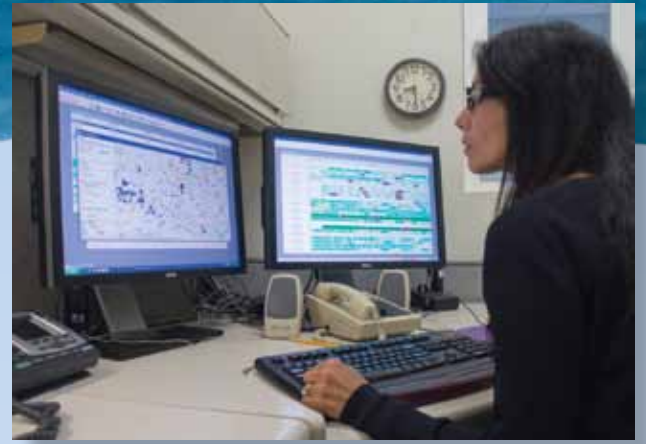


Value of Water

At less than a penny a gallon, tap water remains one of the lowest cost utility bills for homeowners — a true bargain considering the resources and expertise it takes to treat and deliver safe and reliable water to your home. For most households, you can cook, clean, bathe, and flush toilets for less than \$2 a day. Compared to other utilities, water service is the best deal around!

A widely used benchmark for water affordability is published by the US Environmental Protection Agency and it shows that annual water bills in the range of 1.5 to 2 percent of median household incomes are considered affordable. SJWC's current average monthly bill is approximately \$60 and represents less than one percent of the median household income in the Santa Clara Valley.



Some might wonder why their water rates continue to rise when they have conserved and used less water. Generally speaking, rates for water utilities are set by dividing the utility's projected total costs by the projected sales volume. SJWC is allowed to cover all of its costs necessary to provide safe and reliable water service through rates.

The total cost of providing water service, delivering the water to your tap, and assuring adequate fire protection can be divided into two components: 1) Fixed costs, and 2) Variable costs. Variable costs are those that change in the short term due to increases or decreases in water usage. They include the costs of power used for pumping water from the underground and for moving water throughout the water system, the cost incurred by the utility for purchasing water from its wholesaler, and groundwater extraction fees required when water is pumped

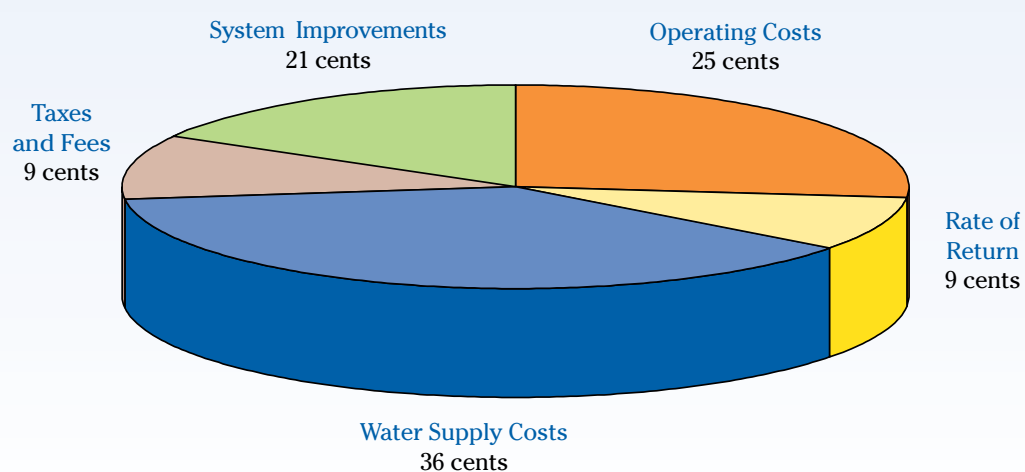
from the underground. Fixed costs are all other costs such as the cost of water pumping facilities, water storage facilities, other equipment, and the piping necessary to deliver water service and fire protection. Fixed costs do not change with the level of water usage.



The water utility industry is the most capital intensive and therefore has a very high level of fixed costs. Recently the variable proportion of our costs has also been rapidly increasing. Unfortunately, during times when water sales are declining due to conservation efforts, fixed costs remain and will still have to be recovered. Thus, the fixed amount of costs will have to be spread over a lower number of projected sales units, resulting in a higher per unit rate. Depending on your actual water usage, this may not necessarily result in a higher total water bill.

While we support customers' efforts to use water more wisely, SJWC must continue to provide safe, reliable, and high quality water service. We work hard to provide the best water service in the industry and have an excellent track record of efficient operations. Over the last five years, the company's operating costs, as a percentage of overall costs, have declined. Similarly, the number of customers served per employee has remained relatively stable over the last 20 years.

However there are some costs over which we have no control. As the pie chart to the left below illustrates, nearly half of each dollar you spend on water goes to cover supply costs from the Santa Clara Valley Water District and to pay federal, state, and local taxes.



Water Supply Costs include costs from the Santa Clara Valley Water District for both the purchase of treated water and the charge to extract groundwater from the underground aquifer.

Operating Costs include operations, maintenance, purchased power and administrative expenses. Our employment level has remained relatively stable over the past 20 years.

System Improvements include capital improvement costs associated with our water distribution system, depreciation and interest.

Taxes and Fees include federal, state and local taxes.

Rate of Return is what is left over after all expenses have been paid.