



# Memorandum

**TO:** TRANSPORTATION AND ENVIRONMENT COMMITTEE

**FROM:** Kerrie Romanow

**SUBJECT:** ACTIONS RELATED TO SAN JOSE WATER COMPANY

**DATE:** April 17, 2019

Approved

Date

4-24-19

## RECOMMENDATION

Accept the status report on Actions Related to the San Jose Water Company and the City of San José's response.

## OUTCOME

Provide an update to the Transportation and Environment (T&E) Committee on the status of current Actions Related to the San Jose Water Company.

## BACKGROUND

San Jose Water Company (SJWC) is one of the three local water retailers serving residents and businesses in the City of San José. The California Public Utilities Commission (CPUC) regulates SJWC, and water rates are set by the CPUC. Water rates have been increasing due to several factors including the cost of wholesale water, decreased usage, and capital investments needed to ensure safe, high quality, and reliable water service.

On August 23, 2017, the Rules and Open Government Committee accepted Councilmember Rocha's memo titled "*San Jose Water Company*" and recommended that the City Council direct the City Manager to provide data on City of San José's costs for water service and to evaluate potential options, if any, for how the City can represent its citizens regarding water rates.

On October 24, 2017, Council directed the City Manager to pursue a level of staff involvement, using existing resources, to monitor all applications to the CPUC that will result in an increase to the cost of water service, perform a brief analysis and provide a recommendation for response or further action. In addition, through the City's existing Office of Intergovernmental Relations

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directed the City Manager to support state and federal efforts to promote water affordability with a goal of access to safe, clean, and reliable water for all residents.

On May 7, 2018, staff provided an update to the Transportation and Environment Committee.

## ANALYSIS

As described within the Public Utilities Code, an Investor Owned (private) water retailer may request approval from the CPUC to increase a variety of fees and charges that will be listed on residential bills. SJWC can increase rates through Advice Letters and other mechanisms. Advice Letters seek CPUC's authorization to make changes in tariff schedules applicable to SJWC service area, including but not limited to:

- > Recover funds such as to offset the increase in purchased water and ground water charges from Santa Clara Valley Water District;
- > Implement a Water Shortage Contingency Plan with Staged Mandatory Reductions and Drought Surcharges;
- > Establish a Water Conservation Memorandum Account;
- > Implement Water Revenue Adjustment Mechanisms;
- > Fund pilot programs (such as the Advanced Metering Infrastructure pilot study);
- > Establish a School Lead Testing Memorandum Account;
- > Repayment of a Safe Drinking Water State Revolving Fund loan, and
- > Amortize the over and under-collection of rates;

The process for engaging the CPUC for each type of increase or Advice Letter varies per the Public Utilities Code.

Over the past year, staff has been tracking Advice Letters and Applications submitted by SJWC. Notification of Advice Letter filings allows 20 days from the date that the Advice Letter was mailed for written response or protest. A brief description of submitted Advice Letters are as follows:

- On April 6, 2018, SJWC filed **Advice Letter 520** to “to update Rule 19, Metering of New Multi-Tenant Buildings, to comply with the requirements of SB 7.”
- On May 16, 2018, SJWC filed **Advice Letter 521**. Per Advice Letter 513, by “this filing, SJWC requests to update the income eligibility limits for its Water Rate Assistance Program (WRAP) to reflect the updated income limits effective June 1, 2018, for Pacific Gas and Electric's (PG&E) CARE program.”
- On May 23, 2018, SJWC filed **Advice Letter 522** to “Modify current rates to reflect changes to the federal tax law” a decrease of \$14,721,000 or 3.86%.
- On June 13, 2018, SJWC filed **Advice Letter 523** to “Request authorization to implement surcharges to offset increases in purchased potable water, ground water

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production and purchased recycled water charges from SCVWD and SBWR effective July 1, 2018” an increase of \$13,731,580 or 3.75%.

- On July 26, 2018, SJWC filed **Advice Letter 524** to “Rate Base Offset for plant additions in 2017 related to the Montevina Water Treatment Plant Upgrade Project” an increase of \$3,154,700 or 0.83%.
- On September 20, 2018, SJWC filed **Advice Letter 525** to “Upsize Charges and Special Conditions 1 and 2 from Schedule 1B shall also apply to Schedule 1C General Metered Service Mountain District.”
- On September 21, 2018, SJWC filed **Advice Letter 526** to “Authorization to Add SRF Loan I and SRF Loan II Balancing Accounts to the Preliminary Statement.”
- On October 24, 2018, SJWC filed **Advice Letter 527** to “Update tariffs, forms, and customer notices with new contact information for Consumer Affairs Branch as directed by the Consumer Protection and Enforcement Division.”
- On December 6, 2018, SJWC filed **Advice Letter 528** to “Implement authorized rates and conditions as established in Decision No. (D) 18-11-025 dated November 29, 2018, which are designed to increase revenue in Test Year 2019” an increase of \$16,378,000 or 4.55%.
- On December 21, 2018, SJWC filed **Advice Letter 528A** as a “Supplemental Advice Letter to revise Memorandum Accounts Surcharge to make it consistent with tables submitted with the Settlement Agreement in Decision No. (D) 18-11-025 dated November 29, 2018, which are designated to increase revenue in Test Year 2019.”
- On December 11, 2018, SJWC filed **Advice Letter 529** to “Revise Public Utilities Commission Utilities Reimbursement Account User Fee to 1.23%.”
- On December 14, 2018, SJWC filed **Advice Letter 530** to “Request authorization to implement sur-credit to refund readiness to serve rate changes affected by proration as authorized in D.18-11-025” a refund of \$2,020,220.
- On February 28, 2019, SJWC filed **Advice Letter 531** to propose “changes in tariff schedule applicable to its service area”.
- On March 29, 2019, SJWC filed **Advice Letter 532** “requesting authorization to recover the balance accumulated in the Water Conservation Memorandum Account” an increase of \$9,020,356. or 2.26%.

Since the last update to T&E in May 2018, SJWC has submitted 13 Advice Letters. Advice Letters 522 and 530 decreased rates to reflect changes to the federal tax law and a sur-credit to refund readiness to serve rate changes respectively. Advice Letters 523, 524, 528, and 532 resulted in an increased cost of water service to accommodate wholesale rate increases, water treatment plant upgrades, the approval of the General Rate Case (D.18-11-025), and a water conservation surcharge respectively. The above listed Advice Letters, other than 532, have been approved by the CPUC.

For Advice Letter 532, on January 17, 2014 Governor Brown proclaimed a State of Emergency and directed State officials to take all necessary actions to prepare for drought conditions. In response, the CPUC approved drought procedures and required SJWC to implement their

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drought response plan (Tariff Rule 14.1), including establishment of memorandum accounts to track lost revenue associated with reduced water sales. Since January 2014 and per Tariff Rule 14.1, SJWC tracked reduced revenue in memorandum accounts and has periodically sought CPUC authorization via Advice Letters to recover under-collected balances. Advice Letter 532 is an example of this process.

On April 16, 2019, City Council directed staff to protest Advice Letter 532. Protest was submitted to the CPUC arguing that the process associated with rate-making requires increased transparency to ensure consumers are informed about anticipated rate increases; and that the City was unable to replicate SJWC's representations about the rate increase to a typical consumer. In addition, the Public Advocates Office at the CPUC filed a protest on Advice Letter 532 on the grounds that SJWC already recovered all fixed costs through customer rates. "Authorizing the requested relief would only provide SJWC with additional profit in excess of its authorized rate of return."

*Merger with Connecticut Water Services, Inc.*

On April 16, 2019, the Council also directed the City Attorney's Office to request that the CPUC resume its investigation into the proposed merger or change of control between San Jose Water Group, SJWC's parent company, and Connecticut Water. The Connecticut equivalent of the CPUC previously tentatively denied the request. On April 3, 2019, the companies filed a new application, this time with a "comprehensive set of commitments and additional supporting evidence" how the combination will deliver, "immediate, quantifiable and significant benefits" for Connecticut stakeholders. The City's requests that the CPUC review the merger to ensure that California consumers have the same protections, if needed.

*Anticipated Changes to Tariff Schedule:*

On April 23, 2019, the Santa Clara Valley Water District (Valley Water) concluded public hearings on proposed changes to wholesale water rates; and is scheduled to determine increases to wholesale water rates on May 14, 2019. In June 2019, SJWC is expected to file an **Advice Letter** to request authorization to implement surcharges to offset increases in purchased wholesale potable water and ground water production charges from Santa Clara Valley Water District (Valley Water) effective July 1, 2019, an anticipated increase of approximately 2.50%.

**EVALUATION AND FOLLOW-UP**

Staff will continue to monitor all applications to the CPUC that will result in an increase to the cost of water service.

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**PUBLIC OUTREACH/INTEREST**

This memorandum will be posted on the City's website for the May 6, 2019 Transportation and Environmental Committee Agenda.

**COORDINATION**

This memorandum has been coordinated with the City Attorney's Office and Budget Office.

**COMMISSION RECOMMENDATION/INPUT**

No commission recommendation or input is associated with this action.

**CEQA**

Not a project, File No.PP10-069.

/s/

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Director, Environmental Services

For questions, please contact Jeff Provenzano, Deputy Director of Environmental Services, at (408) 277-3671