



# SAN JOSE WATER

110 W. Taylor Street  
San Jose, CA 95110-2131

June 30, 2023

California Public Utilities Commission  
505 Van Ness Avenue  
San Francisco, CA 94102

Advice Letter No. 598

To Whom It May Concern:

San Jose Water Company (U-168-W) (SJWC) hereby transmits for filing the following changes in tariff schedules applicable to its service area and which are attached here to:

<u>Cal. P.U.C Sheet No.</u>	<u>Title of Sheet</u>	<u>Cancelling Cal. P.U.C. Sheet No.</u>
2263-W	Preliminary Statement (Continued)	
2264-W	Table of Contents	2262-W

These tariffs are submitted pursuant to General Order No. 96-B. Pursuant to General Order No. 96-B Water Industry Rule 7.3.2.(5), this advice letter is designated a Tier II Advice Letter.

### Purpose

SJWC hereby respectfully request to include the Water Cost of Capital Mechanism (WCCM) to its preliminary statement and to inform the Commission that the WCCM has triggered.

The WCCM was originally authorized in Decision No. (D.) 09-07-051, maintained in D.12-07-009, and continued in the current Cost of Capital D.23-05-025, has been triggered, necessitating an update to SJWC’s authorized Rate of Return (ROR).

### Background

The Commission’s D.09-07-051 originally established a WCCM for the Class A water companies which included San Jose Water Company, Golden State Water Company (Golden State), California Water Service Company (Cal Water), California-American Water Company (Cal-Am Water) (Joint Applicants). The WCCM is described in D.09-07-051, Ordering Paragraph No. 1:

*The Water Cost of Capital Mechanism provides an automatic adjustment, up or down, to [utility’s] adopted return on equity for 2009 (and thus, its overall rate of return on rate base for 2009) for calendar years 2010 and 2011 only if there is a*

*positive or negative difference of more than 100 basis points between the then current 12-month October 1 through September 30 average Moody's utility bond rates and a benchmark. For 2010, [utility's] initial benchmark is equal to the average interest rate of Moody's Aa utility bonds if it has an AA or A credit-rating or higher, or Moody's Baa utility bonds if [utility] has a BBB+ credit rating or lower for the period October 1, 2007 to September 30, 2008. The subsequent October 1 through September 30 average shall be based on the foregoing parameters. If the 100 basis point "deadband" is exceeded, [utility's] return on equity will be adjusted by one-half of the difference between the benchmark and the October 1 to September 30 average. In any year where the 12-month October through September average of Moody's utility bond rates triggers an automatic return on equity adjustment, that average becomes the new benchmark.*

*If the 100 basis point "deadband" is exceeded, [utility] will file a Tier 2 advice letter by October 15 that updates return on equity and related rate adjustments to become effective on January 1 of the following year. The advice letter would also update long-term debt and preferred stock costs to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued. However, [utility's] capital structure, as adopted for base year 2009, shall not be adjusted. Workpapers outlining the calculations relating to the change in return on equity, long-term debt costs, preferred stock costs and resulting changes in rates to become effective on the following January 1 are required to accompany the advice letter.*

Ordering Paragraph 7 of the D.23-06-025 states:

*California-American Water Company, California Water Service Company, Golden State Water Company, and San Jose Water Company shall continue with their Water Cost of Capital Mechanism for the years 2023, and 2024, using the base year 2022 adopted in this decision.*

In D.23-06-025, the Commission authorized the continuation of the WCCM for years 2023 and 2024 using the base year 2022. For the base year of 2022, the average Moody's Aa Utility Bond Index rate for the benchmark period is October 1, 2021, through September 30, 2022. This benchmark average is compared with the preceding period average rate from October 1, 2020, through September 30, 2021, to determine if the deadband of 100 basis points in either direction has been exceeded.

As provided in Attachment A, the difference in the Moody's Aa Utility Bond Index rate between those periods was 103 bps, thereby exceeding the deadband and triggering the WCCM for the remainder of 2023. In accordance with the WCCM, the return on equity (ROE) will be adjusted

by one-half of the difference, or 51 basis points, between the benchmark and the preceding period averages. This adjustment provides for an increase in the authorized ROE from 8.80% to 9.31%.

SJWC has evaluated its long-term debt which was last authorized in D.18-03-035 and has since issued new long-term debt under D.20-11-023. As such, the cost of debt recently authorized in D.23-05-025 requires a downward adjustment of 20 bps. The calculations are provided in Attachment C.

The following table shows the authorized capital structure, ROE, cost of debt, and ROR approved in D.23-05-025, the impacts of the WCCM trigger, and the resulting new ROR. SJWC requests the Commission authorize an ROR of 7.47%, effective July 31, 2023, based on the updated ROE of 9.31%, an updated cost of long term debt of 5.26%, and the capital structure of 45.45% debt to 54.55% equity. Calculations are shown in the table below:

	Ratio	Cost	Weighted Cost	WCCM Trigger	New Cost	Weighted Cost
Debt	45.45%	5.46%	2.48%	-20 bps	5.26%	2.39%
Equity	54.55%	8.80%	4.80%	+31 bps	9.31%	5.08%
Overall	100%		<b>7.28%</b>			<b>7.47%</b>

As provided above and in the attachments, the WCCM has triggered for the remainder of 2023. In accordance with the D.23-06-025 and specifically Ordering Paragraphs 5 and 6, SJWC plans to file a separate Tier 1 advice letter on July 31, 2023, to implement new rates as required within 30 days of June 29, 2023. The change in revenue requirement as well as new rates calculated at the ROR of 7.47% will become effective on the date of filing.

#### Effective Date

Per Ordering Paragraph 5 and 6 of the D.23-06-25, the effective date will be July 31, 2023.

#### Protests and Responses

Anyone may respond to or protest this advice letter. A response does not oppose the filing but presents information that may prove useful to the Commission in evaluating the advice letter. A protest objects to the advice letter in whole or in part and must set forth the specific grounds on which it is based. These grounds may include the following:

- 1) The utility did not properly serve or give notice of the advice letter;
- 2) The relief requested in the advice letter would violate statute or Commission order, or is not authorized by statute or Commission order on which the utility relies;

- 3) The analysis, calculations, or data in the advice letter contain material error or omissions;
- 4) The relief requested in the advice letter is pending before the Commission in a formal proceeding;
- 5) The relief requested in the advice letter requires consideration in a formal hearing, or is otherwise inappropriate for the advice letter process; or
- 6) The relief requested in the advice letter is unjust, unreasonable, or discriminatory (provided that such a protest may not be made where it would require relitigating a prior order of the Commission).

A response or protest must be made in writing or by electronic mail and must be received by the Water Division within 20 days of the date this advice letter is filed. The address for mailing or delivering a protest is:

Tariff Unit, Water Division, 3<sup>rd</sup> floor  
California Public Utilities Commission,  
505 Van Ness Avenue  
San Francisco, CA 94102  
water\_division@cpuc.ca.gov

On the same date the response or protest is submitted to the Water Division, the respondent or protestant shall send a copy of the protest by mail to us, addressed to:

Regulatory Affairs  
San Jose Water Company  
110 West Taylor Street  
San Jose, California 95196  
Fax 408.279.7934  
regulatoryaffairs@sjwater.com.

The advice letter process does not provide for any responses, protests or comments, except for the utility's reply, after the 20-day comment period.

In compliance with General Order 96-B public notice of this filing is not required. In compliance with Paragraph 4.3 of General Order 96-B, a copy of this advice letter has been electronically delivered to all interested and affected parties as detailed in Attachment C.

SJWC has Advice Letters 590, 592, and 597 pending before the Commission. This filing will not cause the withdrawal of service, nor conflict with other schedules or rules.

Very truly yours,

*Nanci Tran*

NANCI TRAN  
Manager of Regulatory Affairs

Attachments

**SAN JOSE WATER COMPANY**

**ADVICE LETTER NO. 598**

**ATTACHMENT A**

**PRELIMINARY STATEMENT**  
**(Continued)**

**S. Water Cost of Capital Adjustment Mechanism (WCCM)**

1. **Purpose**

The purpose of the Water Cost of Capital Adjustment Mechanism (WCCM) is to provide an automatic adjustment, up or down, to San Jose Water Company's (SJWC) adopted return on Decision 23-06-025, for rates implemented in 2023 after a final decision is adopted, and for rates implemented in 2024, only if there is a positive or negative difference of more than 100 basis points between a benchmark and the average of Moody's utility bond rates for a given 12-month period.

2. **Applicability**

The WCCM is applicable to all rate schedules.

3. **Procedure**

SJWC shall maintain the WCCM as follows:

- a. SJWC's initial benchmark is equal to the average interest rate of Moody's Aa Utility Bond Index if it has an AA or A credit-rating or higher, or Moody's Baa Utility Bond Index if SJWC has a BBB+ credit-rating or lower, for the period October 1, 2020 to September 30, 2021.
- b. If the "deadband" (the range of change in interest rates that may occur without automatically triggering a change in the return on equity) of 100 basis points is exceeded, SJWC's return on equity will be adjusted by one-half of the difference between the benchmark and the October 1 to September 30 average.
- c. In any year where the 12-month October through September average of the Moody's Utility Bond Index rates triggers an automatic return on equity adjustment, that average becomes the new benchmark.
- d. For rates implemented in 2023 after a final decision is adopted in D.23-06-025, the initial benchmark shall be compared to the average interest rate of Moody's Aa Utility Bond Index if it has an AA or A credit-rating or higher, or Moody's Baa Utility Bond Index if SJWC has a BBB+ credit-rating or lower, for the period October 1, 2021 to September 30, 2022.
- e. For rates implemented in 2023 after a final decision is adopted in D.23-06-025, if the 100 basis point deadband is exceeded, SJWC will submit a Tier 2 advice letter that updates return on equity and related rate adjustments to become effective for the rest of 2023. The advice letter would also update long-term debt and preferred stock costs to reflect actual embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued.
- f. For rates implemented in 2024, if the 100 basis point deadband is exceeded, SJWC will submit a Tier 2 advice letter by October 15, 2023 that updates return on equity and related rate adjustments to become effective on January 1, 2024. The advice letter would also update long-term debt and preferred stock costs to reflect actual August month-end embedded costs in that year and forecasted interest rates for variable long-term debt and new long-term debt and preferred stock scheduled to be issued.
- g. SJWC's capital structure, as adopted in D.23-06-025 shall not be adjusted
- h. If the WCCM is triggered, workpapers outlining the calculations relating to the change in return on equity, long-term debt costs, and preferred stock costs are required to accompany the advice letter.

4. **Effective Date**

The WCCM shall be effective for rates implemented in 2023 after D.23-06-025 and for rates implemented in 2024, unless modified by order of the Commission.

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

Advice No. 598

JOHN TANG

Date Filed \_\_\_\_\_

Vice President,

Effective \_\_\_\_\_

Dec. No. \_\_\_\_\_

Regulatory Affairs

Resolution No. \_\_\_\_\_

TITLE

TABLE OF CONTENTS

The following listed tariff sheets contain all effective rates, rules and regulations affecting the rates and service of the Utility, together with information relating thereto:

Subject Matter of Sheet	C.P.U.C. Sheet No.
Title	1495-W
Table of Contents	2264-W, 2161-W and 2251-W (C)
Preliminary Statement	919-W, 1303-W, 2032-W, 2212-W, 2213-W, 2035-W, 2058-W, 2037-W, 2214-W, 2040-W, 2041-W, 2215-W, 2087-W, 2244-W, 2155-W, 2216-W, 2217-W, 2237-W, 2252-W, 2263-W (C)
Service Area Map Locator	1266-W
Service Area Map Locator, Index	2101-W
Map of Areas with Special Pressure and FireFlow Conditions	2116-W
Index to Map of Areas With Special Pressure and FireFlow Conditions	1079-W, 2117-W 1082-W, 1087-W and 1404-W
Rate Schedules:	
Schedule No. 1, General Metered Service	2254-W, 2255-W and 2238-W
Schedule No. 1B, General Metered Service With Automatic Fire Sprinkler System	2256-W, 1741-W, 2183-W, 2239-W 2257-W, 1952-W, 1884-W and 2184-W, 2240-W
Schedule No. 1C, General Metered Service Mountain District	2228-W and 2187-W
Schedule No. 4, Private Fire Service	1118-W and 1094-W
Schedule No. 9C, Construction and Other Temporary Metered Service	152-W 2131-W, 2132-W, 2133-W
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No. 4 - Contracts	352-W
No. 5 - Special Information Required on Forms	2066-W, 2067-W and 2068-W-W
No. 6 - Establishment and Re-establishment of Credit	354-W
No. 7 - Deposits	355-W and 356-W
No. 8 - Notices	2069-W, 2070-W and 2017-W
No. 9 - Rendering and Payment of Bills	2188-W, 2189-W and 2190-W

(Continued)

(To be inserted by utility)

Issued by

(To be inserted by Cal. P.U.C.)

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JOHN TANG  
Vice President,  
Regulatory Affairs

Date Filed \_\_\_\_\_  
Effective \_\_\_\_\_  
Resolution No. \_\_\_\_\_

Dec. No. \_\_\_\_\_



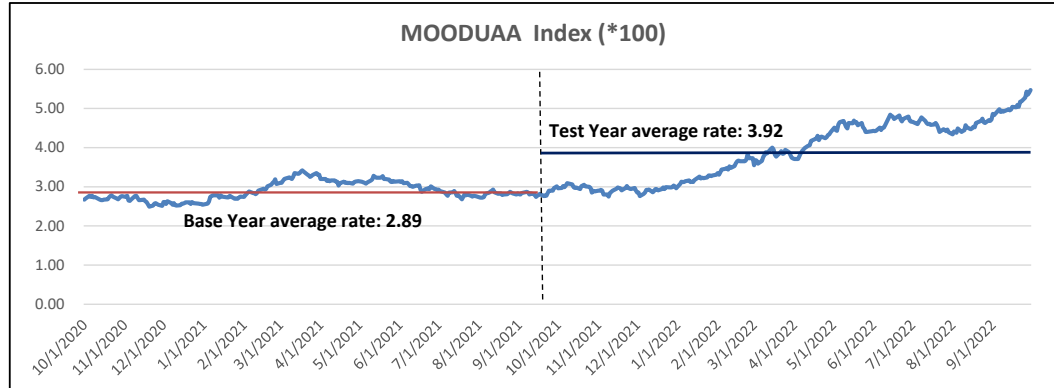
**SAN JOSE WATER COMPANY**

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**ATTACHMENT A**

### ATTACHMENT C - WCCM ROE Trigger Analysis

MOODUAA Index (*100)	Interest Rate (*100)
Test Year (10/1/2021-9/30/2022) average interest rate	3.92
Base Year (10/1/2020 - 9/30/2021) average interest rate	2.89
Delta between Test Year and Base Year	1.03
Half of Delta for average interest rate if WCCM triggered	<b>0.51</b>
<b>ROE Adjustment if WCCM triggered</b>	<b>0.51</b>



**SAN JOSE WATER COMPANY**

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**ATTACHMENT B**

**SAN JOSE WATER COMPANY  
ATTACHMENT D  
WCCM - Weighted Average Long-term Debt Trigger**

		<u>Updated Wt. Cost of Debt</u>		<b>COC Decision</b>	
<b>2021</b>	Schedule 5.3 (c)	5.76%		5.77%	
<b>2022</b>	Schedule 5.4 (d), (e)	5.24%	5.50%	5.48%	5.63%
<b>2022</b>	Schedule 5.4 (d), (e)	5.24%		5.48%	
<b>2023</b>	Schedule 5.5 (f)	5.16%	5.20%	5.42%	5.45%
<b>2023</b>	Schedule 5.5 (f)	5.16%		5.42%	
<b>2024</b>	Schedule 5.6 (g)	4.99%	5.07%	5.20%	5.31%
<b>Forecasted Wt. Average 2022-2024:</b>			5.26%		5.46%
		<b>Change &gt;&gt;&gt;&gt;</b>	-0.20%		

**Notes:**

1. Series N coupon Rate updated to 3.3%
2. PAB 10 prepaid in 2022; Unamortized amount is \$519k amortized
3. Series O updated to \$50M and rate of 3% On June 2022
4. Series P updated to \$70M and rate of 4.85% January 2023

**SAN JOSE WATER COMPANY**

**ADVICE LETTER NO. 598**

**ATTACHMENT C**

## SAN JOSE WATER COMPANY (U-168-W)

### ADVICE LETTER 598 SERVICE LIST

Big Redwood Park Water	waldoburford@gmail.com;
Brush & Old Well Mutual Water Company	BOWMWC@brushroad.com;
Cal Water	cwsrates@calwater.com;
City of Campbell	publicworks@cityofcampbell.com;
City of Cupertino City Attorney	cityattorney@cupertino.org;
City of Cupertino Director of Public Works	rogerl@cupertino.org;
City of Milpitas	<a href="mailto:tndah@ci.milpitas.ca.gov">tndah@ci.milpitas.ca.gov</a> ;
City of Milpitas	smachida@ci.milpitas.ca.gov;
City of Monte Sereno	steve@cityofmontesereno.org;
City of Monte Sereno	bmekechuk@cityofmontesereno.org;
City of Santa Clara	water@santaclaraca.gov;
City of San Jose	jeffrey.provenzano@sanjoseca.gov;
City of Saratoga	jcherbone@saratoga.ca.us;
County of Santa Clara	county.counsel@cco.sccgov.org;
DB Davis	dbdavis@rockwellcollins.com;
Dept. of Water Resources, Safe Drinking Water Office	sdwo@water.ca.gov;
Valley Water	dtaylor@valleywater.org;
Gillette Mutual Water Company	gapowerz@gmail.com;
Gillette Mutual Water Company	goldiey@pacbell.net;
Gillette Mutual Water Company	keyoung@pacbell.net;
Great Oaks Water	jroeder@greatoakswater.com;
Great Oaks Water	tguster@greatoakswater.com;
Cal Water	jpolanco@calwater.com;
James Hunter	j88hunter882@gmail.com;
City of Cupertino	KirstenS@cupertino.org;
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Mountain Springs Mutual Water Co.	Lorenroy@icloud.com;
Mt. Summit Mutual Water Company	wshoefler@comcast.net;
Oakmount Mutual Water Company	gortiz12@comcast.net;
Patrick Kearns MD	pjk3@comcast.net;
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Ridge Mutual Water Company	pmantey@yahoo.com;
Rishi Kumar	rkumar@saratoga.ca.us;
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