

PRELIMINARY STATEMENT

A. Territory Served by the Utility

The area in which service is or will be furnished by this utility under its main extension rule is described below and is delineated on the service area map(s) shown on or attached to the tariff sheet(s) following:

The northern boundary of the system is a major rock outcropping. The eastern boundary runs from this outcropping to an area known as the Coyote Narrows, and the southern boundary runs from these narrows along the Santa Teresa foothills to Snell Road, which is the western boundary.

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B. Types and Classes of Service

The types and classes of service furnished are set forth in each rate schedule under the designation "Applicability".

C. Description of Service

The characteristics of the service furnished are indicated in Rule No. 2, Description of Service.

D. Procedure to Obtain Service

Service as described herein will be furnished to any person or corporation whose premises are within the utility's service area, provided application is made in accordance with Rule No. 3, Application for Service; credit is established as required in Rule No. 6, Establishment and Re-establishment of Credit; customer's piping and valves are installed as required in Rule No. 16, Service Connections, Meters, and Customer's Facilities, under "Customer's Responsibility"; and a contract is signed in those certain circumstances specified in Rule No. 4, Contracts.

Where an extension of the utility's mains is necessary Rule No. 15, Main Extensions, applies, and if the project is of a temporary or speculative nature, Rule No. 13, Temporary Service, is applicable.

Applicants for service and customers must also conform to and comply with the other established rules as provided herein.

(To be inserted by utility)

Issued by

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

Advice Letter No. 132

Betty B. Roeder

Date Filed DEC 2 1991

Decision No.

President

Effective JAN 11 1992

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Resolution No.

PRELIMINARY STATEMENT
(Continued)

E. Symbols.

Whenever tariff sheets are refiled, changes will be identified by the following symbols:

- (C) To signify changed listing, rule or condition which may affect rates or charges.
- (D) To signify discontinued materials, including listing, rate, rule or condition.
- (I) To signify increase.
- (L) To signify material relocated from or to other part of tariff schedules with no change in text, rate, rule or condition.
- (N) To signify new materials including listing, rate, rule or condition.
- (R) To signify reduction.
- (T) To signify change in wording of text but not change in rate, rule, or condition.

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PRELIMINARY STATEMENT
(Continued)

F. Memorandum Accounts.

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1. The Company by this tariff has established a Santa Clara Valley Water District Memorandum Account to track the costs related to litigation against the Water District. The Memorandum Account is capped at a maximum of \$100,000.

a. The purpose of the litigation is to end the Water District's practices of: cross-subsidizing flood control from water production; cross-subsidizing treated water from ground water, and, discriminating against the Company and its ratepayers in how the Water District charges for water the Company pumps from the ground. These charges are imposed using a pump tax, and 100% of the pump tax is passed through to customers. The pump tax is assessed in two zones, north and south county. The south county zone pump tax is about 50% of the north county zone. The Water District's rationale for the difference is that the north county zone has and uses treated water, which is not available in the south county zone. The Company's territory bridges the zones. The Company has never been connected to or used treated water. All other north zone water retailers use or are connected to the Water District's treated water. Despite this clear distinction the Water District has included most of the Company's wells and territory in the north zone. Customers thereby pay 50% more for water in current dollars as a pass through expense than if the Company were fully within the south zone. Additionally, the Water District has misallocated costs from flood control to the water utility causing the pump tax to be higher.

b. The pump tax expense is a pass through that only impacts customers, and not the Company. The Company will track the costs of the litigation in the Memorandum Account in this tariff. If the litigation is successful the regular Commission practice is to permit the recapture of the expense of the litigation—subject to a reasonableness review—with the net proceed going 100% to ratepayers. The Company agrees to cap the total litigation expense for a successful judgment at the \$100,000 in the Memorandum Account plus a maximum of \$300,000 which may have accrued at the Company's risk. If successful the judgment could take several forms. If the Company is shifted into the south zone prospectively only or/and other misallocations are corrected with no cash money everything will be booked to the Memorandum Account and the Company will file an Advice Letter to recover the expense of the successful litigation—subject to a reasonableness review—and reduce rates, subject to full notice and review. If the judgment also includes a refund of cash money then the Company expects to offset the expense of the litigation first against the cash money—subject to a reasonableness review—with 100% of the balance going to ratepayers. The Company will book what it receives to the Memorandum Account and file an Advice Letter to initiate this review and rate reduction subject to full notice and review. If the litigation is *not* successful then the Company intends that customers repay the litigation expenses—subject to a reasonableness review— in future rates capped at a maximum of \$100,000 which is equivalent to one week of current pump tax or about \$5 per customer total.

2. The costs which will be booked to the Memorandum Account include attorneys' fees, court fees, general litigation expenses and expert witness fees. None of these costs or this litigation were contemplated or included in the Company's last rate case D. 0312039.

3. If any recovery of the expenses from the Memorandum Account is requested, it will be in an appropriate proceeding for which a new public notice to ratepayers will be provided. Establishing this Memorandum Account and tracking the expenditures does *not* authorize any monetary recovery by the Company from ratepayers without further specific public notice to ratepayers, a reasonableness review, and CPUC authorization.

(To be inserted by utility)

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PRELIMINARY STATEMENT

(Continued)

4. The Accounting Procedure from Commission Standard Practice U-27 will be used for this Memorandum Account.

a. The expenses or capital investment to be included in the Memorandum Account must be additional or incremental to those allowed in the Company's last general rate case proceeding. The Company shall make entries to the Memorandum Account at the end of each month in the following manner:

1. Debit entries equal to the incremental or additional amounts recorded in the Company's operations, maintenance, administrative and general expense accounts that were incurred as a result of the triggering event.

2. Debit entries equal to the depreciation and/or amortization amounts of new or replacement utility plant installed to continue the provision of uninterrupted services to customers.

3. Debit entries equal to the return on investment on the average monthly balance of new or replacement utility plant installed in 2.a.2 above.

4. Credit entries equal to the proceeds reimbursed by the Company's insurance or governmental grants covering the triggering event.

5. Credit or debit entries to transfer all or a portion of the balance in the Memorandum Account to other adjustment clauses for future rate recovery as may be approved by the Commission.

b. The Company shall also file an Advice Letter to the Commission detailing any utility plant retired from service and the proposed rate making adjustment for such plant.

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PRELIMINARY STATEMENT
(Continued)

G. Military Family Relief Program (MFRP) Memorandum Account (T)

1. The Company shall establish a Memorandum Account to provide for review and potential future recovery of reduced revenues resulting from implementation of its MFRP as described in Rule No 23.

2. Charges to the Memorandum Account shall consist of MPRP credits on customer bills and the costs of publishing related notices and applications plus interest consistent with Commission Memorandum Account Procedures.

3. Credits to the Memorandum Account shall consist of amounts recovered through authorized surcharge collections plus interest consistent with Commission Memorandum Account Procedures.

4. The Company shall amortize balances in this Memorandum Account in accordance (C)
with procedures established in Commission Decision 06-04-037.

H. Low Income Customer Assistance Program (LICAP) Memorandum Account (N)

1. The Company shall establish a Memorandum Account to provide for review and potential (N)
future recovery of reduced revenues resulting from implementation of its Low Income Customer Assistance Program (LICAP) as described in Rule No. 21.

2. Charges to the Memorandum Account shall consist of LICAP credits on customer bills and the costs of publishing related notices and applications plus interest consistent with Commission Memorandum Account Procedures.

3. Credits to the Memorandum Account shall consist of amounts recovered through authorized surcharge collections plus interest consistent with Commission Memorandum Account Procedures.

4. The Company shall amortize balances in this Memorandum Account in accordance with (N)
procedures established in Commission Decision 06-04-037.

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PRELIMINARY STATEMENT
(Continued)

I. City of San Jose Litigation Memorandum Account

1. The Company shall establish a Memorandum Account for outside legal expenses related to litigation with the City of San Jose over its service territory.
2. The Company shall record such outside legal expenses on a monthly basis.
3. The Memorandum Account shall have a cap of \$225,000 and require ratemaking review when the Company seeks recovery.
4. When the Company requests recovery of the outside legal expenses recorded in the Memorandum Account, the Company shall bear the burden to show that a separate recovery of the types of costs recorded in the account is appropriate, that it acted prudently when it incurred these costs and that the level of costs is reasonable.
5. The Company is authorized to seek recovery of the costs in the Memorandum Account in its next General Rate Case or through a Tier 3 advice letter filing.
6. The Company shall not include internal costs or expenses or recoveries related to litigation with the City of San Jose over service territory disputes in the Memorandum Account.

J. Monterey-Style Water Revenue Adjustment Mechanism Account

1. Purpose: The purpose of this memorandum account is to track quantity rate revenues collected under Schedule No. 1 General Metered Service Tiered Rates against revenues that would have been collected under uniform quantity rates. Revenues recovered through service charges shall not be tracked or recovered through this memorandum account
2. The Company shall provide an annual report showing the revenue over- or under-collection for the prior calendar year.
3. If the over- or under-collection exceeds 2% of the Company's total authorized revenue requirement, the Company will file an advice letter within 30 days that amortizes the balance in the account. If the cumulative 2% threshold is not met, the balance in the account will be amortized in the Company's next general rate case.
4. The uniform, single quantity rates that will serve as a baseline for this memorandum account are provided below and will be updated when rates change:

From March 1, 2011 to June 30, 2011: \$1.922/CCF

From July 1, 2011 to June 30, 2012: \$1.98/CCF.

(T)

(To be inserted by utility)
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Issued by
Timothy S. Guster
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PRELIMINARY STATEMENT
(Continued)

K. Water Cost of Capital Adjustment Mechanism (WCCAM)

(N)

1. **Purpose:** The purpose of the Water Cost of Capital Adjustment Mechanism is to provide an automatic adjustment, up or down, to the utility's adopted return on equity (and therefore its overall rate of return on rate base for 2010-2011) for the years 2011-2012 and 2012-2013 only if there is a difference of more than 100 basis points above or 200 basis points below the average of the Moody's Baa bond rating for the period from July 1, 2010 to June 30, 2011.

2. **Applicability:** The Water Cost of Capital Adjustment Mechanism does not have a rate component and is applicable to all customers.

3. The utility shall maintain the Water Cost of Capital Adjustment Mechanism as follows:

a. For the 2010-2011 year, the utility's initial benchmark is equal to the average of Moody's Baa bonds for the period from July 1, 2009 to June 30, 2010. That average is calculated to be 6.3625.

b. If Moody's Baa bond rating for the period from July 1, 2010 to June 30, 2011 is either 100 basis points above or 200 basis points below 6.3625, then the utility's return on equity for the year of July 1, 2011 to June 30, 2012 shall be adjusted by one-half the difference between the initial benchmark and the July 1, 2010 to June 30, 2011 average.

c. If the utility's return on equity is adjusted based upon subsection b., above, then the average of Moody's Baa bonds for the period from July 1, 2010 to June 30, 2011 shall become the new benchmark for this Water Cost of Capital Adjustment Mechanism.

d. If the Moody's Baa rating for the period from July 1, 2011 to June 30, 2012 is either 100 basis points above or 200 basis points below the applicable benchmark, then the utility's return on equity for the year of July 1, 2012 to June shall be adjusted by one-half the difference between the applicable benchmark and the July 1, 2011 to June 30, 2012 average.

e. If an adjustment is required based upon the terms of this Water Cost of Capital Adjustment Mechanism, the utility shall file by July 15th of the applicable year a Tier 2 advice letter with supporting Workpapers to make such adjustment, with the adjustment to be effective by September 15th of the applicable year.

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PRELIMINARY STATEMENT

(Continued)

additional needed utility infrastructure investments that may be tracked in the 2010 Tax Act Memorandum Account: (a) the property in which the investment is made must be Commission-jurisdictional; (b) the property in which the investment is made must itself be eligible for bonus depreciation; (c) at least 90% of the investment must have a tax depreciable life of at least 15 years, and any remaining investments must be ancillary to such investment; and (d) if a utility determines that it would be best to invest in something other than the typical types of projects included in general rate case type applications, the utility must file an application or advice letter seeking Commission approval in order to record the revenue requirement impact of that investment as an offset in the memorandum account.

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2. The 2010 Tax Act Memorandum Account applies to the entirety of the Utility's service area tracking the revenue requirement impact of each change resulting from the New Tax Law..

3. Memorandum Account Entries

The entries made to the 2010 Tax Act Memorandum Account may include the following:

- (a) Debit for decrease in revenue requirement resulting from increases in deferred tax reserve.
- (b) Credit for increase in revenue requirement resulting from the impact of any decrease in Section 199 deductions resulting from bonus depreciation taken.
- (c) Credit or debit for increase or decrease, respectively, in revenue requirement resulting from impact of any calculations in the calculation of working cash resulting from the New Tax Law or from bonus depreciation taken.
- (d) Credit or debit for increase or decrease, respectively, in revenue requirement resulting from any other direct change in revenue requirement resulting from the Utility's taking advantage of the New Tax Law.
- (e) Credit for increase in revenue requirement resulting from additional Utility infrastructure investment consistent with the limitations set forth by Ordering Paragraph 5 of Resolution L-411A and detailed in the Purpose of this Preliminary Statement.
- (f) Balances in the Tax Memorandum Account will accrue interest at the 90-day commercial paper rate.

This is a memorandum account that is to be tracked "off balance sheet," and no general Ledger entries are required at this time. At such time that the Commission rules that the Utility is required to make an adjustment to its revenue requirement and rates, as a result

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PRELIMINARY STATEMENT

(Continued)

of the impacts not otherwise reflected in rates, the Utility will make the appropriate entries in its general ledger.

4. Disposition

In the Utility's next General Rate Case (GRC), or at such other time as ordered in that GRC decision, the Commission shall address the disposition of amounts (a) recorded in The 2010 Tax Act Memorandum Account and (b) forecast for the remainder of the Memo Account Period, and may cause any net revenue requirement decrease to be reflected in prospective rates.

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