



Memorandum

TO: Honorable Mayor &
City Council Members

FROM: Lee Price, MMC
City Clerk

SUBJECT: The Public Record
March 23-28, 2007

DATE: March 29, 2007

ITEMS TRANSMITTED TO THE ADMINISTRATION

ITEMS FILED FOR THE PUBLIC RECORD

- (a) Before the Public Utilities Commission of the State of California dated March 19, 2007 in the Matter of the Application of San Jose Water Company (U 168) for an Order Approving its Proposal to Implement the Objectives of the Water Action Plan.
- (b) Email from the Association of Bay Area Governments to City Clerk Lee Price dated March 28, 2007 regarding conference agenda and registration now available online for the Association of Bay Area Government's Spring General Assembly.

Lee Price, MMC
City Clerk

LP/np

Distribution: Mayor/Council
City Manager
Assistant City Manager
Assistant to City Manager
Council Liaison
Director of Planning
City Attorney
City Auditor
Director of Public Works
Director of Finance
Public Information Officer
San José Mercury News
Library

Public Records

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

07 03 019

In the Matter of the Application of SAN JOSE
WATER COMPANY (U 168 W) for an Order
Approving its Proposal to Implement the
Objectives of the Water Action Plan.

Application _____

APPLICATION

SAN JOSE WATER COMPANY
Palle Jensen
Director, Regulatory Affairs
372 West Santa Clara Street
San Jose, California 95196
Telephone: (408) 279-7900
Facsimile: (408) 279-7934
Email: palle_jensen@sjwater.com

O'MELVENY & MYERS LLP
Patricia A. Schmiede
Embarcadero Center West
275 Battery Street, 26th Floor
San Francisco, California 94111
Telephone: (415) 984-8700
Facsimile: (415) 984-8701
Email: pschmiede@omm.com

March 19, 2007

Pimentel, Nora

From: Price, Lee
Sent: Wednesday, March 28, 2007 5:29 PM
To: Pimentel, Nora
Subject: FW: ABAG General Assembly and Business Meeting 4/19/07

Public Record

-----Original Message-----

From: Exec - [mailto:exec@abag.ca.gov]
Sent: Wednesday, March 28, 2007 3:32 PM
To: Exec -
Subject: ABAG General Assembly and Business Meeting 4/19/07

Clerks, Boards of Supervisors
City and Town Clerks

The conference agenda and registration are now available online for the Association of Bay Area Government's Spring General Assembly which will be on Thursday, April 19, 2007, 8:30 AM to 2:00 PM, in San Francisco.

In conjunction with the General Assembly, ABAG will hold its Annual Business Meeting at 12:00 Noon.

The General Assembly will be held at the Palace Hotel, 2 New Montgomery Street, San Francisco.

The Business Meeting agenda includes the adoption of ABAG's annual budget and work program for FY 2007-2008, the annual membership dues for all members, and an amendment to the Bylaws of the Association. Your jurisdiction's respective Delegate and Alternate have been sent the Business Meeting agenda packet and Proposed Budget and Work Program.

ABAG Bylaws state that "The mayor or member of the governing body of each Member city and the chairperson of the board of supervisors or member of the governing body of each Member county, or their respective alternates, shall be delegates to the General Assembly."

Please remind your Delegate to register for the General Assembly; we need your assistance to ensure we achieve quorum. Those who register online will get a discount rate. Check the box indicating they are a Delegate or Alternate.

www.abag.ca.gov/events/ga

Contact me directly if you have any questions. I appreciate your help.
Thank you.

Fred Castro
Clerk of the Board
Association of Bay Area Governments
(510) 464 7913

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF CALIFORNIA

In the Matter of the Application of SAN JOSE
WATER COMPANY (U 168 W) for an Order
Approving its Proposal to Implement the
Objectives of the Water Action Plan.

Application _____

Application to the Public Utilities Commission of the State of California.

This application is being filed on March 19, 2007, pursuant to an extension of time granted by letter dated March 12, 2007, from Executive Director Stephen Larson.

I. INTRODUCTION

Pursuant to Ordering Paragraph 5 of D.06-11-015, San Jose Water Company (SJWC) files this Application to request approval for its proposal to implement the objectives of the Commission's Water Action Plan. In sum, the Water Action Plan sets out six general objectives: (1) maintain highest standards of water quality; (2) strengthen water conservation programs to a level comparable to those of energy utilities; (3) promote water infrastructure investment; (4) assist low income ratepayers; (5) streamline CPUC regulatory decision-making; and (6) set rates that balance investment, conservation, and affordability.

As discussed below, SJWC has already implemented several of the Water Action Plan's objectives, particularly in the area of water quality, conservation and rate support

for low income customers. In this proceeding, SJWC requests a residential rate design with increasing charges for higher monthly use (increasing block rates), a mechanism to protect ratepayers and SJWC from sales variations (WRAM), a full cost balancing account for water supply expenses, a memorandum account to track SJWC's conservation program expenses, and the expansion of SJWC's existing water quality memorandum account.

The goal of increasing block rates, in which rates increase with usage, is to provide a financial incentive for customers to reduce water consumption. The proposed rate design is intended to have a minimal impact on the average bill of the typical residential customer. If SJWC's proposal is adopted, the average residential customer using 14 Ccf of water per month would see a bimonthly water bill decrease of approximately \$0.55, or about 1.3%. SJWC does not propose to change rates for other classes of service, and this proposal will not increase or decrease revenues for SJWC.

SJWC's proposals to implement the objectives of the Water Action Plan and fair, reasonable and in the ratepayers' best interests. The Commission should grant the relief requested in this Application.

II. SJWC HAS ALREADY BEGUN TO IMPLEMENT THE WATER ACTION PLAN.

In SJWC's last general rate case, A.06-02-014, the Commission adopted a settlement agreement reached between SJWC and the Division of Ratepayer Advocates,

setting rates for 2007, 2008 and 2009. *See* Decision (D.)06-11-015. In D.06-11-015, the Commission recognized that the settlement furthered the goals and objectives of the Water Action Plan in the area of water quality, conservation and rate support for low income customers, as discussed below.

A. Water Quality

The Settlement adopted a capital improvement project for the period 2007-2009 that addresses facility replacement related to water quality concerns. For example, SJWC's 2005 Well and Groundwater Study concluded that there is an immediate need to replace 10 wells in the water system due to sand infiltration and water quality concerns. The study recommends that SJWC replace two wells per year in order to balance the need to maintain supply with the financial impact to ratepayers. This recommendation was adopted in the Settlement, and the well replacements will promote SJWC's ability to ensure good water quality.

To address longer term water quality concerns, the Settlement adopted a water quality memorandum account for water quality expenses up to \$500,000 related to future compliance with new state and federal water quality standards.

B. Conservation Incentives

The Settlement adopted SJWC's proposed water conservation program as outlined in SJWC's Urban Water Management Plan. Among other measures, the conservation program includes: distribution of low-flow shower heads and faucet

aerators; water audit program; leak detection program; written water conservation tips and general conservation information; low-flush toilet rebate program; residential washing machine rebate program; annual bill inserts promoting the Water Audit program and methods to reduce water consumption; annual bill inserts encouraging customers to reduce outdoor watering during the fall and winter months; annual Water Awareness Day at the San Jose Giants baseball game; membership in the California Urban Water Conservation Council, and implementation of its best management practices.

In addition, D.06-11-015 recognized an unaccounted for water rate of 6.4%, which is well below the Water Action Plan goal of 7%.

Further, the Settlement takes into account SJWC's successful program offering recycled water. The original Recycled Water tariff (Schedule RCW) became effective on September 22, 1997. Currently, SJWC has 39 recycled water customers. Many of these customers, like golf courses and cemeteries, are high volume customers with a total consumption of recycled water of 531 Kccfs (2005).

C. Low Income Ratepayers

SJWC already has a functioning low-income program. SJWC implemented its Water Rate Assistance Program (WRAP) in December 2005. This program provides a 15% discount on the total water bill for qualifying residential customers in single family homes and in sub-metered mobile home parks based on the same income qualification

guidelines used by PG&E's CARE program (175% of federal poverty level). SJWC's program automatically qualifies customers that are participating in PG&E's CARE program. Customers without PG&E service in their name may qualify by providing income verification in accordance with the program guidelines.

The program also extends eligibility to customers in mobile homes behind master-meters. SJWC's program is being promoted in three languages (English, Spanish and Vietnamese) directly to individual customers, as well as to facilities and/or agencies serving the low-income population throughout SJWC's service area. Additional outreach is underway, including placement of advertisements in local neighborhood newspapers and on radio stations. SJWC is also partnering with PG&E to receive a listing of PG&E's CARE customers who reside within SJWC's service area, in an attempt to identify customers who would qualify for WRAP but have not yet applied.

III. SJWC PROPOSES FURTHER MEANS TO IMPLEMENT THE OBJECTIVES OF THE WATER ACTION PLAN.

As described in detail in the direct testimony of Palle Jensen and Paul R. Herbert, filed and served concurrently with this Application, SJWC proposes the implementation of a conservation rate structure (tiered rates), as well as the establishment of a Water Revenue Adjustment Mechanism (WRAM). Due to the uncertainties related to

customer response to conversion to tiered rates, and due to the policy issues being explored in the Commission's companion filing I.07-01-022 (the Conservation OII), SJWC's proposal in this filing should be treated as only the first step (a pilot program) in the full implementation of the Commission's Water Action Plan.

SJWC also proposes in this Application the establishment of a memorandum account for conservation expenses, the establishment of a full cost balancing account for water supply expense, and the expansion of SJWC's existing water quality memorandum account.

A. Tiered Rates and WRAM

Implementing the objectives of the Commission's Water Action Plan includes the development of an increasing block rate design for residential customers. SJWC is proposing a 3-tier increasing block rate design. This means that there are three points where one usage block ends and the next usage block begins, known as rate blocks or "switch-over points." For all residential users, the first switch-over point is at 6 ccf per month, and the second switch-over point is at 18 ccf per month. The third tier will include usage over 18 ccf per month. The accompanying testimony of Paul Herbert describes in detail the method used to design the tiered rate structure, as well as a comparison of present rates with the proposed conservation rate structure.

With a balanced rate structure of tiered rates, large usage customers receive a larger price signal to conserve than small usage customers, and customers consuming in

the middle of the rate structure on average should see little change in annual water cost. This is accomplished by setting the switch-points so that typical SJWC customers with average usage, approximately 14 ccf per month, will fall at about the middle of the second tier and see very little change in their water rates.

The average residential user of 14 ccf per month will see a modest reduction in their water bill, from \$43.62 to \$43.07. Customers with usage at 20 ccf and above will begin to see increases in their bills, which progressively reflect the third tier rate.

SJWC has also proposed the implementation of a WRAM. The WRAM is a revenue decoupling mechanism designed to remove disincentives from water conservation programs and rate structures. The WRAM will decouple revenues from sales and mitigate the adverse effects on revenues from conservation programs so that SJWC can recover its full cost of service. The WRAM serves to true up revenue based on conservation rates to the level of revenue that would otherwise be generated based on uniform rates.

B. Memorandum Accounts

One aspect of implementing the Water Action Plan that concerns SJWC is its currently authorized (2007) level of conservation expenses (\$236,000) to cover all conservation programs and labor expenses. This meager authorized expense level is only 0.1% of the authorized revenue requirement for 2007. This conservation budget only covers existing programs, and does not account for the anticipated expanded

customer interaction likely to occur as a result of the implementation of tiered conservation rates. With implementation of conservation rates, it is likely that water conservation expenses will escalate significantly as SJWC's customers become more sensitive to water conservation programs and measures.

In addition, continuing education is a vital component of the conservation efforts, but the current level of authorized expenses only contains limited customer educational effort. Therefore, to account for the more aggressive conservation efforts and the anticipated expanded customer conservation education, SJWC hereby requests authority to establish a Conservation Expense Memorandum Account to track expenses in excess of the \$236,000 currently authorized by the Commission.

Further, as a result of the most recent general rate case, SJWC's Water Quality Expense Memorandum Account is now limited/capped at \$500,000, to cover all compliance costs with all new state and federal water quality standards. This \$500,000 cap on costs represents about one fourth of one percent (0.25%) of SJWC's total revenue requirement for 2007. As it has proposed in prior general rate cases, SJWC still believes that due to the inherent uncertainty of the capital costs and operating expenses required in future water quality compliance, that a Water Quality Memorandum Account without fixed limitations should be made available. As is the case with all memorandum accounts, the Commission will have the ability to review account entries for reasonableness prior to any recovery being granted.

C. Full Cost Balancing Account

For SJWC, surface water is the lowest cost source of supply. SJWC's service area, however, is in a part of the state that is subject to extreme variations in annual surface water supply availability. No methodology can reasonably forecast, within an acceptable range, the surface supplies that will be available in any given year.

Currently, SJWC has incremental cost balancing accounts for purchased water, purchased power, and pump taxes (offsettable expenses). Thus, an incremental change in the cost of offsettable expenses is recorded in a balancing account for subsequent recovery in accordance with the Commission's procedures for balancing account recovery. However, a change in water production costs due to a change in the supply mix (groundwater or purchased water in lieu of surface water) is not recognized by the incremental balancing account methodology.

Whereas in the past during a dry year, SJWC may have had the opportunity to recover the additional costs from a switch to a more costly source of supply by increased sales, with the implementation of conservation rates and a WRAM that opportunity has now been eliminated. Therefore, to assure a fair and balanced implementation of the Water Action Plan, SJWC proposes to have that portion of its Balancing Account that tracks water production costs do so according to the full cost methodology.

IV. PROCEDURAL REQUIREMENTS

A. Categorization (Rule 6)

Even though SJWC does not seek any rate increase in this Application, SJWC understands that this Application should be categorized and processed as a rate setting proceeding.

B. Issues, Need For Hearing and Proposed Schedule (Rule 6)

The issue in this proceeding involves whether to approve SJWC's proposals for implementing the objectives of the Commission's Water Action Plan. Specifically, SJWC requests a residential rate design with increasing charges for higher monthly use (increasing block rates), a mechanism to protect ratepayers and SJWC from sales variations (WRAM), a full cost balancing account for water supply expenses, a memorandum account to track SJWC's conservation program expenses, and the expansion of SJWC's existing water quality memorandum account. SJWC respectfully submits that its five proposals are fair, reasonable and in the ratepayers' best interests.

SJWC is not aware of any current opposition to this Application. Therefore, SJWC has no reason to anticipate the need for evidentiary hearings at this point. However, if this Application is protested, SJWC requests that an early prehearing conference be held and an expedited schedule for testimony, hearings and resolution of this matter be adopted at that time.

In addition, the Commission should consider whether to consolidate this Application with I.07-01-022, the Commission's proceeding to consider policies to achieve conservation objectives for water utilities.

C. Corporate Information

The exact legal name of Applicant is San Jose Water Company. SJWC is a California corporation, with its principal place of business at 374 West Santa Clara Street, San Jose, California 95196. A copy of SJWC's current Restated Articles of Incorporation, dated April 18, 1991, and certified by the California Secretary of State, has previously been filed with the Commission in Application 92-02-050.

SJWC is engaged in the retail water business, supplying water to domestic and industrial customers in the cities of Campbell, Saratoga, Monte Sereno, Santa Clara, the Town of Los Gatos, and in portions of the cities of San Jose and Cupertino, and in adjacent territory in the County of Santa Clara. A general description of SJWC's properties and the field of its operations has been set forth and shown before the Commission in numerous proceedings, including Application 00-02-035, as well as in SJWC's annual reports filed with the Commission.

SJWC has elected to employ the full flow-through accelerated depreciation method in computing the depreciation deduction on pre-1981 plant additions and has normalized depreciation expense on post-1980 plant additions, as prescribed by the Economic Recovery Act of 1981 and the Tax Reform Act of 1986.

No transaction requiring the reporting of a material financial interest, as defined in General Order No. 104-A, has occurred since the last Annual Report filed by SJWC, and except as reported therein, SJWC does not propose at present to become party to any transaction requiring a report of such material financial interest.

The name, title, address and telephone number of the person to whom correspondence or communications regarding this Application should be sent is:

*Palle Jensen
Director, Regulatory Affairs
San Jose Water Company
374 West Santa Clara Street
San Jose, CA 95196
Telephone: (408) 279-7970
Facsimile: (408) 279-7934
Email: palle_jensen@sjwater.com*

with a copy to:

*Patricia A. Schmiede, Esq.
O'Melveny & Myers LLP
Embarcadero Center West
275 Battery Street, 26th Floor
San Francisco, CA 94111
Telephone: (415) 984-8715
Facsimile: (415) 984-8701
Email: pschmiede@omm.com*

V. CONCLUSION

San Jose Water Company requests a residential rate design with increasing charges for higher monthly use (increasing block rates), a mechanism to protect ratepayers and SJWC from sales variations (WRAM), a full cost balancing account for

water supply expenses, a memorandum account to track SJWC's conservation program expenses, and the expansion of SJWC's existing water quality memorandum account. SJWC respectfully submits that its proposals are fair, reasonable and in the ratepayers' best interests. The Commission should grant this Application.

PRAYER

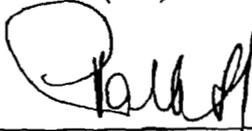
WHEREFORE, Applicant San Jose Water Company respectfully prays that this Commission issue its findings and order to the effect that:

1. SJWC's proposals to implement the objectives of the Water Action Plan are fair and reasonable and in the ratepayers' best interests.
2. SJWC's requests for a residential rate design with increasing charges for higher monthly use (increasing block rates), a mechanism to protect ratepayers and SJWC from sales variations (WRAM), a full cost balancing account for water supply expenses, a memorandum account to track SJWC's conservation program expenses, and the expansion of SJWC's existing water quality memorandum account, as described more fully in its testimony and exhibits, are granted.
3. Such other and further relief as the Commission deems just and reasonable is granted.

Dated: March 19, 2007

Respectfully submitted,

San Jose Water Company
Palle Jensen
Director, Regulatory Affairs
374 West Santa Clara Street
San Jose, California 95196
Telephone: (408) 279-7970
Facsimile: (408) 279-7934

By 
Palle Jensen

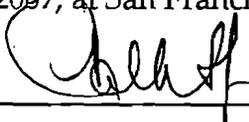
VERIFICATION

I, Palle Jensen, declare and state as follows:

I am the Director of Regulatory Affairs for San Jose Water Company, a California corporation and the Applicant herein. I have the authority to make this Verification on behalf of San Jose Water Company. I have read the foregoing Application and know the contents thereof. The Application is true of my own knowledge, except as to those matters that are stated therein on information and belief, and as to those matters, I believe them to be true.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed this 19th day of March, 2007, at San Francisco, California.

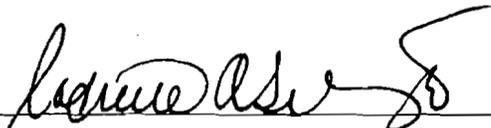


Palle Jensen

CERTIFICATE OF SERVICE

I hereby certify that I have this day served a copy of the foregoing
APPLICATION on the persons listed in the attached Mailing List by mailing each of
them a properly addressed copy by first-class mail with postage prepaid.

Executed this 26th day of March, 2007, at San Francisco, California.


Patricia A. Schmiede

MAILING LIST

Danilo Sanchez, Prog. Manager
Division of Ratepayer Advocates
Calif. Public Utilities Commission
505 Van Ness Avenue
San Francisco, CA 94102

City of San Jose
Office of the City Attorney
151 W. Mission Street
San Jose, CA 95110

City of San Jose
Office of the City Clerk
801 N. First Street
San Jose, CA 95110

City of Cupertino
Office of the City Attorney
10300 Torre Avenue
Cupertino, CA 95014

City of Cupertino
Office of the City Clerk
10300 Torre Avenue
Cupertino, CA 95014

City of Santa Clara
Office of the City Attorney
1500 Warburton Avenue
Santa Clara, CA 95050

City of Santa Clara
Office of the City Clerk
1500 Warburton Avenue
Santa Clara, CA 95050

Town of Los Gatos
Office of the Town Attorney
110 E. Main Street
Los Gatos, CA 95030

Town of Los Gatos
Office of the Town Clerk
110 E. Main Street
Los Gatos, CA 95030

City of Saratoga
Office of the City Attorney
13777 Fruitvale Avenue
Saratoga, CA 95070

City of Saratoga
Office of the City Clerk
13777 Fruitvale Avenue
Saratoga, CA 95070

City of Monte Sereno
Office of the City Attorney
18041 Saratoga-Los Gatos Road
Monte Sereno, CA 95030

City of Monte Sereno
Office of the City Clerk
18041 Saratoga-Los Gatos Road
Monte Sereno, CA 95030

City of Campbell
Office of the City Attorney
70 N. First Street
Campbell, CA 95008

City of Campbell
Office of the City Clerk
70 N. First Street
Campbell, CA 95008

County of Santa Clara
Office of the County Counsel
70 W. Hedding Street 9th Floor
San Jose, CA 95110

County of Santa Clara
Office of the County Clerk
191 N. First Street
San Jose, CA 95113

State of California
Office of the Attorney General
1300 "I" Street, PO Box 944255
Sacramento, CA 94244

State of California
Department of General Services
100 Paseo de San Antonio, Rm 20
San Jose, CA 95113

California Water Service Co.
1720 North First Street
San Jose, CA 95112

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

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

City of Milpitas
Attn: Utilities Section
455 E. Calaveras Boulevard
Milpitas, CA 95035

City of San Jose
Attn: Municipal Water Department
3025 Tuers Road
San Jose, CA 95120