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San Jose, CA 95110-2131

March 1, 2017

Water Division  
California Public Utilities Commission  
505 Van Ness Avenue, 3<sup>rd</sup> Floor  
San Francisco, CA 94102

Attention: Tayeb K. Mogri

**Re: Proration of Readiness to Serve Charges Upon Changes in Rates**

Dear Mr. Mogri:

By your e-message of February 23, 2017, you requested that San Jose Water Company ("SJWC") provide information relevant to a complaint submitted earlier this month by Ms. Rita Benton, a SJWC customer, about SJWC's billing practice regarding the readiness to serve charge and any possible refunds. Specifically, you asked that we inform the Water Division about SJWC's past and current practice, when and why the practice was modified, when the Commission was informed of the changes, and whether Rule 9 has to be modified to reflect the current practice.

When a change in rates becomes effective during a customer's billing period, the question is presented as to how the new rates should be applied to the next bill rendered to the customer and whether the bill should be prorated in some manner between the application of the former rates and the new rates.

It has been SJWC's longstanding practice to prorate quantity charges by applying the new rates to a fraction of the customer's recorded usage equal to the number of days during the billing period beginning with the date on which the new rates became effective and ending with the date on which the meter was read divided by the total number of days during the billing period, while applying the former rates to the remaining fraction of the customer's recorded usage.

Past practice: Until recently, SJWC has not prorated its monthly readiness-to-serve charges under the circumstances described above, but instead has applied the new readiness to serve charges for the entire bi-monthly billing period.

Current practice: SJWC's current practice in billing quantity charges is unchanged. However, effective January 1, 2017, SJWC changed its practice for billing readiness to serve charges. The new policy is to prorate monthly readiness to serve charges in a manner similar to the manner in which SJWC prorates quantity charges – by applying the new rate to a fraction of the customer's billing period beginning with the date on which the new rates became effective and ending with the date of which the meter was

read divided by the total number of days during the billing period, while applying the former rates to the remaining fraction of the customer's billing period.

When and why the practice was modified: In response to a customer inquiry, SJWC modified its billing practice, as noted above, effective January 1, 2017. The modification was made after SJWC evaluated its existing practice in the context of Rule No. 9, determined common practice of other Class A water companies regarding their practices in applying their own tariff rules, which were similar to SJWC's Rule No. 9, and particularly considered changes in customer billing and payment practices that have occurred over the many years that the current terms of Rule No. 9 have been in effect.

Whether proration of charges is appropriate upon the occurrence of a change of rates during the billing period depends upon whether charges are imposed in advance or in arrears. If charges are imposed in advance of the provision of service, then the new rates should be applied without proration. If charges are imposed in arrears, then the new rates should be applied only to the portion of the billing period during which the new rates were effective. Since quantity charges are based on recorded usage, they clearly are imposed in arrears, which is why SJWC's practice – both past and current – has been to prorate quantity charges affected by a change of rates. The fundamental question relevant to Ms. Benton's inquiry was whether readiness to serve charges are billed in advance or in arrears.

Section A.1 of SJWC's Tariff Rule No. 9 provides for the rendering of bills for Metered Service. Section A.1.b provides as follows:

The opening bill for monthly service will not be less than the established monthly minimum or readiness to serve charge for the service. Any amount paid in excess of the prorated charges otherwise applicable to the opening period will be credited against the charge for the succeeding regular billing period, except that no such credit shall accrue if the total period of service is less than one month.

This provision was added to SJWC's Rule No. 9 in 1997 pursuant to SJWC Advice Letter No. 294 and CPUC Resolution W-4060, which authorized SJWC to eliminate monthly billing and to bill on a bi-monthly basis in synchronization with the previously established practice of bi-monthly meter reading. Neither Advice Letter No. 294 nor Resolution W-4060 explained why Section A.1.b was added to the Rule at that time, but it is worth noting that Section A.1.b, applicable to Metered Service, closely tracks the language of Section A.2.b, applicable to Flat Rate Service,<sup>1</sup> which had been included in Rule No. 9 since at least 1972, providing as follows:

The opening bill for flat rate service will be the established monthly charge for the service. Any amount paid in excess of the prorated charges otherwise applicable to the opening period will be credited against the charge for the succeeding regular billing period, except that

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<sup>1</sup> SJWC does not currently provide any flat rate service.

no such credit shall accrue if the total period of service is less than one month.

Section A.2.a of Rule No. 9, unchanged since at least 1972, provides that “[b]ills for flat rate service are payable in advance.” Reading Sections A.2.a and A.2.b together indicates that no proration may be applied to the “opening bill” for flat rate service but, if the next bill follows after less than a full billing period, a credit will be applied to that next bill to reflect the fraction of a billing period to which the opening bill applied. The same interpretation can be applied to Section A.1.as it applies to the “opening bill” for metered service. Thus, the structure and interpretation of Sections A and B of Rule No. 9 are consistent with an understanding of SJWC’s readiness to serve charges as being “payable in advance.”

Inclusion of the term “opening bill” in Rule No. 9 pre-dates the electronic billing systems that are in use today and reflects an earlier time, when customer service was often initiated by an in-person visit to the water company’s office. Upon initiation of service, a deposit was charged (an “opening bill”) reflecting, at a minimum, the monthly readiness to serve charge, in advance of providing service.

If the opening bill included a readiness to serve charge billed in advance, it follows that subsequent bills would continue that practice. Therefore, the tariff language describing opening bills as consisting of at least the readiness to serve charge supports an understanding that **SJWC’s prior practice was to bill such charges in advance.** Moreover, Rule 9’s reference to the monthly charge as the “readiness to serve” charge is consistent with billing the charge in advance, since SJWC is demonstrating that it is “ready to serve” its customers when service is initiated, even before any water has been provided. The provision of Rule No. 9.A.1.b for crediting a portion of the initial “readiness to serve charge” against the charge for the succeeding regular billing period, reinforces the implication that this charge is billed in advance.

However, the practice of issuing an opening bill has waned over time. As customers commonly sign up for service by telephone or via e-mail, SJWC no longer issues an opening bill when service is initiated. SJWC’s current practice – and its practice for several years – is and has been to render a bill for service (as distinguished from receipt of a deposit to establish credit pursuant to Rule No. 7) only after service has been provided for some period of time. This current practice provides support for treating the readiness to serve charge as billed in arrears. The language of Rule No. 9.A.1.b for crediting a portion of the initial “readiness to serve charge” against the charge for the succeeding regular billing period is consistent with billing either in advance or in arrears.

Upon inquiry of other Class A water companies, SJWC has learned that several of those companies make a practice of prorating readiness to serve charges as well as quantity charges in the context of rate changes during customers’ billing periods. Considering SJWC’s change of practice with respect to issuance of opening bills to new customers, noted above, the common practice of other water companies, and the circumstances of Ms. Benton’s inquiry, **SJWC determined that Rule No. 9 allows flexibility for SJWC to**

treat its readiness to serve charges as billed either in advance or in arrears and that treatment of such charges as billed in arrears is more consistent with current water utility practice. Accordingly, SJWC determined that it is also appropriate, on a forward-looking basis beginning with the most recent rate changes that were effective January 1, 2017, to prorate readiness to serve charges along with quantity charges on customer bills for billing periods during which rate changes have become effective.

Informing the Commission: SJWC is informing the Commission of its changed practice by the present letter. Because this change of practice is consistent with the present terms of its Rule No. 9, SJWC does not believe any formal request for Commission authorization to make this change is required.

Whether Rule No. 9 needs to be modified: Because Rule No. 9 can be interpreted to provide for billing readiness to serve charges for metered service either in advance or in arrears, the Rule can, likewise, be interpreted to allow SJWC discretion whether or not to prorate readiness to serve charges on customer bills for billing periods during which rate changes have become effective, so long as SJWC follows a consistent practice that does not unreasonably discriminate among customers. Having chosen to adopt the practice of prorating readiness to serve charges for all metered customers effective January 1, 2017, avoids any unreasonable discrimination and is consistent with the present terms of SJWC's Rule No. 9. Accordingly, no modification of the Rule is required.

Very truly yours,

A handwritten signature in black ink, appearing to read 'John B. Tang', with a stylized flourish at the end.

John B. Tang, P.E.  
Vice President of Government Relations  
& Corporate Communications