



City Hall
10300 Torre Avenue
Cupertino, CA 95014-3255
PH: (408) 777-3354
FX: (408) 777-3333

PUBLIC WORKS DEPARTMENT

November 1, 2019

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Re: Notice of Public Hearing – Changes to the Cupertino Municipal Water System Lease

This letter provides information about a public hearing on December 17, 2019, at 6:45 p.m., or as soon thereafter as may be heard, in which the City Council will consider proposed changes to the Lease of the Cupertino Municipal Water System between the City of Cupertino (City) and San Jose Water Company (SJWC) that is expected to affect customers' water rates.

Why am I receiving this notice?

You are receiving this notice because you are an individual responsible for paying water bills and/or a record owner of a property with a metered connection to the Cupertino Municipal Water System with service provided by SJWC. You may receive multiple copies, as a notice is sent for each service address.

The Cupertino Municipal Water System purchases, treats, and delivers approximately 3 million gallons of potable water per day to residences and businesses. In October 1997, the City leased this water system to SJWC, who has responsibility for operating and maintaining the water system, serving water customers, and setting the water rates, subject to City Council confirmation. SJWC also serves water to other customers in Cupertino via their own water system that is regulated by the California Public Utilities Commission (CPUC).

What will the City Council consider?

On December 17, 2019, the City Council will consider amending the terms of the lease with SJWC to clarify the obligations of both parties. The amendments will, among other things, require SJWC to make a \$5 million capital investment in the Cupertino Municipal Water System before the end of the lease term in October 2022 and simplify the procedure for SJWC to set water rates.

The City does not set water rates, but does have a regulatory role to ensure the water rates imposed by SJWC are just, reasonable, and nondiscriminatory. Under the current lease, the City can consider "all relevant information" in making this determination, which cannot be unreasonably withheld.

Under the amended lease, if approved, SJWC will be able to charge the same rates approved by the CPUC for all of SJWC's customers in Cupertino including those served by the Municipal Water System. Rates charged to Municipal Water Customers will not exceed the rates approved by the CPUC. The CPUC reviews proposed rate increases with input from the CPUC's Public Advocates Office to ensure that they are fair and reasonable, that water quality standards are met, that it is operated efficiently, and that the rates are based on the cost of service, among other things. Using the CPUC rates as a proxy will simplify the procedure for SJWC to set rates and ensure that all of SJWC's customers in Cupertino are subject to the same rate limitations.

How could this affect my water rates?

The last water rate increase authorized by the City for Municipal Water System customers under the lease was in September 2016. SJWC requested increases in water rates for 2017, 2018 and 2019, but these requests have not been acted upon by the City Council due to ongoing lease negotiations. **Since January 2017, customers of the Cupertino Municipal Water System with service provided by SJWC have had a lower cost of water compared to customers of SJWC's own water system in Cupertino.**

By voting to amend the lease, the City Council will not be authorizing any particular water rate changes. Instead they will be establishing a regulatory cap on the rates that SJWC may impose under the terms of the amended lease. City public works staff has been advised that **if the lease is amended, SJWC intends to increase water rates that will result in a bill increase of approximately 13.8% for a typical residential customer consuming 11 units of water per month beginning December 18, 2019. These changes would be effective going forward from this date and would not be imposed retroactively.** Sample water bill calculations comparing the current and proposed rates are available on the following pages.

Where can I get more information?

A more detailed City notice and sample potential fees are enclosed. These documents and the proposed lease are also posted online at www.cupertino.org/amendedwaterlease.

When is the public hearing?

The City Council will hold a public hearing on the proposed changes to the lease terms between the City and SJWC on:

Tuesday, December 17, 2019, at 6:45 p.m.
Cupertino Community Hall Council Chambers
10300 Torre Ave.
Cupertino, CA 95014

If you wish to comment on the proposed changes to the lease terms between the City and SJWC for consideration by the City Council, you may attend the City Council meeting and provide input during the public hearing when the item is called. You may also submit written comments to the Office of the

City Clerk in the form of a letter, fax, or e-mail prior to the **December 17, 2019** hearing.

| Mail (or hand-deliver) to | Fax to | Phone to | E-mail to |
|---|--|--|--|
| Water System Lease Amendment City of Cupertino Office of the City Clerk 10300 Torre Avenue Cupertino, CA 95014 | (408) 777-3333 Subject line: Water System Lease Amendment | Public Works Department (408) 777-3354 | Amendedwaterlease@cupertino.org By 6:30 p.m. on 12/17/19 |



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PUBLIC WORKS DEPARTMENT

NOTICE OF PUBLIC HEARING: PROPOSED CHANGES TO THE CUPERTINO MUNICIPAL WATER SYSTEM LEASE AGREEMENT BETWEEN THE CITY AND SAN JOSE WATER COMPANY

At the Council meeting on December 17, 2019, at 6:45 p.m. or as soon thereafter as may be heard, the Cupertino City Council will conduct a public hearing regarding changes to the Cupertino Municipal Water System lease terms between the City of Cupertino (City) and San Jose Water Company (SJWC). The lease amendments will require SJWC to make certain capital investments in the Cupertino Municipal Water System and simplify the procedure for SJWC to set water rates. As proposed, SJWC will be able to independently adjust rates as long as they do not exceed the rates authorized by the CPUC and in effect on SJWC's own water system within Cupertino. If the proposed changes to the lease are approved, SJWC is expected to increase water rates that will result in a bill increase of approximately 13.8% for a typical residential customer consuming 11 units of water per month beginning December 18, 2019 with no retroactive collection.

Reason for the Proposed Changes to Lease Terms between the City and San Jose Water Company

In October 1997, the City and SJWC entered in to a 25-year lease agreement (Agreement). Under the Agreement, SJWC is responsible for operating and maintaining the water system. This includes distributing water, complying with all water quality standards, billing, and maintaining the system to industry standards. In early 2016, the City completed an inspection of the water system and notified SJWC that additional capital improvements were needed to maintain the system to industry standards. Negotiations regarding the dollar amount of improvements to be completed within the Agreement term have recently been concluded. The proposed changes to the Agreement require SJWC to expend \$5 million in water system improvements before the end of the agreement in October 2022.

SJWC, as the lessee of the Cupertino Municipal Water System, imposes the rates and charges for water service. These rates and charges apply to residential, commercial, institutional, and industrial customers. Currently the City has a regulatory role in the rate setting process. It must approve certain reasonable requests by SJWC to change water rates to customers served by the leased water system. In determining reasonableness, the City considers all relevant information, including the California Public Utility Commission (CPUC) approved rates on privately-owned water systems and the rates of nearby municipal water agencies. Pass-through rate adjustments for changes in wholesale costs – such as changes due to increases or decreases in water and power (as well as certain unanticipated changes in volumes) - can be automatically imposed without prior City approval, so long as it is done in a manner substantially similar to that permitted by the CPUC.

Since the beginning of lease term in 1997 through 2016, the water rates charged to customers of the Cupertino Municipal Water System with service provided by SJWC were equal to the water rates authorized by the CPUC for SJWC's privately-owned system in Cupertino. Additionally, these rates were found to be similar to the rates

of nearby municipal water agencies. Because SJWC has committed to expending the needed dollars on the Cupertino Municipal Water System and there has been a long history of a comprehensive CPUC review process that has resulted in water rates being similar to nearby municipal agencies, the amended Agreement will no longer require the City Council to independently regulate rates. Instead, the Council will use the CPUC review process as a proxy for its own review and allow the rates authorized by the CPUC on SJWC's own system in Cupertino to establish a regulatory cap or maximum that SJWC can charge to customers connected to the Cupertino Municipal Water System. This change simplifies the procedure for SJWC to set rates while still ensuring that the water rates imposed by SJWC remain just, reasonable, and nondiscriminatory. As a result, SJWC customers in Cupertino can expect to pay the same amount whether they are connected to SJWC's system or the Cupertino Municipal Water System.

Reason for the Expected Rate Increase for Water Service Fees

By voting to amend the Agreement, the City Council will not be authorizing any particular water rate changes. Instead they will be establishing a regulatory cap on the rates that SJWC may charge. City public works staff has been advised that if the Agreement is amended, SJWC expects to increase water rates to an equivalent billing impact of approximately 13.8% for a typical residential customer beginning December 18, 2019. These changes would be effective going forward from this date and would not be imposed retroactively.

Water rate service fees are typically set at a level to generate enough revenue to cover the costs of operating and maintaining this system. To cover critical water system capital improvements and achieve revenue stability, SJWC, like many other water purveyors, has restructured its water rates to ensure that sufficient funds are collected even when customers are conserving water (such as in times of drought). As a result, the proposed rates would increase the fixed charge (based on meter size) and would decrease the volumetric charge (based on water use) for the first tier of water use.

The last rate increase authorized by the City was in September 2016. Since January 2017, customers of the Cupertino Municipal Water System with service provided by SJWC have had a lower cost of water compared to the SJWC-owned and operated water system. The expected increase in water service rates will bring the water rates of customers of the Cupertino Municipal Water System to parity with the customers of the water system both owned and operated by SJWC. The expected increase in rates will not be retroactive and customers of the Cupertino Municipal Water System will not be asked to return the savings that have been realized since 2017 due to the lower cost of water as compared to the customers of the water system owned and operated by SJWC.

Billing Impacts

The potential increase in cost of service for water is shown on Tables 1 and 2 below. If the City Council votes to amend the lease, SJWC has stated that it will increase water rates to an amount equal to other SJWC customers in Cupertino. The impact to your bill can be calculated using the proposed meter rates and quantity charges as shown in the sample calculations below. **Please note that your actual bill will vary depending on meter size and quantity consumed and if there are additional rate changes as of the date of this letter.** Specific questions can be directed to San Jose Water by calling 408-279-7900 or visiting www.sjwater.com.

Sample Water Bill Calculations Comparing Current and Proposed Rates

Water Bill Amount = Meter Charge + (Quantity x Rate per HCF) + Surcharges⁽¹⁾

HCF = hundred cubic feet; 1 HCF = 748 gallons

Residential Example (using Tables 1 and 2):

Residential charges use a three-tiered rate structure, with a higher rate applying as water use exceeds tier breakpoints of 3 HCF and 18 HCF. In the example below, a resident using 11 HCF will need to calculate the sample bill using two of the tiered rates:

Monthly Usage: 11 HCF

Meter Size: 3/4-inch

Current Rate: $\$23.98 + (3 \text{ HCF} \times \$4.0581) + (8 \text{ HCF} \times \$4.5090) + 11.83 = \$84.06$

Proposed Rate: $\$39.57 + (3 \text{ HCF} \times \$3.2036) + (8 \text{ HCF} \times \$4.8059) + \$7.99 = \95.62

For a typical residential customer with a 3/4-inch meter using 11 HCF, their monthly bill will increase by about 13.8%.

Non-Residential Example (using Tables 1 and 3):

Monthly Usage: 100 HCF

Meter Size: 2-inch

Current Rate: $\$127.87 + (100 \text{ HCF} \times \$4.5090) + \$95.36 = \674.13

Proposed Rate: $\$211.04 + (100 \text{ HCF} \times \$4.8059) + 60.45 = \$752.08$

For a typical non-residential customer with a 2-inch meter using 100 HCF, their monthly bill will increase by about 11.6%.

⁽¹⁾ Surcharges are not all calculated the same. Refer to www.cupertino.org/amendedwaterlease for more information.

Table 1: All Customers Monthly Meter Charge

| MONTHLY METER CHARGE (based on meter size) | | |
|---|------------------------|-------------------------|
| Meter Size | Current Charges | Proposed Charges |
| 5/8-inch | \$23.98 | \$39.57 |
| 3/4-inch | \$23.98 | \$39.57 |
| 1-inch | \$39.94 | \$65.94 |
| 1.5-inch | \$79.91 | \$131.90 |
| 2-inch | \$127.87 | \$211.04 |
| 3-inch | \$239.75 | \$395.70 |
| 4-inch | \$399.58 | \$659.49 |
| 6-inch | \$799.15 | \$1318.99 |
| 8-inch | \$1278.65 | \$2110.39 |
| 10-inch | \$1838.07 | \$3033.67 |

Table 2: Residential Monthly Quantity Charge

| Tier | Current Charges per HCF | Proposed Charges per HCF |
|----------------------|------------------------------------|-------------------------------------|
| Tier 1: 0 to 3 HCF | \$4.0581 | \$3.2036 |
| Tier 2: 3+ to 18 HCF | \$4.5090 | \$4.8059 |
| Tier 3: >18 HCF | \$4.9599 | \$6.4077 |

Table 3: Non-Residential Monthly Quantity Charge

| | Current Charges per HCF | Proposed Charges per HCF |
|----------------|------------------------------------|-------------------------------------|
| Quantity Rates | \$4.5090 | \$4.8059 |

ADDITIONAL INFORMATION

Additional information about the change in the lease between the City of Cupertino and San Jose Water Company, including Frequently Asked Questions (FAQs), the Lease Agreement between the City and San Jose Water Company, and Water Service Area Maps can be found online at <http://www.cupertino.org/amendedlease>.

Other supporting information from SJWC, including links to FAQs may be found at: https://www.sjwater.com/for_your_home/home_customer_care/rates_regulations/general_rate_information

Amended Water Lease Comments

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