

SJW CORP
Form 10-K
March 09, 2007

UNITED STATES SECURITIES AND EXCHANGE COMMISSION

WASHINGTON, D.C. 20549

FORM 10-K

ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended December 31, 2006

OR

TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the transition period from _____ to _____

Commission file number: 1-8966

SJW CORP.

(Exact name of registrant as specified in its charter)

California
(State or other jurisdiction of
incorporation or organization)

77-0066628
(I.R.S. Employer
Identification No.)

**374 West Santa Clara Street, San Jose,
California**
(Address of principal executive offices)

95113
(Zip Code)

408-279-7800

(Registrant's telephone number, including area code)

Not Applicable

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

Title of each class	Name of each exchange on which registered
Common Stock, \$0.521 par value per share	New York Stock Exchange
Securities registered pursuant to Section 12(g) of the Act: None	

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Exchange Act. Yes No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the

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past 90 days. Yes No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, or a non-accelerated filer. See definition of accelerated filer and large accelerated filer in Rule 12b-2 of the Exchange Act.

Large accelerated filer

Accelerated filer

Non-accelerated filer

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes No

As of June 30, 2006, the aggregate market value of the registrant's common stock held by non-affiliates of the registrant was \$381,741,525 based on the closing sale price as reported on the New York Stock Exchange.

Indicate the number of shares outstanding of registrant's common stock, as of the latest practicable date.

Class	Outstanding at February 5, 2007
Common Stock, \$0.521 par value per share	18,290,223

DOCUMENTS INCORPORATED BY REFERENCE

Portions of the registrant's Proxy Statement relating to the registrant's Annual Meeting of Shareholders, to be held on April 26, 2007, are incorporated by reference into Part III of this Form 10-K where indicated.

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PART I

Forward-Looking Statements

This report contains forward-looking statements within the meaning of the federal securities laws relating to future events and future results of SJW Corp. and its subsidiaries that are based on current expectations, estimates, forecasts, and projections about the industries in which SJW Corp. operates and the beliefs and assumptions of the management of SJW Corp. Such forward-looking statements are identified by words such as expect, estimate, anticipate, intends, seeks, plans, projects, may, should, will, variation of such words, and similar expressions. Forward-looking statements are only predictions and are subject to risks, uncertainties, and assumptions that are difficult to predict. Therefore, actual results may differ materially and adversely from those expressed in any forward-looking statements. Important factors that could cause or contribute to such differences include, but are not limited to, those discussed in this report under Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations, and elsewhere, and in other reports SJW Corp. files with the Securities and Exchange Commission (the SEC), specifically the most recent reports on Form 10-Q and Form 8-K filed with the SEC, each as it may be amended from time to time.

SJW Corp. undertakes no obligation to update or revise the information contained in this report, including the forward-looking statements for any reason.

Item 1. Business

General Development of Business

SJW Corp. was incorporated in California on February 8, 1985. SJW Corp. is a holding company with four subsidiaries:

- San Jose Water Company, a wholly owned subsidiary of SJW Corp., with its headquarters located at 374 West Santa Clara Street in San Jose, California 95113, was originally incorporated under the laws of the State of California in 1866. As part of a reorganization on February 8, 1985, San Jose Water Company became a wholly owned subsidiary of SJW Corp. San Jose Water Company is a public utility in the business of providing water service to a population of approximately one million people in an area comprising approximately 138 square miles in the metropolitan San Jose area. San Jose Water Company's web site can be accessed via the Internet at <http://www.sjwater.com>.
- SJW Land Company, a wholly owned subsidiary, was incorporated in 1985. SJW Land Company owned and operated parking facilities, which are located adjacent to San Jose Water Company's headquarters and the HP Pavilion in San Jose, California, until December 15, 2006 when the nonutility properties were sold to Adobe Systems Incorporated for an aggregate purchase price of \$32,500,000. SJW Land Company currently owns commercial buildings and other undeveloped land primarily in the San Jose Metropolitan area, certain properties in the states of Florida, Connecticut, Texas, Arizona, and a 70% limited partnership interest in 444 West Santa Clara Street, L.P.
- SJWTX Water, Inc., doing business as Canyon Lake Water Service Company (CLWSC), a 95% majority owned subsidiary, was incorporated in September 2005. On May 31, 2006, CLWSC purchased substantially all the assets of Canyon Lake Water Supply Corporation. CLWSC provides service to approximately 7,400 connections that serve approximately 22,000 residents in a service area comprising more than 320 square miles in the growing region between San Antonio and Austin, Texas.
- Crystal Choice Water Service LLC, a 75% majority-owned limited liability subsidiary formed in January 2001, engaged in the sale and rental of water conditioning and purification equipment. As

of January 31, 2007, substantially all the assets of Crystal Choice Water Service LLC were sold. Please refer to Note 18, Subsequent Events, under Notes to Consolidated Financial Statements.

SJW Corp. also owns 1,099,952 shares of California Water Service Group, which represents approximately 5% of its outstanding shares as of December 31, 2006 and it is accounted for under SFAS No. 115, Accounting for Certain Investments in Debt and Equity Securities, as an available-for-sale marketable security.

Regulation and Rates

San Jose Water Company's rates, service and other matters affecting its business are subject to regulation by the California Public Utilities Commission (CPUC).

Ordinarily, there are two types of rate increases which affect San Jose Water Company's business: general and offset. General rate case decisions usually authorize an initial rate increase followed by two annual step increases designed to maintain the authorized return on equity over a three-year period. General rate applications are normally filed and processed during the last year covered by the most recent rate case in an attempt to avoid regulatory lag.

The purpose of an offset rate increase is to compensate utilities for increases in specific expenses, primarily for purchased water, groundwater extraction charge or purchased power.

Pursuant to Section 792.5 of the California Public Utilities Code, a balancing account must be maintained for each expense item for which such revenue offsets have been authorized. The purpose of a balancing account is to track the under-collection or over-collection associated with expense changes and the revenue authorized by the CPUC to offset those expense changes.

CLWSC is subject to the regulation of the Texas Commission on Environmental Quality (TCEQ). In connection with the acquisition of substantially all the assets of Canyon Lake Water Supply Corporation by CLWSC, CLWSC agreed, under the Asset Purchase Agreement, to freeze its rates until November 5, 2007. CLWSC will file its first rate case with TCEQ for rates to be effective November 6, 2007.

Please also see Item 1A, Risk Factors, and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Financial Information about Industry Segments

See Part II, Item 7 for information regarding SJW Corp.'s business segments.

Description of Business

General

The principal business of San Jose Water Company consists of the production, purchase, storage, purification, distribution, and retail sale of water. San Jose Water Company provides water service to customers in portions of the cities of Cupertino and San Jose and in the cities of Campbell, Monte Sereno, Saratoga and the Town of Los Gatos, and adjacent unincorporated territory, all in the County of Santa Clara in the State of California. It distributes water to customers in accordance with accepted water utility methods.

San Jose Water Company also provides nonregulated water related services under agreements with municipalities. These nonregulated services include full water system operations, cash remittances and maintenance contract services.

In October 1997, San Jose Water Company commenced operation of the City of Cupertino municipal water system under terms of a 25-year lease. The system is adjacent to the existing San Jose Water

Company service area and has approximately 4,400 service connections. Under the terms of the lease, San Jose Water Company paid an up-front \$6.8 million concession fee to the City of Cupertino that is amortized over the contract term. San Jose Water Company is responsible for all aspects of system operation including capital improvements.

The operating results from the water business fluctuate according to the demand for water, which is often influenced by seasonal conditions, such as summer temperatures or the amount and timing of precipitation in San Jose Water Company's service area. Revenue, production costs and income are affected by the changes in water sales and availability of surface water supply. Overhead costs, such as payroll and benefits, depreciation, interest on long-term debt, and property taxes, remain fairly constant despite variations in the amount of water sold. As a result, earnings are highest in the higher use, warm weather summer months and lowest in the cool winter months.

On May 31, 2006, CLWSC purchased substantially all the assets of Canyon Lake Water Supply Corporation. CLWSC provides water service to approximately 7,400 connections that serve approximately 22,000 residents in a service area comprising more than 320 square miles in the growing region between San Antonio and Austin, Texas.

Water Supply

San Jose Water Company's water supply consists of groundwater from wells, surface water from watershed run-off and diversion, and imported water purchased from the Santa Clara Valley Water District (SCVWD) under the terms of a master contract with SCVWD expiring in 2051. Purchased water provides approximately 40% to 45% of San Jose Water Company's annual production. Surface supply, which during a year of normal rainfall satisfies about 6% to 8% of San Jose Water Company's annual needs, provides approximately 1% of its water supply in a dry year and approximately 14% in a wet year. In dry years, the decrease in water from surface run-off and diversion, and the corresponding increase in purchased and pumped water, increases production costs substantially. San Jose Water Company pumps the remaining 40% to 50% of its water supply from the underground basin and pays a groundwater extraction charge to SCVWD.

The pumps and motors at San Jose Water Company's groundwater production facilities are propelled by electric power. Over the last few years, San Jose Water Company has installed standby power generators at 18 of its strategic water production sites. In addition, the commercial office and operations control centers are equipped with standby generators that allow critical distribution and customer service operations to continue during a power outage. SCVWD has informed San Jose Water Company that its filter plants, which deliver purchased water to San Jose Water Company, are also equipped with standby generators. In the event of a power outage, San Jose Water Company believes it will be able to prevent an interruption of service to customers for a limited period by pumping water with its standby generators and by using the purchased water from SCVWD.

In 2006, the Santa Clara Valley groundwater basin, which is the responsibility of SCVWD, remained comparable to the 30-year average level. On January 7, 2007, SCVWD's ten reservoirs were 52.9% full with 89,470 acre-feet of water in storage. The rainfall from July 2006 to January 2007 was about 60% of the 30-year average. The delivery of California and federal contract water to SCVWD is expected to be met. In addition, the rainfall at San Jose Water Company's Lake Elsmar was measured at 9.12 inches for the period from July 1 through December 31, 2006, which is below the five-year average. San Jose Water Company believes that its various sources of water supply are sufficient to meet customer demand for the remainder of 2007.

On rare occasions, events may occur which are beyond the control of San Jose Water Company. Except for a few isolated cases when service had been interrupted or curtailed because of power or equipment failures, construction shutdowns, or other operating difficulties, San Jose Water Company has

not had any interrupted or imposed mandatory curtailment of service to any type or class of customer. However, during the summer of 1989 through March 1993, rationing was imposed intermittently on all customers at the request of SCVWD.

California faces long-term water supply challenges. San Jose Water Company actively works with SCVWD to meet the challenges by continuing to educate customers on responsible water use practices and to conduct long-range water supply planning.

CLWSC's water supply consists of groundwater from wells and purchased raw water from the Guadalupe-Blanco River Authority (GBRA). CLWSC has long-term agreements with GBRA, which expire in 2044 and 2050. The agreements provide CLWSC with 6,000 acre-feet of water from Canyon Lake at prices to be adjusted periodically by GBRA.

Please also see further discussion under Item 1A, Risk Factors and Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Franchises

San Jose Water Company holds franchise rights, water rights and rights-of-way in the communities it serves that it believes are necessary to operate and maintain its distribution network and facilities under and on the public streets.

Seasonal Factors

Water sales are seasonal in nature. The demand for water, especially by residential customers, is generally influenced by weather conditions. The timing of precipitation and climatic conditions can cause seasonal water consumption by residential customers to vary significantly.

Competition

San Jose Water Company and CLWSC are public utilities regulated by CPUC and TCEQ, respectively, and operate within a service area approved by the regulators. The statutory laws provide that no other investor-owned public utility may operate in the public utilities' service areas without first obtaining from the regulator a certificate of public convenience and necessity. Past experience shows such a certificate will be issued only after demonstrating that service in such area is inadequate.

California law also provides that whenever a public agency constructs facilities to extend utility service to the service area of a privately-owned public utility, like San Jose Water Company, such an act constitutes the taking of property and is conditioned upon payment of just compensation to the private utility.

Under the statutory constitution, municipalities, water districts and other public agencies have been authorized to engage in the ownership and operation of water systems. Such agencies are empowered to condemn properties operated by privately-owned public utilities upon payment of just compensation and are further authorized to issue bonds (including revenue bonds) for the purpose of acquiring or constructing water systems. To the company's knowledge, no municipality, water district or other public agency has pending any action to condemn any part of its water systems.

Environmental Matters

San Jose Water Company and CLWSC have similar procedures to produce potable water in accordance with all applicable county, state and federal environmental rules and regulations. Additionally, public utilities are subject to environmental regulation by various other state and local governmental authorities.

Both San Jose Water Company and CLWSC are currently in compliance with all of the United States Environmental Protection Agency's (the EPA) surface water treatment performance standards, new drinking water standards for disinfection by-products and new primary maximum contaminant levels. These standards have been adopted and are enforced by the California Department of Health Services and the TCEQ, respectively.

Other state and local environmental regulations apply to San Jose Water Company's and CLWSC's operations and facilities. These regulations relate primarily to the handling, storage and disposal of hazardous materials.

Additionally, San Jose Water Company is currently in compliance with all state and local regulations governing hazardous materials, point and non-point source discharges and the warning provisions of the California Safe Drinking Water and Toxic Enforcement Act of 1986.

Please also see Part II, Item 7, Management's Discussion and Analysis of Financial Condition and Results of Operations.

Employees

As of December 31, 2006, SJW Corp. had 357 employees, of whom 326 were San Jose Water Company employees and 31 were CLWSC employees. At San Jose Water Company, 102 were executive, administrative or supervisory personnel, and 224 were members of unions. San Jose Water Company reached a two-year collective bargaining agreement with the Utility Workers of America, representing the majority of all employees, and the International Union of Operating Engineers, representing certain employees in the engineering department, covering the period from January 1, 2006 through December 31, 2007. Both groups are affiliated with the AFL-CIO. The agreement includes approximately a 3.0% wage adjustment for union workers for calendar year 2007 with minor benefit modifications. As of December 31, 2006, CLWSC had 31 employees, of whom 7 were exempt and 24 were non-exempt. Non-exempt employees are subject to overtime but are not union represented.

Officers of the Registrant

Name	Age	Offices and Experience
W.R. Roth	54	SJW Corp. President and Chief Executive Officer of the Corporation, San Jose Water Company, SJW Land Company, and SJWTX Water, Inc. Mr. Roth was appointed Chief Executive Officer of SJW Corp. in 1999 and President in 1996. Prior to becoming President, he was Chief Financial Officer and Treasurer of the Corporation from 1990 to 1996 and Vice President from April 1992 until October 1996.
R.J. Balocco	57	San Jose Water Company Vice President, Corporate Communications. Prior to becoming Vice President, Corporate Communications in 1995, he was Vice President, Administration from April 1992. Mr. Balocco has been with San Jose Water Company since 1982.
G.J. Belhumeur	61	San Jose Water Company Senior Vice President, Operations. Prior to becoming Senior Vice President of Operations, he was Vice President of Operations since 1996. Mr. Belhumeur has been with San Jose Water Company since 1970.
D. Drysdale	51	San Jose Water Company Vice President, Information Services. Prior to becoming Vice President, Information Services in 1999, he was Director of Information Services from 1998 and Data Processing Manager since 1994. Mr. Drysdale joined San Jose Water Company in 1992.
R.J. Pardini	61	San Jose Water Company Vice President, Chief Engineer. Prior to becoming Vice President, Chief Engineer in 1996, he was Chief Engineer. Mr. Pardini has been with San Jose Water Company since 1987.

A. Yip	53	SJW Corp. Chief Financial Officer and Treasurer since October 1996, and Senior Vice President of Finance, Chief Financial Officer and Treasurer of San Jose Water Company since April 2004. Prior to April 2004, Ms. Yip served as Vice President of Finance, Chief Financial Officer and Treasurer of San Jose Water Company since January 1999. Ms. Yip has been with San Jose Water Company since 1986.
R.S. Yoo	56	San Jose Water Company Chief Operating Officer since July 2005. Prior to July 2005, he was Senior Vice President, Administration from April 2003 and Vice President, Water Quality since April 1996. Mr. Yoo has served as President of Crystal Choice Water Service LLC from January 2001 to August 2005 and Manager from January 2001 to present. Mr. Yoo was appointed Vice President of SJWTX Water, Inc. in September 2005. Mr. Yoo has been with San Jose Water Company since 1985.
S. Papazian	31	SJW Corp. and San Jose Water Company Corporate Secretary and Attorney. Ms. Papazian has served as Corporate Secretary and Attorney since February 14, 2005. She was admitted to the California State Bar in January 2000 and thereafter was an Associate Attorney at The Corporate Law Group from March 2000 until February 2005.
A.J. Elliott	43	San Jose Water Company Controller from November 2006. Prior to November 2006, Ms. Elliott was the Special Projects Manager since July 2001. Prior to July 2001, she was the Controller since January 1995 and Accounting Manager since September 1990. Ms. Elliott has been with San Jose Water Company since 1990.

Financial Information about Foreign and Domestic Operations and Export Sales

SJW Corp. s revenue and expense are derived substantially from operations located in the County of Santa Clara in the State of California.

Website Access to Reports

SJW Corp. s Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K, and amendments to these reports, are made available free of charge through SJW Corp. s website at <http://www.sjwater.com>, as soon as reasonably practicable, after SJW Corp. electronically files such material with, or furnishes such material to, the SEC.

Item 1A. Risk factors

Investors should carefully consider the following risk factors and warnings before making an investment decision. The risks described below are not the only ones facing SJW Corp. Additional risks that SJW Corp. does not yet know of or that it currently thinks are immaterial may also impair its business operations. If any of the following risks actually occur, SJW Corp. s business, operating results or financial condition could be materially harmed. In such case, the trading price of SJW Corp. s common stock could decline and you may lose all or part of your investment. Investors should also refer to the other information set forth in this Form 10-K, including the financial statements and the notes thereto.

The business of SJW Corp. and its subsidiaries may be adversely affected by new and changing legislation, policies and regulations.

New legislation and changes in existing legislation by federal, state and local governments and administrative agencies can affect the operations of SJW Corp. and its subsidiaries. San Jose Water Company is regulated by CPUC. The operating revenue of San Jose Water Company results from the sale of water at rates authorized by CPUC. CPUC sets rates that are intended to provide revenues sufficient to recover operating expenses and produce a reasonable return on common equity.

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On November 11, 2006, CPUC issued its final decision in San Jose Water Company's 2006 General Rate Case proceeding. The decision authorized San Jose Water Company rate increases of approximately \$3,500,000 or 2.0% for 2007, \$5,400,000 or 3.0% for 2008, and \$4,000,000 or 2.2% for 2009. The decision also authorizes additional rate recoveries to be phased in as capital projects are completed over the three-year period, and the recovery of approximately \$450,000 from San Jose Water Company's balancing and memorandum accounts. These rate increases are designed to produce a return on common equity of 10.13%, which is comparable with recent authorized returns for water utilities in California.

Subsequently, on December 1, 2006, San Jose Water Company filed an advice letter with CPUC requesting implementation of the general rate increase and authorized surcharges for 2007 which became effective January 1, 2007.

The purpose of an offset rate increase is to compensate utilities for increases in specific expenses, primarily for purchased water, groundwater extraction charge or purchased power. As of December 31, 2006, San Jose Water Company has been authorized for all of its offset rate requests.

Pursuant to Section 792.5 of the California Public Utilities Code, a balancing account must be maintained for each expense item for which revenue offsets have been authorized. The purpose of a balancing account is to track the under-collection or over-collection associated with expense changes and the revenue authorized by CPUC to offset those expense changes.

Although San Jose Water Company believes that the rates currently in effect provide it with a reasonable rate of return, there is no guarantee such rates will be sufficient to provide a reasonable rate of return in the future. There is no guarantee that San Jose Water Company's future rate filings will be able to obtain a satisfactory rate of return in a timely manner.

In addition, San Jose Water Company relies on policies and regulations promulgated by CPUC in order to recover capital expenditures, maintain favorable treatment on gains from the sale of real property, offset its production and operating costs, recover the cost of debt, maintain an optimal equity structure without over-leveraging, and have financial and operational flexibility to engage in nonregulated operations. If CPUC implements policies and regulations that will not allow San Jose Water Company to accomplish some or all of the items listed above, San Jose Water Company's future operating results may be adversely affected.

Regulated by TCEQ, CLWSC has a rate freeze for two years, pursuant to the Asset Purchase Agreement, and will file a rate case in the summer of 2007 for rates to become effective in November 6, 2007. There is no guarantee that TCEQ will authorize CLWSC's requested rate increase.

Changes in water supply, water supply costs or the mix of water supply could adversely affect the operating results and business of water utility services.

San Jose Water Company's supply of water primarily relies upon three main sources: water purchased from the SCVWD, surface water from its Santa Cruz Mountains Watershed, and pumped underground water. Changes and variations in quantities from each of these three sources affect the overall mix of the water supply, thereby affecting the cost of the water supply. Surface water is the least costly source of water. If there is an adverse change to the mix of water supply and San Jose Water Company is not allowed by CPUC to recover the additional or increased water supply costs, its operating results may be adversely affected.

SCVWD receives an allotment of water from state and federal water projects. If San Jose Water Company has difficulties obtaining a high quality water supply from SCVWD due to availability or legal restrictions, it may not be able to satisfy customer demand in its service area and its operating results and business may be adversely affected. Additionally, the availability of water from San Jose Water Company's Santa Cruz Mountains Watershed depends on the weather and fluctuates with each season. In a normal

year, surface water supply provides 6% to 8% of the total water supply of the system. In a dry season with little rainfall, water supply from surface water sources may be low, thereby causing San Jose Water Company to increase the amount of water purchased from outside sources at a higher cost than surface water and thus increasing water production costs.

In addition, San Jose Water Company's ability to use surface water is subject to regulations regarding water quality and volume limitations. If new regulations are imposed or existing regulations are changed or given new interpretations, the availability of surface water may be materially reduced. A reduction in surface water could result in the need to procure more costly water from other sources, thereby increasing the water production costs and adversely affecting the operating results of San Jose Water Company.

Because the extraction of water from the groundwater basin and the operation of the water distribution system require a significant amount of energy, increases in energy prices could increase operating expenses of San Jose Water Company. In the aftermath of the attempt to deregulate the California energy market, energy costs still remain in flux, with resulting uncertainty in San Jose Water Company's ability to contain energy costs into the future.

San Jose Water Company continues to utilize Pacific Gas & Electric's time of use rate schedules to minimize its overall energy costs primarily for groundwater pumping. During the winter months, typically 90% or more of the groundwater is produced during off-peak hours when electrical energy is consumed at the lowest rates. Optimization and energy management efficiency is achieved through the implementation of Supervisory Control and Data Acquisition system software applications that control pumps based on demand and cost of energy. An increase in demand or a reduction in the availability of surface water or import water could result in the need to pump more water during peak hours adversely affecting the operating results of San Jose Water Company.

CLWSC's primary water supply is 6,000 acre-feet which is pumped from Canyon Lake at two lake intakes, in accordance with the terms of its contracts with the GBRA which are long-term take-or-pay contracts. This supply is supplemented by groundwater pumped from wells. Texas, similar to California, faces long-term water supply constraints.

Fluctuations in customer demand for water due to seasonality, restrictions of use, weather, and lifestyle can adversely affect operating results.

San Jose Water Company and CLWSC (together referred to as the Water Utility Services) operations are seasonal. Thus, results of operations for one quarter do not indicate results to be expected in subsequent quarters. Rainfall and other weather conditions also affect the operations of the Water Utility Services. Most water consumption occurs during the third quarter of each year when weather tends to be warm and dry. In drought seasons, if customers are encouraged and required to conserve water due to a shortage of water supply or restriction of use, revenue tends to be lower. Similarly, in unusually wet seasons, water supply tends to be higher and customer demand tends to be lower, again resulting in lower revenues. Furthermore, certain lifestyle choices made by customers can affect demand for water. For example, a significant portion of residential water use is for outside irrigation of lawns and landscaping. If there is a decreased desire by customers to maintain landscaping for their homes, residential water demand could decrease, which may result in lower revenues. Conservation efforts and construction codes, which require the use of low-flow plumbing fixtures, could diminish water consumption and result in reduced revenue.

A contamination event or other decline in source water quality could affect the water supply of the Water Utility Services and therefore adversely affect the business and operating results.

The Water Utility Services are subject to certain water quality risks relating to environmental regulations. Through water quality compliance programs, the Water Utility Services continually monitors

for contamination and pollution of its sources of water. In the event of a contamination, the Water Utility Services will likely have to procure water from more costly sources and increase future capital expenditures. Although the costs would likely be recovered in the form of higher rates, there can be no assurance that the regulators would approve a rate increase to recover the costs.

The Water Utility Services are subject to litigation risks concerning water quality and contamination.

Although the Water Utility Services have not been and are not a party to any environmental and product-related lawsuits, such lawsuits against other water utilities have increased in frequency in recent years. If the Water Utility Services are subject to an environmental or product-related lawsuit, they might incur significant legal costs and it is uncertain whether they would be able to recover the legal costs from ratepayers or other third parties. Currently, CPUC has preemptive jurisdiction over regulated water utilities for claims about compliance with environmental quality matters in California. If current California law regarding CPUC's preemptive jurisdiction over regulated public utilities for claims about compliance with California Department of Health Services and United States Environmental Protection Agency (the EPA) water quality standards change, the legal exposure of San Jose Water Company may be significantly increased.

New or more stringent environmental regulations could increase the Water Utility Services operating costs and affect its business.

The Water Utility Services operations are subject to water quality and pollution control regulations issued by the EPA and environmental laws and regulations administered by the respective states and local regulatory agencies.

Stringent environmental and water quality regulations could increase Water Utility Services water quality compliance costs, hamper the Water Utility Services available water supplies, and increase future capital expenditure.

Under the federal Safe Drinking Water Act, the Water Utility Services are subject to regulation by the EPA of the quality of water it sells and treatment techniques it uses to make the water potable. The EPA promulgates nationally applicable standards, including maximum contaminant levels for drinking water. The Water Utility Services are currently in compliance with all of the 87 primary maximum contaminant levels promulgated to date. There can be no assurance that the Water Utility Services will be able to continue to comply with all water quality requirements.

The Water Utility Services have implemented monitoring activities and installed specific water treatment improvements enabling it to comply with existing maximum contaminant levels and plan for compliance with future drinking water regulations. However, the EPA and the respective state agencies have continuing authority to issue additional regulations under the Safe Drinking Water Act. It is possible that new or more stringent environmental standards could be imposed that will raise the Water Utility Services operating costs. Future drinking water regulations may require increased monitoring, additional treatment of underground water supplies, fluoridation of all supplies, more stringent performance standards for treatment plants and procedures to further reduce levels of disinfection by-products. The Water Utility Services continues to seek to establish mechanisms for recovery of government-mandated environmental compliance costs. There are currently limited regulatory mechanisms and procedures available to the company for the recovery of such costs and there can be no assurance that such costs will be fully recovered.

Costs associated with security precautions may have an adverse effect on the operating results of the Water Utility Services.

Water utility companies have generally been on a heightened state of alert since the threats to the nation's health and security in the fall of 2001. San Jose Water Company has taken steps to increase security at its water utility facilities and continues to implement a comprehensive security upgrade program for production and storage facilities, pump stations and company buildings. San Jose Water Company also coordinates security and planning information with SCVWD, other Bay Area water utilities and various governmental and law enforcement agencies.

San Jose Water Company conducted a system-wide vulnerability assessment in compliance with federal regulations Public Law 107-188 imposed on all water utilities. The assessment report was filed with the EPA on March 31, 2003. San Jose Water Company has also actively participated in the security vulnerability assessment training offered by the American Water Works Association Research Foundation and the EPA.

The vulnerability assessment identified system security enhancements that impact water quality, health, safety, and continuity of service totaling approximately \$2,300,000. These improvements were incorporated into the capital budgets and were completed as of December 31, 2006. San Jose Water Company has and will continue to bear costs associated with additional security precautions to protect its water utility business and other operations. While some of these costs are likely to be recovered in the form of higher rates, there can be no assurance that CPUC will approve a rate increase to recover all or part of such costs and, as a result, the company's operating results and business may be adversely affected.

CLWSC is evaluating its security measures to mitigate any potential vulnerabilities.

SJW Land Company's significant increase in its real estate portfolio.

SJW Land Company owns a diversified real estate portfolio in multiple states. Real estate income may increase returns and/or reduce volatility over the long term. The risks in investing directly in real estate vary depending on the investment strategy and investment objective.

- **Liquidity risk** real estate investment is illiquid. The lag time to build or reduce its portfolio is long.
- **Obsolescence risk** real estate property is location specific. Location obsolescence can occur due to a decline of a particular sub-market or neighborhood. Functional obsolescence can also occur from physical depreciation, wear and tear, and other architectural and physical features which could be curable or incurable.
- **Market and general economic risks** real estate investment is tied to overall domestic economic growth and, therefore, carries market risk which cannot be eliminated by diversification. Generally, all property types benefit from national economic growth, though the benefits range according to more local factors such as local supply and demand and job creation. Because real estate leases are typically staggered and last for multiple years, there is generally a lag effect in the performance of real estate in relation to the overall economy. This lag effect can insulate or deteriorate the financial impact to SJW Land Company in a downturn or an improved economic environment.

Vacancy rates can climb due to economic growth and market rents can be impacted and weakened by general economic forces, therefore affecting the financial income to SJW Land Company.

The value of real estate can drop materially due to a deflationary market, decline in rental income, market cycle of supply and demand, long lag time in real estate development, legislative and governmental actions, environmental concerns, and fluctuation of interest rate, eroding any unrealized capital appreciation and, potentially, invested capital.

- Credit risk the risk of a tenant declaring bankruptcy and seeking relief from its contractual rental obligation could affect the income and the financial results of SJW Land Company. Diversification of many tenants across many properties may mitigate the risk, but can never eliminate it. This risk is most prevalent in a recessionary environment.

The success of SJW Land Company's real estate investment strategy depends largely on ongoing local, state and federal land use development activities and regulations, future economic conditions, the development and fluctuations in the sale of the undeveloped properties, the ability to identify the developer/potential buyer of the available for sale real estate, the timing of the transaction, favorable tax law, the ability to identify and acquire high quality, relatively low risk replacement property at reasonable terms and conditions, and the ability to maintain and manage the replacement property.

Other factors that affect operating results

Other factors that could adversely affect the operating results of SJW Corp. and its subsidiaries include the following:

- SJW Corp.'s growth strategy depends on its ability to acquire water systems in order to broaden the service areas, SJW Land Company's ability to continue to develop and invest in nonutility property at favorable terms, and San Jose Water Company's ability to continue to broaden and expand its nonregulated contract services in the metropolitan San Jose area. The execution of SJW Corp.'s growth strategy will expose it to different risks than those associated with the utility operations. Costs are incurred in connection with the execution of the growth strategy and risks are involved in potential integration of acquired businesses/properties which could require significant costs and cause diversion of management's time and resources. Any future acquisition SJW Corp. decides to undertake may involve risks and have a material adverse effect in SJW Corp.'s core business, impact SJW Corp.'s ability to finance its business and affect its compliance with regulatory requirements. Any businesses SJW Corp. acquires may not achieve sales, customer growth and projected profitability that would justify the investment. Any difficulties SJW Corp. encounters in the integration process, including the integration of controls necessary for internal control and financial reporting, could interfere with its operations, reduce its operating margins and adversely affect its internal controls.
- The level of labor and non-labor operating and maintenance expenses as affected by inflationary forces and collective bargaining power could adversely affect the operating and maintenance expenses of SJW Corp.
- The City of Cupertino's lease operation could be adversely affected by: (1) the level of capital requirements, (2) the ability of San Jose Water Company to raise rates through the Cupertino City Council, and (3) the level of operating and maintenance expenses.

Item 1B. *Unresolved Staff Comments*

None.

Item 2. *Properties*

The properties of San Jose Water Company consist of a unified system of water production, storage, purification and distribution located in the County of Santa Clara in the State of California. In general, the property is comprised of franchise rights, water rights, necessary rights-of-way, approximately 7,000 acres of land held in fee (which is primarily non-developable watershed), impounding reservoirs with a capacity of approximately 2.256 billion gallons, diversion facilities, wells, distribution storage of approximately 240

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million gallons, and all water facilities, equipment, office buildings and other property necessary to supply its customers.

San Jose Water Company maintains all of its properties in good operating condition in accordance with customary practice for a water utility. San Jose Water Company's well pumping stations have a production capacity of approximately 255 million gallons per day and the present capacity for taking purchased water is approximately 172 million gallons per day. The gravity water collection system has a physical delivery capacity of approximately 29 million gallons per day. During 2006, a maximum and average of 220 million gallons and 129 million gallons of water per day, respectively, were delivered to the system.

San Jose Water Company and CLWSC hold all its principal properties in fee, subject to current tax and assessment liens, rights-of-way, easements, and certain minor defects in title which do not materially affect their use.

SJW Land Company owned approximately seven acres of property adjacent to San Jose Water Company's headquarters until December 15, 2006 when the nonutility properties were sold to Adobe Systems Incorporated for an aggregate purchase price of \$32,500,000. Prior to December 15, 2006, the land adjacent to San Jose Water Company's headquarters was used as surface parking facilities and generated approximately 23% of SJW Land Company's 2006 revenue. SJW Land Company also owns approximately 38 acres of property in the states of Florida, Connecticut, Texas, and Arizona and approximately five undeveloped acres of land and two acres of commercial properties primarily in the San Jose metropolitan area. Under a 10-year lease expiring January 1, 2010, San Jose Water Company leased half of the office space of SJW Land Company's 1265 South Bascom Avenue building as its engineering headquarters. Approximately 13% of SJW Land Company's revenue is generated from this commercial building. In June 2006, SJW Land Company purchased nonutility property in the state of Arizona. Approximately 44% of SJW Land Company's revenue is generated from the California, Florida, Connecticut, Texas, and Arizona properties. SJW Land Company also owns a 70% limited partnership interest in 444 West Santa Clara Street, L.P., a real estate limited partnership that owns and operates an office building. SJW Land Company consolidates its limited partnership interest in 444 West Santa Clara Street, L.P. and derives approximately 20% of its revenue from this partnership. The following table is a summary of the properties described above:

Description	Approximate Acreage	Location	Approximate Square Footage
Three commercial buildings	2	San Jose, California	50,000
Warehouse	17	Connecticut	170,000
Warehouse	8	Florida	147,000
Retail building	2	Texas	14,000
Warehouse building	11	Arizona	176,000
Undeveloped land	5	San Jose, California	N/A

Item 3. *Legal Proceedings*

SJW Corp. is subject to litigation incidental to its business. However, there are no pending legal proceedings to which SJW Corp. or any of its subsidiaries is a party or to which any of its properties is the subject that are expected to have a material effect on SJW Corp.'s financial position, results of operations or cash flows.

Item 4. *Submission of Matters to a Vote of Security Holders*

None.

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PART II

Item 5. *Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities*

Market Information

On November 14, 2005, SJW Corp.'s common stock began trading on the New York Stock Exchange under the same symbol that had been utilized on the American Stock Exchange: SJW. Information as to the high and low sales prices for SJW Corp.'s common stock for each quarter in the 2006 and 2005 fiscal years is contained in the section captioned "Market price range of stock" in the tables set forth in Note 19 of "Notes to Consolidated Financial Statements" in Part II, Item 8.

As of December 31, 2006, there were 602 record holders of SJW Corp.'s common stock.

Dividends

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Dividends have been paid on SJW Corp. 's and its predecessor 's common stock for 253 consecutive quarters and the quarterly rate has been increased during each of the last 39 years. Additional information as to the cash dividends paid on common stock in 2006 and 2005 is contained in the section captioned "Dividend per share" in the tables set forth in Note 19 of "Notes to Consolidated Financial Statements" in Part II, Item 8. Future dividends will be determined by the Board of Directors after consideration of various financial, economic and business factors.

Purchase of Company Stock

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On April 29, 2004, SJW Corp. announced that its Board of Directors authorized a stock repurchase program to repurchase up to 200,000 shares of its outstanding common stock over the 36-month period following the announcement. There were no shares repurchased during 2006. The maximum number of shares that may yet be purchased under the stock repurchase program is 181,938.

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Five Years Performance Graph

The following performance graph compares the changes in the cumulative shareholder return on SJW Corp. 's common stock with the cumulative total return on the Water Utility Index and the Standard & Poor 's 500 Index during the last five years ended December 31, 2006. The comparison assumes \$100 was invested on December 31, 2001 in SJW Corp. 's common stock and in each of the foregoing indices and assumes reinvestment of dividends.

The following descriptive data is supplied in accordance with rule 304(d) of Regulation S-T:

	2001	2002	2003	2004	2005	2006
SJW Corp.	100	95	112	141	181	315
Water Utility Index	100	96	123	144	189	191
S&P500	100	78	99	110	115	133

The Water Utility Index is the eleven water company Water Utility Index prepared by A.G. Edwards & Sons, Inc.

Item 6. *Selected Financial Data***FIVE YEAR STATISTICAL REVIEW**
SJW Corp. and Subsidiaries

	2006	2005	2004	2003	2002
CONSOLIDATED RESULTS OF OPERATIONS (in thousands)					
Operating revenue	\$ 189,238	180,105	166,911	150,454	146,373
Operating expense:					
Operation	105,006	101,513	98,681	88,722	89,674
Maintenance	10,189	9,475	8,674	7,724	7,866
Taxes	21,191	20,446	16,958	15,588	14,078
Depreciation and amortization	21,299	19,654	18,481	15,225	14,013
Total operating expense	157,685	151,088	142,794	127,259	125,631
Operating income	31,553	29,017	24,117	23,195	20,742
Interest expense, other income and deductions	7,028	(7,177)	(4,331)	(4,518)	(6,510)
Net income	38,581	21,840	19,786	18,677	14,232
Dividends paid	10,549	9,777	9,319	8,861	8,405
Invested in the business	\$ 28,032	12,063	10,467	9,816	5,827
CONSOLIDATED PER SHARE DATA					
Net income	\$ 2.11	1.20	1.08	1.02	0.78
Dividends paid	\$ 0.57	0.53	0.51	0.49	