316,788.0	\$339,886.3	\$352,911.3	\$380,483.7
Deferred Revenue	\$487.0	\$487.0	\$487.0	\$487.0
<b>Deductions:</b>				
O & M Expenses (Excluding Uncollectables)	\$160,117.0	\$181,506.6	\$182,010.2	\$195,473.9
Uncollectibles	\$481.0	\$513.9	\$524.8	\$551.7
A&G Expenses	\$26,759.0	\$26,759.0	\$27,176.1	\$27,742.7
Taxes Other Than Income	\$10,185.0	\$10,260.0	\$10,479.5	\$10,964.2
Local Franchise Taxes	\$759.0	\$845.2	\$862.8	\$905.8
Transportation Depreciation	(\$992.0)	(\$992.0)	(\$1,190.0)	(\$1,190.0)
Interest Expense	\$21,381.0	\$21,381.0	\$23,224.0	\$23,224.0
Less 50% Meals Disallowed	\$92.0	\$92.0	\$92.0	\$92.0
Total Deductions	\$218,782.0	\$240,365.7	\$243,179.4	\$257,764.3
<b>State Corporate Franchise Tax:</b>				
Tax Depreciation	(\$40,114.0)	(\$40,114.0)	(\$43,532.0)	(\$44,905.3)
State Tax Deduction on Repairs & Maint	(\$22,613.0)	(\$22,613.0)	(\$13,774.0)	(\$13,774.0)
Deferred Revenue (Net of Tax)	\$43.0	\$43.0	\$34.0	\$34.0
Taxable Income Incl Def Revenue	\$35,322.0	\$36,836.5	\$52,459.9	\$64,074.1
Tax @ 8.84%	\$3,122.5	\$3,256.3	\$4,637.5	\$5,664.2
<b>Federal Income Tax:</b>				
Tax Depreciation	(\$33,524.0)	(\$33,524.0)	(\$37,407.0)	(\$37,689.8)
State Franchise Tax	(\$3,122.5)	(\$3,256.3)	(\$4,637.5)	(\$5,664.2)
IRS Sec 199 QPA Deduction	(\$1,338.0)	(\$1,338.0)	(\$1,457.0)	(\$1,457.0)
Taxable Income Excluding Deferred Revenue	\$60,021.5	\$61,402.2	\$66,230.4	\$77,908.4
Tax @ 35.00%	\$21,007.5	\$21,490.8	\$23,180.6	\$27,268.0
Amortization of Unrecoverable Prepaid Tax on CIAC & Advances	\$3.0	\$3.0	\$3.0	\$3.0
Federal Tax	\$21,010.5	\$21,493.8	\$23,183.6	\$27,271.0
Total Income Tax	\$24,133.0	\$24,750.1	\$27,821.1	\$32,935.1



**SAN JOSE WATER COMPANY**

**ADVICE LETTER NO. 518**

**ATTACHMENT C**

ADVICE LETTER 518  
ATTACHMENT C -  
2018 ESCALATION YEAR  
RATE RECALCULATION

Revenue To be Recovered in Meter Charge	30.00%	X	Revenue Increase (\$)	(\$1,752,900)
Revenue To be Recovered in Quantity Rate	70.00%	X	Revenue Increase (\$)	(\$5,843,000)
				(\$4,090,100)

QUANTITY RATE CALCULATION									
Rate Schedule	AL 513A 2018 Authorized Revenue (\$)	AL 518 2018 Rate Decreased Revenue (\$)	Total Revenue Decrease (Att. B) (\$)	Total Revenue Increase (%)	Revenue Decrease in Quantity Rate (\$)	2016 Authorized Total Usage* D.16-06-004 (ccf)	Quantity Rate Decrease (\$/ccf)	Uniform Quantity Rate 1/1/2018 AL 513A (\$/ccf)	New Quantity Rate (\$/ccf)
Total	386,813,700	380,970,700	(\$5,843,000)	-1.51%	(\$4,090,100)	50,365,000 Excludes Recycled Well Users	(\$0.0812)	4.9806	4.8994

TOTAL POTABLE REVENUE CALCULATION						
	Percentage of Potable Sales to Total Sales (%)	2016 Authorized Potable Usage D.16-06-004 (ccf)	Revenue to be Recovered in Potable Quan.Rate (\$)	Quantity Rate Increase (\$/ccf)	Uniform Quantity Rate 2018 AL 513A (\$/ccf)	New Potable Quantity Rate (\$/ccf)
						(MG)
Potable Water	98.97%	49,847,000.00	(4,048,034)	(0.0812)	4.9806	4.8994

TOTAL RAW REVENUE CALCULATION						
	Percentage of Raw Sales to Total Sales (%)	2016 Authorized Raw Usage D.16-06-004 (ccf)	Revenue to be Recovered in Raw Quan.Rate (\$)	Quantity Rate Increase (\$/ccf)	Raw Quantity Rate 2018 AL 513A (\$/ccf)	New Raw Quantity Rate (\$/ccf)
						(MG)
Raw Water	0.03%	14,000.00	(1,137)	(0.0812)	4.5346	4.4534

TOTAL RECYCLED PIPED REVENUE CALCULATION						
	Percentage of Recycled Piped Sales to Total Sales (%)	2016 Authorized Recycled Piped Usage D.16-06-004 (ccf)	Revenue to be Recovered in Recycled Piped Quan.Rate (\$)	Quantity Rate Increase (\$/ccf)	Recycled Piped Quantity Rate 2018 AL 513A (\$/ccf)	New Recycled Quantity Rate (\$/ccf)
						(MG)
Recycled Piped	1.00%	504,000.00	(40,929)	(0.0812)	4.5100	4.4288

Total Quantity Charges for all Schedules	(\$4,090,100)
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ADVICE LETTER 518  
ATTACHMENT C - PART 1

METER CHARGE CALCULATION										
Revenue to be Recovered in Meter Charge					(\$1,752,900)					
Schedule No. 1. General Metered Service & 1B General Metered Service with Automatic Fire Sprinkler System:										
Meter Size	2016 No. of Customers Authorized	No. of Billings	Meter Ratio (SP U-25)	Meter Ratio Equiv	Meter Charge Increase (\$/Month)	Increase to Total Service Charge	Authorized AL 513A Eff. 1/01/2018 Meter Charge (\$/Month)	New Meter Charge (\$/Month)	Meter Charge Increase (%)	
5/8	869	10,428	1.5		15,642	(\$0.47)	(\$4,901)	\$26.68	\$26.21	-1.76%
3/4	175,315	2,103,780	1.5		3,155,670	(\$0.47)	(\$988,777)	\$26.68	\$26.21	-1.76%
1	34,211	410,532	2.5		1,026,330	(\$0.78)	(\$320,215)	\$44.42	\$43.64	-1.76%
1 1/2	3,973	47,676	5		238,380	(\$1.55)	(\$73,898)	\$88.89	\$87.34	-1.74%
2	4,908	58,896	8		471,168	(\$2.49)	(\$146,651)	\$142.25	\$139.76	-1.75%
3	1,429	17,148	15		257,220	(\$4.66)	(\$79,910)	\$266.70	\$262.04	-1.75%
4	412	4,944	25		123,600	(\$7.77)	(\$38,415)	\$444.50	\$436.73	-1.75%
6	184	2,208	50		110,400	(\$15.54)	(\$34,312)	\$889.00	\$873.46	-1.75%
8	30	360	80		28,800	(\$24.86)	(\$8,950)	\$1,422.41	\$1,397.55	-1.75%
10	7	84	115		9,660	(\$35.74)	(\$3,002)	\$2,044.74	\$2,009.00	-1.75%
	221,338	2,656,056			5,436,870		(\$1,699,031)			
Schedule No. RW. Raw Water Service:										
3/4	0	0	1.5		0	(\$0.47)	\$0	\$26.68	\$26.21	-1.76%
1	0	0	2.5		0	(\$0.78)	\$0	\$44.42	\$43.64	-1.76%
1 1/2	1	12	5		60	(\$1.55)	(\$19)	\$88.89	\$87.34	-1.74%
2	3	36	8		288	(\$2.49)	(\$90)	\$142.25	\$139.76	-1.75%
3	0	0	15		0	(\$4.66)	\$0	\$266.70	\$262.04	-1.75%
4	0	0	25		0	(\$7.77)	\$0	\$444.50	\$436.73	-1.75%
6	0	0	50		0	(\$15.54)	\$0	\$889.00	\$873.46	-1.75%
8	0	0	80		0	(\$24.86)	\$0	\$1,422.41	\$1,397.55	-1.75%
10	0	0	115		0	(\$35.74)	\$0	\$2,044.74	\$2,009.00	-1.75%
	4	48			348		(\$109)			
Schedule No. RCW. Recycled Water Service Piped:										
3/4	0	0	1.5		0	(\$0.47)	\$0	\$26.68	\$26.21	-1.76%
1	2	24	2.5		60	(\$0.78)	(\$19)	\$44.42	\$43.64	-1.76%
1 1/2	8	96	5		480	(\$1.55)	(\$149)	\$88.89	\$87.34	-1.74%
2	91	1,092	8		8,736	(\$2.49)	(\$2,719)	\$142.25	\$139.76	-1.75%
3	31	372	15		5,580	(\$4.66)	(\$1,734)	\$266.70	\$262.04	-1.75%
4	34	408	25		10,200	(\$7.77)	(\$3,170)	\$444.50	\$436.73	-1.75%
6	1	12	50		600	(\$15.54)	(\$186)	\$889.00	\$873.46	-1.75%
8	1	12	80		960	(\$24.86)	(\$298)	\$1,422.41	\$1,397.55	-1.75%
10	1	12	115		1,380	(\$35.74)	(\$429)	\$2,044.74	\$2,009.00	-1.75%
	169	2,028			27,996		(\$8,704)			
Schedule No. RCW. Recycled Water Service Well Users: (1)										
2	1	12		-1.51%	(\$0.50)	(\$6)	\$32.95	\$32.45	-1.51%	
3	1	12		-1.51%	(\$0.66)	(\$8)	\$43.94	\$43.28	-1.51%	
4	2	24		-1.51%	(\$0.75)	(\$18)	\$49.42	\$48.67	-1.51%	
6	1	12		-1.51%	(\$1.24)	(\$15)	\$82.39	\$81.15	-1.51%	
8	2	24		-1.51%	(\$1.49)	(\$36)	\$98.86	\$97.37	-1.51%	
10	1	12		-1.51%	(\$2.32)	(\$28)	\$153.78	\$151.46	-1.51%	
	14	96				(\$111)				
Schedule No. 4. Private Fire Service: (1)										
2	44	528		-1.51%	(\$0.41)	(\$214)	\$26.84	\$26.43	-1.51%	
3	5	60		-1.51%	(\$0.61)	(\$36)	\$40.23	\$39.62	-1.51%	
4	1,094	13,128		-1.51%	(\$0.81)	(\$10,635)	\$53.65	\$52.84	-1.51%	
6	1,475	17,700		-1.51%	(\$1.22)	(\$21,515)	\$80.50	\$79.28	-1.51%	
8	940	11,280		-1.51%	(\$1.62)	(\$18,276)	\$107.30	\$105.68	-1.51%	
10	138	1,656		-1.51%	(\$2.03)	(\$3,354)	\$134.14	\$132.11	-1.51%	
12	14	168		-1.51%	(\$2.43)	(\$408)	\$160.97	\$158.54	-1.51%	
	3,710	44,520				(\$54,438)				
Total Meter Charges for all Schedules					(\$1,762,393)					

Calculation of New RW rate	Potable Rate Adjustment for Treatment Charge	\$4.8994 ccf =	\$2,134.18 AF
			(\$100.00) AF
Raw Water	AL 519	\$4.6698 ccf	\$2,034.18 AF

(1) Sch No. RCW and Sch No. 4 rates are escalated by the total revenue increase percentage consistent with the methodology used in D.16-06-004

**ADVICE LETTER 518  
ATTACHMENT F PART 2  
2018 ESCALATION YEAR TIER RATE DESIGN**

SQR (\$/CCF) \$4.8994  
New Q Revenue Target \$ 143,229,060

**Three Tier Rate Design**

<i>Rate Tier Criteria as % of SQR</i>		
	<b>% of SQR</b>	<b>rate</b>
Tier 1	0.9	\$4.40946
Tier 2	1	\$4.89940
Tier 3	1.1	\$5.3893

<i>Revenue Neutrality Test</i>	
Target at SQR	\$ 143,229,059.6
Rev neutrality, tier.SQR	\$ 358,072.65
% tier >SQR	0.250%

	<b>Rationale</b>	<b>Proposed Tiers(ccf)</b>	<b>Tier rate differential</b>	<b>Existing Rates</b>	<b>Proposed New Rates</b>	<b>Ccf estimate sales in tier</b>	<b>Rev estimate \$ sales in tier</b>	<b>Portion of total consumption in tier</b>	<b>Portion of Revenue by Tier</b>
Tier 1	indoor consumption est.*	0 to 3 ccfs	90.00%	\$4.4825	\$4.4095	5,846,800	\$ 25,781,231	20.00%	17.96%
Tier 2	up to annual average	4 to 18 ccfs	100.00%	\$4.9806	\$4.8994	16,809,550	\$ 82,356,709	57.50%	57.36%
Tier 3	Above annual average	19 ccfs and above	110.00%	\$5.4787	\$5.3893	6,577,650	\$ 35,449,192	22.50%	24.69%
						29,234,000	\$ 143,587,132		

**ADVICE LETTER 518  
ATTACHMENT C  
BILL COMPARISON**

**BILL COMPARISON UNIFORM RATES**

<b>Bill Comparison Uniform Rates 3/4-Inch Meter</b>				
<b>Usage (ccf)</b>	<b>Current Rates AL 513A</b>	<b>Proposed Rates AL 518</b>	<b>Increase</b>	<b>Increase</b>
5	\$54.92	\$54.04	-1.60%	(\$0.88)
10	\$80.63	\$79.35	-1.59%	(\$1.28)
15	\$105.06	\$103.37	-1.61%	(\$1.69)
20	\$128.26	\$126.16	-1.63%	(\$2.09)
30	\$176.10	\$173.19	-1.65%	(\$2.91)
50	\$275.71	\$271.18	-1.64%	(\$4.53)
100	\$524.74	\$516.15	-1.64%	(\$8.59)

**BILL COMPARISON RESIDENTIAL TIERED RATES**

<b>Tiered Rate Bill Comparison 3/4-Inch Meter</b>				
<b>Usage (ccf)</b>	<b>Current Rates AL 513A</b>	<b>Proposed Rates AL 518</b>	<b>Increase</b>	<b>Increase</b>
5	\$53.43	\$52.58	-1.59%	(\$0.85)
Typical 11	\$87.32	\$85.98	-1.53%	(\$1.34)
15	\$109.91	\$108.25	-1.51%	(\$1.66)
20	\$139.15	\$137.06	-1.50%	(\$2.09)
30	\$200.61	\$197.63	-1.49%	(\$2.98)
50	\$323.53	\$318.77	-1.47%	(\$4.77)
100	\$630.85	\$621.62	-1.46%	(\$9.23)

SAN JOSE WATER COMPANY

ADVICE LETTER NO. 518

ATTACHMENT D

Service List

A copy of Advice Letter No. 518 has been sent to the following municipalities, water companies and interested parties:

City of San Jose  
Municipal Water Dept.  
Attn: Jeffrey Provenzano  
3025 Tuers Road  
San Jose, CA 95121

San Jose Mercury News  
Attn: Paul Rogers  
4 N. Second Street, Suite 800  
San Jose, CA 95113

California Water Service Co.  
Attn: Regulatory Affairs  
1720 North First Street  
San Jose, CA 95112

Town of Los Gatos  
Attn: Director of Public Works  
110 E. Main Street  
Los Gatos, CA 95032

City of Cupertino  
10300 Torre Avenue  
Cupertino, CA 95014

City of Monte Sereno  
Attn: Director of Public Works  
18014 Saratoga-Los Gatos Road  
Monte Sereno, CA 95030

City of Campbell  
70 North First Street  
Campbell, CA 95008

City of Saratoga  
Attn: Director of Public Works  
13777 Fruitvale Avenue  
Saratoga, CA 95070

City of Santa Clara  
1500 Warburton Avenue  
Santa Clara, CA 95050

County of Santa Clara  
70 W. Hedding Street  
San Jose, CA 95110

Great Oaks Water Company  
P.O. Box 23490  
San Jose, CA 95153

Department of Water Resources  
Safe Drinking Water Office,  
Room 804  
1416 9<sup>TH</sup> Street  
Sacramento, CA 95814

City of Milpitas  
Attn: Utilities Engineering  
455 East Calaveras Blvd.  
Milpitas, CA 95035

Santa Clara Valley Water  
District  
5750 Almaden Expressway  
San Jose, CA 95118

Nina Hawk  
Chief Operating Officer  
Water Utility Enterprises  
Santa Clara Valley Water District  
5750 Almaden Expressway  
San Jose, CA 95118

Gillette Mutual Water Company  
21976 Gillette Drive  
Los Gatos, CA 95033

Bob Burke  
Regulatory Liaison For The Six  
Mutual Water Companies  
420 Alberto Way, Unit 49  
Los Gatos, Ca 95032

Brush & Old Well Mutual  
Water Company  
21105 Brush Road  
Los Gatos, CA 95033

Oakmount Mutual Water Company  
P.O. Box 31536  
Stockton, CA 95213

Summitt West Mutual Water Company  
P.O. Box 974  
Los Gatos, CA 95031

Ridge Mutual Water Company  
22316 Citation Drive  
Los Gatos, CA 95033

Villa Del Monte Mutual Water Company  
P.O. Box 862  
Los Gatos, CA 95031

Big Redwood Park Water  
& Improvement Assoc.  
18522 Mt. View Avenue  
Los Gatos, CA 95033

Redwood Estates Services Association  
PO Box 591  
Redwood Estates, CA 95044-0591

Stagecoach Mutual Water Co  
21825 Stagecoach Road  
Los Gatos, CA 95033

Mt. Summit Mutual Water Co  
P.O. Box 3416  
Saratoga, CA 95070

Mountain Springs Mutual Water Co.  
17956 Greenwood Road  
Los Gatos, CA 95033

Raineri Mutual Water Company  
P.O. Box 11  
Los Gatos, CA 95031

James Hunter  
6475 Dwyer Street  
San Jose, CA 95120

Saratoga Heights Mutual Water Company  
P.O. Box 337  
Saratoga, CA 95071

WRATES  
Rita Benton  
18555 Ravenwood Drive  
Saratoga, CA 95070

Saratoga City Council Member  
Rishi Kumar  
13777 Fruitvale Avenue  
Saratoga, CA 95070

Pat Kearns, MD  
7 W Central Ave  
Los Gatos, CA 95030

.



Schedule 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 Rate Per 100 cu. ft. (Ccf):**

Residential Customers with 5/8 x 3/4-inch, 3/4-inch, 1-inch, 1 1/2-inch or 2-inch meter

For Total Monthly Usage from 0 to 3 Ccf.	\$4.40946	(D)
For Total Monthly Usage from 4 to 18 Ccf.	\$4.89940	I
For Total Monthly Usage over 18 Ccf.	\$5.38930	(D)

All Other Customers

For all water delivered, per 100 cu. ft.	\$4.89940	(D)
--	-----------	-----

**Service Charges:**

Per Meter Per Month

**All Customers:**

For 5/8 x 3/4-inch meter .....	\$ 26.21	(D)
For 3/4-inch meter .....	\$ 26.21	I
For 1-inch meter .....	\$ 43.64	I
For 1-1/2-inch meter .....	\$ 87.34	I
For 2-inch meter .....	\$ 139.77	I
For 3-inch meter .....	\$ 262.04	I
For 4-inch meter .....	\$ 436.74	I
For 6-inch meter .....	\$ 873.48	I
For 8-inch meter .....	\$ 1397.58	I
For 10-inch meter .....	\$ 2009.05	(D)

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.

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice No. 518

JOHN TANG

Date Filed \_\_\_\_\_

Dec. No. D.18-03-

Vice President,  
Regulatory Affairs

Effective \_\_\_\_\_

Resolution No. \_\_\_\_\_

TITLE

Schedule 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 Rate Per 100 cu. ft. (Ccf):

Residential Customers with 5/8 x 3/4-inch, 3/4-inch, 1-inch, 1 1/2-inch or 2-inch meter

For Total Monthly Usage from 0 to 3 Ccf.	\$4.40946	(D)
For Total Monthly Usage from 4 to 18 Ccf.	\$4.89940	I
For Total Monthly Usage over 18 Ccf.	\$5.38930	(D)

All Other Customers

For all water delivered, per 100 cu. ft.	\$4.89940	(D)
--	-----------	-----

Service Charges:

Per Meter Per Month

**All Customers:**

For 5/8 x 3/4-inch meter .....	\$ 26.21	(D)
For 3/4-inch meter .....	\$ 26.21	I
For 1-inch meter .....	\$ 43.64	I
For 1-1/2-inch meter .....	\$ 87.34	I
For 2-inch meter .....	\$ 139.77	I
For 3-inch meter .....	\$ 262.04	(D)

Upsize Charges:

For 1/4-inch meter upsize .....	\$ 1.51
or 1/2-inch meter upsize .....	\$ 3.01
For 3/4-inch meter upsize .....	\$ 4.52
For 1-inch meter upsize .....	\$ 6.03
For 1-1/2-inch meter upsize .....	\$ 9.05

(Continued)

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JOHN TANG

Date Filed \_\_\_\_\_

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Vice President,  
Regulatory Affairs

Effective \_\_\_\_\_

Resolution No. \_\_\_\_\_

TITLE

Schedule No. 1C

GENERAL METERED SERVICE  
Mountain District

APPLICABILITY

Applicable to general metered water service.

TERRITORY

Portions of Los Gatos and in contiguous territory in the County of Santa Clara.

RATES

**Quantity Rate Per 100 cu. ft. (Ccf)**

**Overuse Rates beyond 500 gallons per day limit**

**Residential Customers with 3/4-inch, 1-inch, 1 1/2-inch or 2-inch meter**

For Total Monthly Usage from 0 to 3 Ccf.	\$4.40946	(D)
For Total Monthly Usage from 4 to 18 Ccf.	\$4.89940	I
For Total Monthly Usage for 19 to 20 Ccf.	\$5.38930	(D)
For Total Monthly Usage over 20 Ccf.	\$7.00000	

**All Other Customers(subject to Special Condition 5)**

For Total Monthly Usage from 0 to 20 Ccf.	\$4.8994	(D)
For Total Monthly Usage over 20 Ccf.	\$7.0000	

**Service Charges:**

Per Meter Per Month

For 3/4-inch meter .....	\$ 26.21	(D)
For 1-inch meter .....	\$ 43.64	I
For 1-1/2-inch meter .....	\$ 87.34	I
For 2-inch meter .....	\$ 139.77	I
For 3-inch meter .....	\$ 262.04	I
For 4-inch meter .....	\$ 436.74	I
For 6-inch meter .....	\$ 873.48	I
For 8-inch meter .....	\$ 1397.58	I
For 10-inch meter .....	\$ 2009.05	(D)

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. 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 \$2.0033 per 100 cubic feet on each water bill for the quantities of water used during the period covered by that bill.
2. All bills are subject to the reimbursement fee set forth in Schedule No. UF.

(Continued)

(To be inserted by utility)

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Date Filed \_\_\_\_\_

Vice President,

Effective \_\_\_\_\_

Dec. No. D.18-03-

Regulatory Affairs

Resolution No. \_\_\_\_\_

TITLE

Schedule 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

Per Service Connection  
Per Month

For each 2-inch service .....	\$26.42	(D)
For each 3-inch service .....	39.60	
For each 4-inch service .....	52.81	
For each 6-inch service .....	79.24	
For each 8-inch service .....	105.62	
For each 10-inch service .....	132.03	
For each 12-inch service .....	158.44	(D)

SPECIAL CONDITIONS

1. The fire protection service connection shall be installed by the utility and 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.

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice No. 518

JOHN TANG

Date Filed \_\_\_\_\_

Vice President,

Effective \_\_\_\_\_

Dec. No. D.18-03-

Regulatory Affairs

Resolution No. \_\_\_\_\_

TITLE

Schedule No. RCW

RECYCLED WATER METERED SERVICE

APPLICABILITY

Applicable to all recycled water metered 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 Rate:

Currently effective quantity rate as reflected in "*Schedule No. 1, General Metered Service*" less the treated water surcharge currently added to potable deliveries from the Santa Clara Valley Water District and less any applicable discount from the South Bay Water Recycling Program.

Service Charges:

Currently effective monthly service charge for the applicable meter size as reflected in "*Schedule No. 1, General Metered Service*".

SPECIAL CONDITIONS

1. For the purposes of this tariff a well user is defined as a customer of the Santa Clara Valley WaterDistrict who procures his/her non-potable supply from an on-site well as of the first effective date of this tariff. The service charge for well users will be in accordance with the following schedule:

<u>Meter Size</u>	<u>Per Meter Per Month</u>	
2-inch	\$32.43	(D)
3-inch	\$43.25	I
4-inch	\$48.64	I
6-inch	\$81.10	I
8-inch	\$97.31	I
10-inch	\$151.37	(D)

The monthly service charge will change in an amount equal to changes in the monthly service charge for similarly sized meters under "*Schedule No. 1, General Metered Service*". In addition to the service charge, such customers will be charged for the quantity of recycled water used at that site in the same amount billed to San Jose Water Company by the South Bay Water Recycling Program.

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice No. 518

JOHN TANG

Date Filed                     

Vice President,

Effective                     

Dec. No. D.18-03-

Regulatory Affairs

Resolution No.                     

TITLE

Schedule No. RW

RAW WATER SERVICE

APPLICABILITY

Applicable to raw water metered 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 Rate:			
Per 100 cu. ft.	.....	\$4.6698	(D)

Service Charges:		Per Meter Per Month	
------------------	--	---------------------	--

For 5/8 x 3/4-inch meter	.....	\$ 26.21	(D)
For 3/4-inch meter	.....	\$ 26.21	I
For 1-inch meter	.....	\$ 43.64	I
For 1-1/2-inch meter	.....	\$ 87.34	I
For 2-inch meter	.....	\$ 139.77	I
For 3-inch meter	.....	\$ 262.04	I
For 4-inch meter	.....	\$ 436.74	I
For 6-inch meter	.....	\$ 873.48	I
For 8-inch meter	.....	\$ 1397.58	I
For 10-inch meter	.....	\$ 2009.05	(D)

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. The customer is responsible for notice of and compliance with all local, state, and federal rules and regulations that apply from time to time to the use of raw water, as defined in San Jose Water Company's Rule 1.
2. The customer must provide and/or contribute all facilities needed to transport the water from its source to the customer's point of service in accordance with the utility's Rule 15.

(Continued)

(To be inserted by utility)

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Dec. No. D.18-03-

Regulatory Affairs

Resolution No. \_\_\_\_\_

TITLE

## TABLE OF CONTENTS

The following listed tariff sheets contain all effective rates, rules and regulations affecting the rates and service of the Utility, together with information relating thereto:

Subject Matter of Sheet	C.P.U.C. Sheet No.	
Title	1495-W	
Table of Contents	1897-W, 1795-W, 848-W and 1831-W	(T)
Preliminary Statement	919-W, 1303-W, 1699-W, 1700-W, 1702-W, 1420-W, 1889-W, 1427-W, 1469-W, 1492-W, 1508-W, 1542-W, 1799-W, 1818-W and 1873-W	
Service Area Map Locator	1266-W	
Service Area Map Locator, Index	1589-W	
Map of Areas With Special Pressure and Fire Flow Conditions	1590-W	
Index to Map of Areas With Special Pressure and Fire Flow Conditions	1079-W, 1591-W 1082-W, 1087-W and 1404-W	
Rate Schedules:		
Schedule No. 1, General Metered Service	1891-W, 1840-W and 1881-W	(C)
Schedule No. 1B, General Metered Service With Automatic Fire Sprinkler System	1892-W, 1741-W, 1882-W and 1883-W	(C)
Schedule No. 1C, General Metered Service Mountain District	1893-W, 1744-W, 1884-W and 1885-W	(C)
Schedule No. 4, Private Fire Service	1894-W and 1621-W	(C)
Schedule No. 9C, Construction and Other Temporary Metered Service	1118-W and 1094-W	
Schedule No. 10R, Service to Employees	152-W	
Schedule No. 14.1 Water Shortage Contingency Plan With Staged Mandatory Reductions And Drought Surcharges	1668-W, 1669-W, 1780-W, 1671-W, 1672-W, 1673-W, 1766-W, and 1820-W	
Schedule No. RW, Raw Water Metered Service	1895-W, 1886-W and 1887-W	(C)
Schedule No. RCW, Recycled Water Metered Service	1896-W and 1848-W	(C)
Schedule No. UF, Surcharge to Fund Public Utilities Commission, Reimbursement Fee	1871-W	
Schedule No. WRAP, Water Rate Assistance Program	1723-W and 1211-W	
List of Contracts and Deviations	1857-W	
Rules:		
No. 1 - Definitions	764-W and 976-W	
No. 2 - Description of Service	525-W	
No. 3 - Application for Service	351-W and 903-W	
No. 4 - Contracts	352-W	
No. 5 - Special Information Required on Forms	821-W thru 823-W	
No. 6 - Establishment and Re-establishment of Credit	354-W	
No. 7 - Deposits	355-W and 356-W	
No. 8 - Notices	1054-W and 825-W	
No. 9 - Rendering and Payment of Bills	996-W, 997-W and 1146-W	

(Continued)

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