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**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)
authorizing it to increase rates charged for water)
service by \$34,288,100 or 9.76% in 2019,)
by \$14,231,800 or 3.70% in 2020, and by)
\$20,581,700 or 5.17% in 2021)
_____)

Application No.
Filed

**APPLICATION
OF SAN JOSE WATER COMPANY
FOR AUTHORITY TO INCREASE RATES FOR WATER SERVICE**

SAN JOSE WATER COMPANY
John Tang
Vice President of Regulatory Affairs
110 West Taylor Street
San Jose, California 95110
Telephone: 408.279.7933
Facsimile: 408.279.7934
E-mail: john.tang@sjwater.com

Martin A Mattes, Esq.
Lori Anne Dolqueist
Nossaman LLP
50 California Street, 34th Floor
San Francisco, CA 94111-4707
Telephone: 415.438.7273
Facsimile: 415.398.2438
E-mail: mmattes@nossaman.com
E-mail: ldolqueist@nossaman.com

January 4, 2018

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**APPLICATION
OF SAN JOSE WATER COMPANY
FOR AUTHORITY TO INCREASE RATES FOR WATER SERVICE**

In accordance with Article 2 of the Commission’s Rules of Practice and Procedure (Rules), the application of San Jose Water Company (Applicant or SJWC) respectfully shows:

- (1) The legal name of Applicant is San Jose Water Company and its principal place of business is located at 110 W. Taylor Street, San Jose, California 95110.
- (2) Applicant is presently engaged in the business of the supply and distribution of water for domestic and industrial purposes in portions of the City of San Jose and the City of Cupertino, in the Cities of Campbell, Los Gatos, Monte Sereno, and Saratoga, and in unincorporated territory in the County of Santa Clara.
- (3) Applicant is a California corporation. A copy of Applicant's Restated Articles of Incorporation, dated April 18, 1991, and certified by the California Secretary of State, has previously been filed with the California Public Utilities Commission in Application 92-02-050.
- (4) The following Exhibits are marked as shown, incorporated herein, and attached hereto:

Exhibit A	Proposed Rate Case Plan Schedule
Exhibit B	Present and Proposed Rate Schedules
Exhibit C	Proxy Statement of SJW Group.
Exhibit D	Proposed Notice to Customers

(5) The following additional Exhibits are marked as shown, are served with this application, and will be provided to interested parties upon request, but will not be filed:

Exhibit E	Report on the Results of Operations
Exhibit F	General Rate Case Workpapers
Exhibit G	Capital Budget Project Justifications
Exhibit H	Urban Water Management Plan
Exhibit I	Supplemental Data Request Responses
Exhibit J	Minimum Data Requirements

(6) Comparative financial statements for Applicant (Statement of Income & Balance Sheets for the 12 months ending December 31, 2015, December 31, 2016 and August 30, 2017) are set forth in Exhibit E, Chapter 4.

(7) A general description of Applicant's properties and operations has been set forth and shown in proceedings before the Commission and in applications to the Commission in which authority has been requested to issue and sell securities. Further information concerning Applicant's facilities is contained in the annual reports filed with the Commission and in the evidentiary record of Application No. 15-01-002, in which authority was last requested for a general rate increase for SJWC.

(8) The historical costs of utility plant used by Applicant in water service are shown in Exhibit E, Chapter 11, Table 11-A. The table shows the original historical cost of plant at the date of acquisition by Applicant, with subsequent additions, betterments, extensions, and replacements being recorded at actual cost to Applicant. Applicant's depreciation reserve as recorded on its books as of December 31, 2016 is shown in Exhibit E, Chapter 12, Table 12-A.

(9) Applicant's present rates are those authorized by Commission Decision (D.) 16-06-004 as implemented by Advice Letters Nos. 488, 498, 509A. These present rates are set forth in rate schedules that are provided in Exhibit B. At the time of filing, the Commission has authorized the step increase for the attrition year 2018 via Advice Letter 513A, although stamped tariff sheets have not been received and therefore that rate increase is not reflected in the proposed increase for 2019.

(10) Pursuant to D.14-08-006, Applicant implemented a revised tiered rate design effective August 15, 2014. The implementation of tiered rates did not change the previously authorized revenue requirement. In this Application, SJWC is seeking to change the residential rate design in accordance with D.16-12-006, Decision Providing Guidance on Water Rate Structure and Tiered Rates. The new conservation rate design will continue to employ three tiers. However, per D.16-12-006, SJWC is seeking to recover 40 percent of its total revenue requirement through the service charge.

(11) Applicant's currently authorized cost of capital was determined in D.12-07-009 and subsequently revised with the triggering of the utility's Water Cost of Capital Mechanism effective in January of 2013. In A.17-04-001, Applicant has requested a change to the currently authorized cost of capital (capital structure, cost of debt and return on equity) as required by the Commission for the period of 2018-2020. This request is pending before the Commission.

(12) Pursuant to Rule 3.2(a)(8), Applicant has included with this application, as Exhibit C, a copy of the latest proxy statement of its parent company, SJW Group the shares of which are listed on the New York Stock Exchange.

(13) Pursuant to Rule 3.2(a)(10), Applicant states that the rate increases proposed in this application do not reflect and pass through to customers only increased costs to Applicant for the services or commodities furnished by it.

(14) This Application is filed in accordance with D.04-06-018 and D.07-05-062 (Rate Case Plan decisions or RCP). The required components of the application are as follows:

a) Summary of the Requested Increase:

	Last Test Year Authorized	Last Recorded Calendar Year	Test Year Proposed
Year:	2016	12 months ending December 2016	2019
Total Rev Req \$	317,208,000	307,269,600	385,869,000
% increase from last Adopted			9.76%
Rate Base \$	658,981,300	683,602,100	835,581,800
% increase from last Adopted			
Operating Expenses \$ (excl. taxes based on income)	239,798,200	233,592,700	292,988,900
% increase from last Adopted			22.2%
Rate of Return	8.09%	6.95%	8.09%

Notes:

* The difference in revenue between the last authorized test year (2016) and the proposed test year (2019), as well as the percentage change, are not reflective of the rate increase request due to intervening rate base offsets, expense offsets, changes in water sales, and changes in the number of customers. Authorized test year (2016) is yearend and includes ALs 506 and 509A.

** The adopted rate base does not reflect rate base offsets for capital projects approved by Commission resolutions or decisions.

*** The recorded rate base includes plant placed in service to be recovered in rates through authorized rate base offsets.

b) List of Primary Cost Changes (difference in cost between year 2018 authorized and proposed Test Year 2019):

i) Decrease in Water Sales Approximately \$14,000,000

As a result of the historic drought from 2013-2016 and conservation mandates from the State Water Resources Control Board as well as the Santa Clara Valley Water District, SJWC's water sales have decreased significantly. During the height of the drought, SJWC's water sales severely lagged authorized sales. Because of the current rate design allocating the majority of costs to the volumetric charge, SJWC experienced significant shortfalls in recovery of fixed costs during these years. The sales forecast taking into account hardened

demand is presented in Chapter 6.

ii) Infrastructure Replacement \$88,163,300 3-year capex budget increase

Applicant has been operating as a water utility for almost 150 years. Due to the age of the water system and the increasing water quality compliance requirements, significant investments in infrastructure replacements are necessary in order for Applicant to be able to continue to provide safe and reliable water service. The capital budget requests for 2018-2020 are detailed in Exhibit G.

iii) Depreciation \$8,596,700 increase

As a reflection of Applicants increased need for infrastructure investments, the depreciation expense will increase proportionally. Depreciation expense is discussed in Exhibit E, Chapter 12, and detailed in Exhibit F, Chapter 12.

iv) Payroll, Pension and Benefit Costs \$5,330,000 increase

Applicant's costs are increasing due to the addition of staff to ensure compliance with increasingly stringent water quality and accounting and tax regulations. Healthcare and other benefit costs have also increased.

v) Purchased Materials and Services \$1,346,000 increase

Applicant's increased costs are related mostly to IT products and services including Cloud computing, cybersecurity, and the Customer Care and Billing system. Additional information is provided in Chapter 23.

c) List of Major Controversial Issues:

The following issue areas have been controversial in Applicant's past general rate cases:

i) Capital Budget \$88,163,300 3-year capex budget increase

As noted above, Applicant has been operating as a water utility for nearly 150 years. Due to the age of the water system and the increasing water quality compliance requirements, significant replacements of facilities and infrastructure are necessary in order for applicant to provide safe and reliable water service as well as efficient customer service. See Exhibit G.

ii) Increase in Staffing Levels \$2,419,000 expense increase

Due to increasing and changing work requirements across departments Applicant has filled 13 new positions not authorized in D.16-06-004 and plans to fill 23 new positions in the coming General Rate Case (GRC) cycle. See Exhibit E, Chapter 5.

d) Results of Operations:

Applicant's results of operation are described in detail in the following Exhibits, which are being served along with this application, but not filed:

Exhibit E	Report on the Results of Operations
Exhibit F	General Rate Case Workpapers
Exhibit G	Capital Budget Project Justifications
Exhibit H	Urban Water Management Plan
Exhibit I	Supplemental Data Request Responses
Exhibit J	Minimum Data Requirements

Exhibit E, Chapter 1 contains descriptions of the most significant changes since Applicant's last GRC. Also, as required by the RCP, Exhibit F shows the most recent five-year inflation-adjusted average of expenses either as Applicant's estimating methodology or in addition to Applicant's estimation methodology. Water sales are forecasted in accordance with Decision 16-12-026. The sales forecasts consider consumption trends during and following the 2013-17 drought and explicitly adjust the forecasts of future sales for reductions in water use that have occurred over the past five years in response to drought, anticipated reductions in use due to changes in the cost of water, ongoing conservation (both passive and active), and conversion of potable water uses to recycled water. Additional information is presented in Exhibit E, Chapter 6.

e) Regulated Utility Plant in Service:

Testimony regarding the utility plant in service is included in Exhibit E, Chapter 11 and detailed in Exhibit F, Chapter 11. Plant in service is calculated based on the recorded plant in service at the end of calendar year 2016 plus known and projected changes in calendar years 2017 through 2020. In accordance with the RCP, utility plant additions for the second escalation year, 2021, are estimated using an attrition methodology. Differences in the plant additions result from timing differences, actual costs different from budget, normal

variation in nonspecific projects, and the passage of time with routine capital improvements. Projected capital additions for 2018 through 2020 are shown in Exhibit E, Chapter 11, Exhibit F, Chapter 11 and in Exhibit G. A presentation of recorded plant additions in comparison to those forecast in the last GRC is shown in Exhibit E, Chapter 11. A more detailed presentation is included in Exhibit I.

f) Revenue Requirement:

The proposed revenue requirement is described in Exhibit E, Chapter 14. Major changes to revenue requirement are identified in Exhibit E, Chapter 1.

g) Cost of Capital:

In accordance with the schedules established in D.07-05-062, Applicant is not requesting a change to the currently authorized cost of capital (cost of debt and return on equity) in the present Application. Applicant’s current authorized cost of capital was determined in D.12-07-009 and subsequently revised with the triggering of the utility’s Water Cost of Capital Mechanism in January of 2013. As required by the Commission, Applicant filed Application 17-04-001 for a change to its cost of capital in April 2017 for the period 2018-2020. This request is still pending before the Commission. The currently authorized capital structure and cost of capital are shown in the summary table below.

2017	Capital Structure	Cost	Weighted Cost
Debt	48.65%	6.68%	3.25%
Common Equity	51.35%	9.43%	4.84%
Total	100%		8.09%

h) Transactions with Corporate Affiliates:

General affiliate services provided to corporate affiliates are reimbursed at fully allocated costs in compliance with the Rules for Water and Sewer Utilities Regarding Affiliate Transactions and the Use of Regulated Assets for Non-Tariffed Utility Services (Affiliate Transactions Rules) adopted in D.10-10-019 as detailed in Exhibit F, Chapter 9, Workpaper (WP) 9-9.

i) Non-tariffed Transactions:

Non-tariffed products and services are offered in compliance with the Affiliate Transaction Rules adopted in D.10-10-019, as modified by D.11-10-034. Non-tariffed activities are detailed in Exhibit E, Chapter 8, and in Exhibit F, Chapter 8, WP 8-19. These contracts are a lease operation of the City of Cupertino water system, miscellaneous services contract with the City of San Jose, meter testing services, coordination with Home Emergency Solutions to provide customers information regarding optional water service line protection coverage, as well as leases for antenna space to telecommunication companies on various water facilities. Any revenue generated by non-tariffed offerings is allocated between ratepayers and shareholders in accordance with the methodology adopted in D.10-10-019.

j) Proposed Rate Case Plan Schedule:

A proposed procedural schedule, following the schedule outlined in the RCP for a single district GRC filing, is included as Exhibit A.

k) Water Supply and Quality:

Water quality and supply issues are addressed in the testimony of Francois Rodigari in Exhibit E, Chapter 16. Documentation of Applicant's compliance with the California Division of Drinking Water (DDW) water quality standards, as well as a detailed list of water sources, are provided in Exhibits I and J.

l) Real Property Subject to Water Infrastructure Improvement Act of 1996:

All sales or conversions of properties subject to the Water Infrastructure Improvement Act of 1996 (Act) have been identified in previous rate case applications to the Commission and in the Annual Reports SJWC has submitted to the Commission. Two such property transactions have occurred since the last GRC decision. As required, these transactions are identified and described in Exhibit J , Section II, Subsection D, No. 8.

m) Rate Increase History since the Last GRC Decision:

Applicant's rate increase history since the last GRC decision is provided in Exhibit E, Chapter 2.

n) Proposed Notice to Customers:

A proposed notice to customers is included as Exhibit D.

o) Regulatory Compliance Items:

None

(15) Applicant has presented its results of operations for Test Year 2019 and Escalation Years 2020 and 2021 in Exhibit E. Chapter 5 of Exhibit E describes changes in Applicant's workforce and presents Applicant's forecast of payroll expense for Test Year 2019, including expense related to new employees to be added in the test year, and also describes the health and dental plans available to SJWC employees and the trend of costs for Worker's Compensation Insurance. Chapters 6 and 7 present demand forecasts by customer class and forecasts of customers, sales, and revenue for the test year. Operating and maintenance (O&M) expenses for Test Year 2019 are presented in Chapter 8, with Administrative and General (A&G) expenses addressed in Chapter 9. Applicant requests approval of its forecasts of test year customers, sales, revenues, and expenses for payroll and employee benefits, as well as O&M and A&G expenses.

(16) Exhibit E also presents forecasts for the elements of Applicant's rate base and related expenses for Test Year 2019 and Escalation Years 2020 and 2021. Chapter 11 provides forecasts of utility plant additions and the utility plant account for years 2019 and 2020, drawing on the detailed information about Applicant's capital projects in Exhibit G. Chapters 10 and 12 of Exhibit E address taxes and depreciation expense. Chapter 13 provides a forecast of Applicant's rate base for years 2016 and 2017. Applicant requests approval of its forecasts of rate base, taxes, and depreciation expense.

(17) Applicant requests approval of rates that are designed to produce a rate of return on rate base of 8.09% in Test Year 2019, as presented in Applicant's summary of earnings in Exhibit E, Chapter 14. This rate of return on rate base is intended to provide the currently authorized return on equity of 9.43% in the test year. As noted above, pursuant to the Commission's direction, Applicant filed A.17-04-001 proposing an updated capital structure and cost of capital for the years 2018 through 2020 in April of 2017. Applicant expects that a decision in this cost of capital proceeding will be adopted in late 2017. In that event, the revised authorized cost of capital will be incorporated into the revenue

requirement and rates proposed in this filing at that time.

(18) Applicant has estimated escalation-year rates using currently known inflation factors provided by Commission staff and has applied those factors as directed in the RCP. Applicant acknowledges that the escalation-year filings for Escalation Years 2020 and 2021 will be governed by actual inflation factors recorded at the times of filing. The increases requested at this time may not accurately predict inflation experienced as of those future dates. Additional notice to customers of escalation year rate increases pursuant to Rule 3.2 will be provided only in the unlikely event that the escalation year rates will exceed the increases proposed for Escalation Years 2019 and 2020 as stated in the notice to customers of this Application. A proposed notice to customers accompanies this Application as Exhibit D.

(19) Attached as Exhibit B are the present rate schedules for General Metered Service, General Metered Service with Automatic Fire Sprinkler System, Private Fire Service, and Raw Water Metered Service as well as Applicant's proposed rate schedules for those tariffs for Test Year 2019.

(20) Applicant requests that the proposed rate schedules included in Exhibit B to this application and discussed in Chapter 15 of Exhibit E, plus any interim offset increases or decreases authorized by the Commission subsequent to November 1, 2017, and thus not reflected in this Application, be adopted to supersede the schedules (also presented in Exhibit B) that are now in effect. The amount of proposed gross revenues is provided in Exhibit E – Table 14-B. The percentage of bill increase estimated to result from the proposed rate schedules, are shown for Test Year 2019 in WPs 15-3 and 15-4 in Chapter 15 of Exhibit F. Also included in Exhibit E – Table 14-B are the proposed revenue increases, including percentage of increase, shown by appropriate rate classification for each of the three years. Applicant, by this filing, proposes to increase rates for water service by \$34,288,100 or 9.76% in 2019, by \$14,231,800 or 3.70% in 2020 and by \$20,581,700 or 5.17% in 2021.

(21) In the preparation of the proposed rate schedules, Applicant has considered the recorded operating results for at least the five-year period 2012 through 2016 as reflected in its Annual Reports to the Commission. Applicant has taken into consideration the trend in the various components of revenue requirement as established by experience, has adjusted for any known changes, excluding certain items covered by the offset filing

procedure, and has estimated its results of operation for Test Year 2019. Summaries of earnings for Test Year 2019 at present and at proposed rates are set forth in Exhibit E, Chapter 14, Table 14-B.

(22) Applicant has elected to employ the full flow-through accelerated depreciation method in computing the depreciation deduction on pre-1981 plant additions but 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 for the purpose of determining its federal income tax payments. Applicant has used the same method in calculating federal income taxes for Test Year 2019, as described in Exhibit E, Chapter 10.

(23) Applicant's recorded rate of return for the last recorded calendar year ending December 31, 2016, based upon a depreciated rate base was 6.95%, reflecting the use of accelerated tax depreciation and normalization of income taxes as indicated above.

(24) Applicant requests that the Commission authorize the recovery of the under-collection of the balance of \$13,612,774 in its Balancing Account via a 12-month \$0.2973 per ccf surcharge as described in Exhibit E, Chapter 17 and Exhibit F, Chapter 17, WP 17-1.

(25) Applicant requests that the Commission authorize the recovery of the under-collection of the balance of \$7,112,350 in its Memorandum Accounts via a surcharge of \$0.1553 per ccf as described in Exhibit E, Chapter 17 and Exhibit F, Chapter 17, WP 17-2.

(26) Applicant requests that the Commission make a finding that Applicant's water quality meets all applicable state and federal drinking water standards and the requirements of General Order 103-A, as described in Exhibit E, Chapters 16 and 17.

(27) Due to the uncertain nature of medical and dental insurance premiums, and due to the uncertainty of the impacts of the recently passed Patient Protection and Affordable Care Act, Applicant requests that the Commission authorize a Health Care Cost Balancing Account to allow for the recovery or refunds of premium fluctuations as described in Exhibit E, Chapter 5.

(28) Applicant requests that the Commission authorize Applicant to establish a Water Revenue Adjustment Mechanism (WRAM), a Modified Cost Balancing Account (MCBA), and a Sales Reconciliation Mechanism (SRM) as described in Exhibit E, Chapter

19.

(29) Applicant requests that the Commission authorize the Applicant to establish a Fluoridation Memorandum Account as described in Exhibit E, Chapter 17.

(30) Applicant requests that the Commission authorize the recovery of the balance in the Hydro Generation Research, Development and Demonstration Memorandum Account as described in Exhibit E, Chapter 17.

(31) Applicant requests that the Commission authorize the elimination of the overuse rate currently in effect for General metered Service, Schedule No. 1C, Mountain District as described in Exhibit E, Chapter 17.

(32) Applicant requests that in response to the Commission's Order issued December 9, 2016 in D.16-12-026, the "Decision Providing Guidance on Water Rate Structure and Tiered Rates" which outlines the goals and objectives of a balanced rate design, Applicant be authorized to collect 40% of its revenue requirement from the readiness to serve charge as outlined in Chapter 15.

(33) Section 455.2 of the Public Utilities Code provides that the Commission shall issue its final decision on a GRC application of a Class A water corporation in a manner that ensures that the decision becomes effective on the first day of the first test year addressed in the GRC application (in this case, 2019). If the decision is not effective in that time frame, the applicant may file a tariff implementing interim rates. Accordingly, Applicant seeks a ruling by the Commission that SJWC may file an advice letter to implement such interim rates on or after November 1, 2018.

(34) The name and address of the person to whom correspondence or communications in regard to the Application are to be addressed is:

John Tang
Vice President of Regulatory Affairs
San Jose Water Company
110 West Taylor Street
San Jose, California 95110
Telephone: 408.279.7970
Facsimile: 408.279.7934
E-mail: john.tang@sjwater.com

With a copy to:

Lori Anne Dolqueist
Nossaman LLP
50 California Street, 34th Floor
San Francisco, CA 94111-4707
Telephone: 415.438.7221
Facsimile: 415.398.2438
E-mail: ldolqueist@nossaman.com

(35) This Application is made pursuant to the provisions of Section 454 of the Public Utilities Code of the State of California.

(36) Within ten days after filing this application with the Commission, Applicant will mail a notice in accordance with Rule 3.2(b) to the following, stating in general terms the proposed increases in rates and also stating that a copy of the application and related exhibits will be furnished by Applicant upon written request: (a) the State, by mailing to the Attorney General and the Department of General Services, (b) the County Counsel and Clerk for the County of Santa Clara, and (c) the Cities of San Jose, Campbell, Cupertino, Monte Sereno, Saratoga, Santa Clara and the Town of Los Gatos by mailing to their respective City Attorney and City Clerk. In addition, pursuant to the terms and within the period specified in Rule 3.2(c), Applicant will cause to be published a notice of the proposed increases in rates, and in accordance with Rule 3.2(d) will furnish to its customers notice of this application and the proposed increases in rates. A proposed Notice to Customers is included as Exhibit D.

(37) Procedural requirements:

- i) Category – This is a rate setting proceeding.
- ii) Need for hearing – This application may require a hearing.
- iii) Issues – The principal issues that may be presented by this application relate to cost of service and include, but are not limited to, test year projections of sales, payroll expenses, other operating and maintenance expenses, other administrative and general expenses, investment in utility plant, and calculation of rate base. Other potential issues concern rate design, the

procedure for implementing escalation year rate adjustments, the disposition of balances in Applicants' several balancing accounts, and the requested finding with respect to compliance with water quality regulations.

- iv) Schedule – A proposed procedural schedule is attached as Exhibit A.

WHEREFORE, Applicant respectfully requests that the Public Utilities Commission of the State of California make and enter its order approving and establishing the adjustment of rates to be charged by Applicant as this Application specifically sets forth, or establishing such other adjustment in rates as the Public Utilities Commission may deem appropriate in order to provide to Applicant a just and reasonable return upon the value of its property dedicated for water utility service.

Dated at San Jose, California, this fourth day of January, 2018.

Respectfully submitted,

SAN JOSE WATER COMPANY

By /S/ JOHN TANG
John Tang
Vice President of Regulatory Affairs

110 West Taylor Street
San Jose, California 95110
Telephone: 408.279.7970
Facsimile: 408.279.7934
E-mail: john.tang@sjwater.com

VERIFICATION

I, John Tang, declare and say that I am the Vice President of Regulatory Affairs for SAN JOSE WATER COMPANY, a California corporation, the Applicant making the foregoing Application; that I have the authority to make this verification on behalf of said corporation; that I have read the Application and know the contents thereof; that the same is true of my own knowledge except as to the matters which are therein stated on information and belief, and as to those matters that I believe it 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 on January 4, 2018, at San Jose, California.

/S/ JOHN TANG
JOHN TANG