

Cost of Capital Filing FAQs

Q: What is a Cost of Capital filing?

A: Cost of Capital, or CoC, is a financial term defining how much it costs a corporation for the debt it takes on and for its return on common stock (or equity). Like many businesses, SJW leverages a combination of debt and equity, both of which provide capital (monies) to finance its operations. Therefore, both the cost of debt and return on common stock are recovered in water rates. In this proceeding the California Public Utilities Commission (CPUC) will determine SJW's reasonable costs of long-term debt and return on equity that make up the authorized CoC. The authorized CoC will be applied to the capital investments authorized by the CPUC for SJW.

Q: Why is this filing needed?

A: SJW is required by the CPUC to adjust its CoC once every three years. This frequency allows the CoC to be adjusted based on current market conditions. The approval of this filing will allow SJW to attract capital to fund water system investments that allow the company to meet its obligations to safely and reliably serve its customers. Furthermore, the approval will assist SJW in maintaining an investment-grade rating, thereby reducing the overall financing costs and contributing to SJW's ability to provide safe, high quality, and reliable water service at reasonable rates. The higher the CoC, the more it costs SJW to deliver the same level of reliable service to customers.

Q: Can you explain this in more simple terms?

A: Think of the CoC, more commonly known as the rate of return (ROR), as an adjustable mortgage rate that adjusts once every three years. When you buy a home, your down payment is the equity you put towards its purchase. Any remaining amount is the debt you take on. This debt is repaid via your mortgage payments which include the appropriate interest rate applied to your loan. The return on your equity is the essentially the appreciation in the price of the home.

Similar to your home, SJW's capital investments are funded with a combination of equity and debt. The ROR, which considers both the return on equity and the cost of debt and their ratios, is applied to the capital investments made by SJW. Like an adjustable mortgage rate which can go up or down depending on current market conditions, SJW's ROR can be adjusted up or down as authorized by the CPUC.

Q: What is the current ROR and what is proposed?

A: SJW is proposing a nominal increase in the ROR from the current 7.64% to 8.11%. This new rate takes into account a lower cost of debt and a higher return on equity to reflect the current and anticipated market conditions, and a slightly adjusted debt to equity ratio. The new rate by the CPUC will be in effect for 2022 through 2024 pending the CPUC's authorization.

	Current	Proposed
Return on Equity	8.90%	10.30%
Cost of Debt	6.20%	5.48%
Debt/Equity Ratio	46.72%/53.28%	45.45%/54.55%
ROR	7.64%	8.11%

Q: How will this filing change water rates?

A: If approved by the CPUC, residential customers will see an increase of \$0.66 to the monthly service charge for a standard 3/4-inch meter, and an increase of \$0.05 to \$0.11 per Ccf of water per month above present rates to become effective January 1, 2022. For a typical residential metered customer with a 3/4-inch meter using 11 Ccf of water per month, the monthly water bill will increase by \$1.50 or 1.57% from \$95.30 at present rates to \$96.80 in 2022.

Proposed Water Rate Increase**Schedule 1 and Schedule 1C– General Metered Service Charge Rate Impact**

Meter Size	Present Rates	2022 Rates	Increase
5/8	\$41.69	\$42.35	\$0.66
3/4	\$41.69	\$42.35	\$0.66
1	\$69.48	\$70.60	\$1.12
1 1/2	\$138.99	\$141.22	\$2.23
2	\$222.38	\$225.95	\$3.57
3	\$416.95	\$423.64	\$6.69
4	\$694.91	\$706.07	\$11.16
6	\$1,389.83	\$1,412.15	\$22.32
8	\$2,223.74	\$2,259.45	\$35.71
10	\$3,196.60	\$3,247.93	\$51.33

Schedule 1 and 1C - Per Ccf Rate Impact

Residential Customers	Present Rates	2022 Rates	Increase
0 to 3 Ccf	\$3.3770	\$3.4316	\$0.0546
4 to 18 Ccf	\$5.0660	\$5.1479	\$0.0819
Over 18 Ccf	\$6.7545	\$6.8637	\$0.1092
All Other Customers (Business, Industrial, Public Authority, Resale)			
Each Ccf	\$5.0660	\$5.1479	\$0.0819

Q: How much is the ROR in the bill I pay?

A: Of every dollar we collect from customers, ten cents is the portion that makes up the ROR.

Q: Will this application be closely reviewed by the CPUC?

A: Yes, the application will be thoroughly reviewed by the Public Advocates Office who will submit its independent analysis and recommendations in written reports for the CPUC's consideration. Evidentiary hearings may be held whereby parties of record will present their testimony and are subject to cross-examination before an Administrative Law Judge (ALJ). After considering all proposals and evidence presented during the formal hearing process, the assigned ALJ will issue a proposed decision. When the CPUC issues a final decision on this application it may adopt all or part of the ALJ's proposed decision as written, amend or modify it, or deny the Application. The CPUC's final decision may be different from SJW's proposal.

Q: How can I provide input?

A: You may contact the CPUC's Public Advisor's Office with comments or questions as follows. Please reference SJW Application No. 21-05-004 in any communications you have with the CPUC regarding this matter.

Telephone: (866) 849-8390 (toll free) or (415) 703-2074

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