



SAN JOSE WATER

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

October 13, 2023

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

Advice Letter No. 601

To Whom It May Concern:

Pursuant to Decision No. (D) 09-07-051, this advice letter is designated a Tier II Advice Letter.

Purpose

This filing is to inform the Commission that the Water Cost of Capital Mechanism (WCCM) has triggered.

The WCCM, originally authorized in 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 2024, the average Moody’s Aa Utility Bond Index rate for the benchmark period from October 1, 2022, through September 30, 2023, is compared with the preceding period average rate from October 1, 2021, through September 30, 2022, 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 140 bps, thereby exceeding the deadband and triggering the WCCM for 2024. In accordance with the WCCM, the return on equity (ROE) will be adjusted by one-half of the difference, or 70 basis points, between the benchmark and the preceding period averages. This adjustment provides for an increase in the currently authorized ROE from 9.31% to 10.01%.

SJWC has evaluated its long-term debt which was last authorized in D.23-05-025 and updated via Advice Letter 598 (2023 WCCM Trigger) with a downward adjustment of 20 basis point. SJWC anticipate to issue new debt in 2024, series Q. The cost of debt recently authorized in Advice Letter 598 requires an upward adjustment of 2 bps. The calculations are provided in Attachment B.

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 7.86%, effective January 1, 2024 based on the

updated ROE of 10.01%, an updated cost of long term debt of 5.28%, 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%	5.26%	2.39%	+2 bps	5.28%	2.40%
Equity	54.55%	9.31%	5.08%	+70 bps	10.01%	5.46%
Overall	100%		7.47%			7.86%

As provided above and in the attachments, the WCCM has triggered for 2024. SJWC plans to implement the trigger in its upcoming 2024 escalation filing with an effective date of January 1, 2024.

Effective Date
January 1, 2024

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, 3rd 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 Letter 600 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. 601

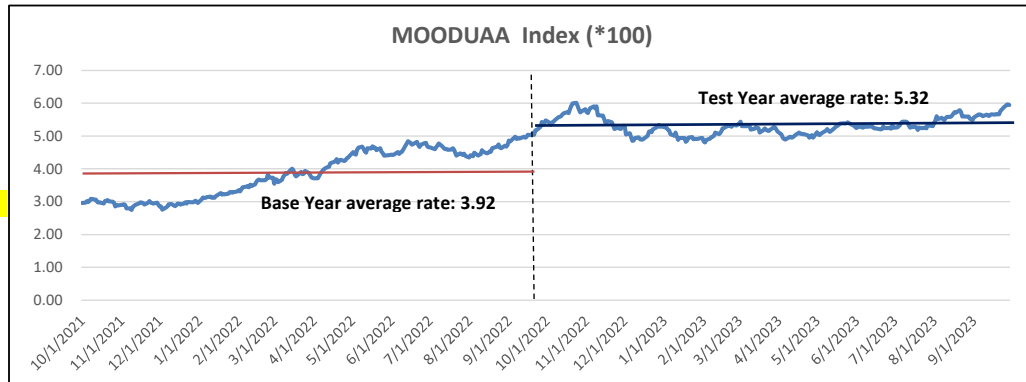
ATTACHMENT A

WCCM Trigger Analysis

(Updated: 10/02/2023)

MOODUAA Index (*100)

	Interest Rate (*100)
Test Year (10/1/2022-9/30/2023) average interest rate	5.32
Base Year (10/1/2021 - 9/30/2022) average interest rate	3.92
Delta between Test Year and Base Year	1.40
Half of Delta for average interest rate if WCCM triggered	0.70
ROE Adjustment if WCCM triggered	0.70



SAN JOSE WATER COMPANY

ADVICE LETTER NO. 601

ATTACHMENT B

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

		<u>Updated Wt. Cost of Debt</u>		Advice Letter 598	
2021	Schedule 5.3 (c)	5.76%		5.76%	
2022	Schedule 5.4 (d), (e)	5.24%	5.50%	5.24%	5.50%
2022	Schedule 5.4 (d), (e)	5.24%		5.24%	
2023	Schedule 5.5 (f)	5.16%	5.20%	5.16%	5.20%
2023	Schedule 5.5 (f)	5.16%		5.16%	
2024	Schedule 5.6 (g)	5.12%	5.14%	4.99%	5.07%
Forecasted Wt. Average 2022-2024:			5.28%		5.26%
			Change >>>>		0.02%

Notes:

1. Additon of Series Q for \$50M and rate of 6.33% in 2024

SAN JOSE WATER COMPANY

ADVICE LETTER NO. 601

ATTACHMENT C

SAN JOSE WATER COMPANY (U-168-W)

ADVICE LETTER 601 SERVICE LIST

Big Redwood Park Water	waldburford@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	tndah@ci.milpitas.ca.gov ;
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;
Public Advocates Office	mukunda.dawadi@cpuc.ca.gov;
Public Advocates Office	PublicAdvocatesWater@cpuc.ca.gov;
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;
Raineri Mutual Water Company	info@rainerimutual.org;
Ridge Mutual Water Company	pmantey@yahoo.com;
Rishi Kumar	rkumar@saratoga.ca.us;
San Jose Mercury News	progers@bayareanewsgroup.com;
Valley Water	afulcher@valleywater.org;
Valley Water	abaker@valleywater.org;
Saratoga Heights Mutual Water Company	sjw@shmwc.org;
SouthWest Water Company	kcarlson@swwc.com;
Stagecoach Mutual Water Company	stagecoachroadMWC@gmail.com;
Summit West	RJonesPE@aol.com;
Summit West	board@summitwest.org;
Town of Los Gatos Dir. of Public Works	ppw@losgatosca.gov;
WRATES	rita_benton@ymail.com;
Villa Del Monte	mntmom33@comcast.net;