PRIVATE WATER PURVEYORS

18. SAN JOSE WATER COMPANY

TYPE AND EXTENT OF SERVICES

San Jose Water Company (SJWC), founded in 1866, is one of the largest water providers in Santa Clara County serving an area that encompasses 139 square miles. SJWC provides potable water service to portions of Cupertino and San Jose; all of Campbell, Los Gatos, Saratoga, and Monte Sereno; and contiguous territory in the County of Santa Clara. As an investor-owned water utility, the Company operates under the authority of the California Public Utilities Commission (CPUC). SJWC is owned by San Jose Water Corp., a publicly traded company listed on the New York Stock Exchange under the symbol SJW.

On October 1, 1997 SJWC entered into a 25-year lease agreement with the City of Cupertino to operate and maintain the City's water system.

San Jose Water Company is an investor owned utility and not subject to LAFCO purview; therefore, no determinations have been included. The Company is included in the report to ensure a comprehensive review of water service in Santa Clara County. San Jose Water Company was last reviewed in the 2005 Countywide Water Service Review.

ACCOUNTABILITY AND GOVERNANCE

San Jose Water Company is an investor owned utility operated under the direction of a ten-member Board of Directors. Directors are elected by the shareholders to one-year terms. SJWC maintains a website to provide information to its customers. SJWC is regulated by the California Public Utilities Commission (CPUC).

MANAGEMENT AND STAFFING

San Jose Water Company has a total of 352 employees—109 are employed in management and administration and 243 are dedicated to the operations and maintenance of the water system.

The Company has established Best Management practices in order to increase efficiency and maximize profits. It is investor-owned and must meet certain levels of performance based on investor expectations.

San Jose Water Company is managing operating costs by employing efficient management operations, maximizing the use of its water resources and being actively involved in water-related issues in the County. The Company provides leadership in SCVWD's water retailers group as well as the group's financial subcommittee.

SJWC uses technology extensively to manage its system, resulting in lower staff levels, controlled energy costs, and improved security monitoring. For its system, the Company

uses a fifth generation Supervisory Control and Data Acquisition system that enables staff to efficiently manage pressure, flow and energy use, as well as monitor for system problems before they become critical

In addition, SJWC is a partner in South Bay Water Recycling, along with the San Jose Municipal Water System, the Cities of Milpitas and Santa Clara, the Great Oaks Water Company, SCVWD and the US Bureau of Reclamation. This partnership provides coordination with the retailers to ensure that the area's recycled water resource is maximized, both in terms of delivery and plant treatment capacity.

POPULATION AND PROJECTED GROWTH

San Jose Water Company serves an estimated population of one million. Growth within the service area is expected to be slow to moderate; the Association of Bay Area Governments projects that population in SJWC's service area will increase by about 1.4 percent per year for the next five years. The population in the service area is projected to be 1,017,684 in 2015 and up to 1,293,771 in the year 2035.[113]

Figure 18-1: San Jose Water Company Connections

The metered connections served by the Company, including those in parts of Cupertino that are being leased by SJWC, are shown in Figure 18-1.

Connection Type	Number of Connections	Percentage
Residential/Business	220,654	99%
Industrial	75	0%
Other/Governmental	1,648	1%
Recycled	73	0%
Total	**222,450**	**100%**

SJWC adds approximately 1,200 new connections on average each year. The Company manages future supply based on projected growth. The Company has planned for growth within its service area through its Urban Water Management Plan, Infrastructure Master Plans, and Capital Improvement Plan.

FINANCING

The majority of revenues for SJWC are derived from rates charged for water service. In calendar year 2010, the Company's revenue was $199.1 million and operating expenses were $170 million. SJWC invested $95.5 million for capital improvements during the same fiscal year.

[113] San Jose Water Company, *2010 UWMP*, April 2011, p. 5.

SJWC undergoes an annual independent audit. The results of the FY 09-10 audit were not qualified in any way. The Company has outstanding bonds of about $252 million; the First Mortgage Bonds are rated NAIC 1, while the Private Activity bonds are rated A.

Supply Rates

SJWC pays a groundwater extraction fee of $520 per acre foot to SCVWD to cover the costs associated with the District's groundwater recharge program. The Company also pays a treated water rate of $620 per acre foot for imported supply from SCVWD.

Demand Rates

The rates charged for water service by San Jose Water Company are reviewed triannually and adjusted annually; any rate changes must be approved by the CPUC. The Company increased rates by 9.2 percent in FY 09-10 and 3.3 percent in FY 10-11. It is expected that rate increases will continue. The projected rate increase for FY 11-12 is 5.8 percent.

SJWC has a tiered rate structure that includes a meter charge and water usage. In addition, there is a 1.5 percent surcharge on all customer bills to recover the cost of the fee imposed by the CPUC to fund its regulation. For comparison purposes, a ¾" meter would pay $16.37 for the meter charge, $2.52 per each 100 cubic feet up to 1300 cubic feet and $2.77 for each 100 cubic feet thereafter, plus the 1.5 percent surcharge.

WATER SUPPLY

SJWC obtains its water supply from several sources: groundwater (39 percent), local surface water (varies but averages about eight percent), and imported treated surface water from SCVWD (53 percent). SJWC is SCVWD's largest customer, purchasing over 50 percent of the District's treated supply. SJWC receives water from all three of SCVWD's treatment plants.

Local surface supply is the most cost-effective water source for SJWC as there is a lower cost for supply, collection, treatment and distribution. SJWC holds water rights on several local creeks and impounds raw water at the following lakes: Cozzens, Elsman, Kittredge, McKenzie, and Williams.

Groundwater is extracted from the Santa Clara Valley Basin, which receives natural and artificial recharge through SCVWD's facilities. The District manages all of the groundwater resources and is responsible for all recharge functions.

SJWC has the water rights for most properties in its service area in the form of quitclaim deeds. These revocable rights are usually obtained by SJWC prior to providing water service to a customer. Thus SJWC has rights to pump water from the aquifers because SJWC has the deeded water rights from property owners in the service area when in compliance with the SCVWD's permitting requirements.

Based on SJWC's projections, groundwater will continue to be an important source of water, comprising forty percent of the supply through year 2035.

SJWC receives recycled water through South Bay Water Recycling; the water is produced at the San Jose/Santa Clara Water Pollution Control Plant in Alviso and is available in the northern and eastern portions of SJWC's service area. SJWC's role in the SBWR system is as a retailer that provides meter reading and billing services for the project within its service boundaries. In addition, SJWC owns and operates portions of distribution system.

SJWC plans to add additional sources of supply in the form of new, higher capacity, replacement groundwater wells, in order to meet the demands of planned developments within SJWC's service area. The program proposes replacing two wells per year. In addition to well replacements, the proposed North First Street development would require additional supply

WATER DEMAND

Figure 18-2 shows existing and projected future water demands. As shown, the Company projects that average day demand will increase by approximately 16 percent by 2035.

SJWC anticipates that it will continue to have sufficient water capacity available from the existing three water sources, based on demand projections of 0.4 percent annual demand growth until 2035. SCVWD will be able to meet the demands of SJWC's service area during normal and single dry years. The local surface water supply will be limited during dry years, but the balance will be made up through additional groundwater pumping. SCVWD has determined that water shortages would occur in the event of an extended drought period after 2020, and are planning to make investments such that no greater than 20 percent shortages are expected through year 2035, based on Santa Clara County's historic hydrology.

Based on SCVWD's water supply management through year 2035, conservation methods currently employed and future demand management measures, SJWC will be able to meet the needs of the service area through at least 2035 for normal and single dry years. In a multiple dry year event beyond 2025, SJWC may be faced with a 20 percent reduction of supply from SCVWD's sources in years four to six of a multiple dry year event. In this case, SJWC will enact a water shortage contingency plan.

SJWC's total demand is not limited to metered customer use. Between six and seven percent of the water produced (pumped, treated or purchased) never gets billed and is classified as "non-revenue water." Non-revenue water includes authorized unmetered uses including firefighting, main flushing and public use. The remaining unmetered water is likely due to meter reading discrepancies, reservoir cleaning, malfunctioning valves, leakage and theft.

Figure 18-2: Existing and Projected Water Demand

Type	Quantity
Average Day Demand (2010)	110 mgd
Maximum Day Demand (2003-2004)	233 mgd
Projected Average Day Demand (2035)	128 mgd

SJWC has a water conservation program and dedicated conservation staff. It uses a number of demand management measures in order to encourage water conservation.

WATER INFRASTRUCTURE AND FACILITIES

The SJWC infrastructure is described in detail in Figure 18-3.

Figure 18-3: SJWC Water Infrastructure

Facility	Details
Pipelines	2,453 miles
Reservoirs	5
Tanks	98
Total Water Storage Volume	7,690 AF
Pump Stations	247
Pump Station Capacity	451 mgd
Wells	111
Total Well Pumping Capacity	263.1 mg
Pressure Zones	95

The Company operates under the authority of the CPUC, which sets standards for system capacity and service reliability.

SJWC has developed an Infrastructure Master Plan for pipelines and special facilities. Related to that is the Company's five-year capital improvement plan. Over $50 million in infrastructure replacement is performed each year to keep the aging system running well. There are areas where existing pipes were designed for the fire flow requirements present at installation, which is less than would be required if installed currently. The Company is actively working to improve this situation whenever there is an opportunity to upgrade pipeline capacity.

SJWC disinfects groundwater at the well station and has two treatment facilities for surface water—Montevina and Saratoga. One uses a direct filtration process and the other microfiltration, with a combined capacity of 35 million gallons per day. The smaller plant was built in 1993 on the site of a former plant that had been taken out of service. The larger facility will soon undergo major improvements to keep pace with all upcoming water quality requirements and to maximize usage for the ratepayers benefit.

Groundwater quality in the service area is excellent overall. SJWC is able to manage this through time of use and dilution. The water storage facilities include steel and redwood tanks as well as large in-ground lined treated water reservoirs and raw water reservoirs.

Shared facilities

SJWC shares facilities where appropriate to increase efficiency and improve cost effectiveness. The Company has two intertie connections with SCVWD at Quito Road and Cox Avenue to improve reliability for SCVWD retailers receiving water from the Rinconada Treatment Plant through the West Pipeline.

The Company also wholesales water to 39 mutual water companies and other small water systems. It sells raw untreated water to the Aldercroft Heights County Water District directly from Los Gatos Creek, where the Company holds water rights.