

Agenda Report

April 13, 2009

TO: City Council

THROUGH: Municipal Services Committee (April 7, 2009)

FROM: City Manager

SUBJECT: Set a Public Hearing for the Proposed Water Rate Increases and Implementation of Water-Conservation Based Rate Structure

RECOMMENDATION:

It is recommended that the City Council:

- 1) Establish a date of June 8, 2009 to conduct a Public Hearing to Receive Public Comment on the Proposed Water Rate Increases and Implementation of Water-Conservation Based Rate Structure in accordance with the requirements of Proposition 218

EXECUTIVE SUMMARY:

During fiscal year 2008, the Water and Power Department (PWP) conducted a revenue requirements analysis and completed a Water Cost of Service (WCOS) study, each of which determined that revenues from existing rates were insufficient to meet projected revenue requirements. This condition developed over a period of several years, and reflects that recent utility rate adjustments have been tied to capital investment in both the Water and Electric distribution systems along with the need to pass through increased costs for imported water supplies. PWP's recommended rate adjustments for both water and power strive to balance revenue requirements with a reasonable impact on customer rates.

At this time, it is necessary for PWP to propose the water rate adjustments described herein and in Attachment 1 to reflect cost of service, encourage water conservation and address the ongoing structural deficit in the Water Fund. The proposed rate changes consist of:

- Increasing the fixed monthly charge by an average of 10% to increase revenues by a total of \$4.35 million, effective July 1, 2009; and by an additional 8.7%, or \$4.5 million, effective July 2010;
- Revenue-neutral commodity rate restructuring to reflect cost of service, increased purchased water costs, resource availability, cost-based rate differential between inside and outside customers, and seasonal cost differentials; and

- Addition of two higher priced commodity block rates to the existing three commodity block rates to encourage conservation.

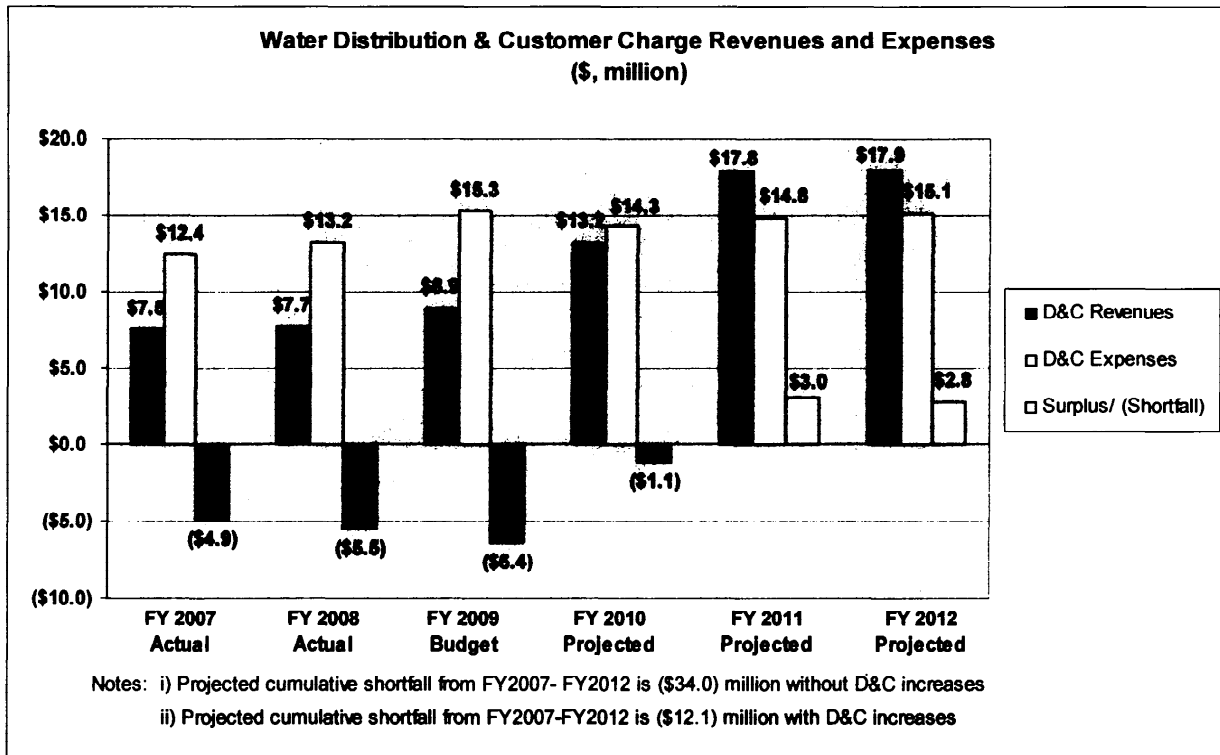
In order for these rate changes to go into effect by July 1, 2009, a public hearing must be held no later than June 8, 2009. Furthermore, to meet the notification requirements of Proposition 218, the date for the public hearing must be established no later than April 13, 2009. The Council is not being asked to approve or authorize the proposed rates at this time.

BACKGROUND:

The Water and Power Department (PWP) is proposing adjustments to the water revenues and rate structure as outlined below.

- ***Proposed Water Rate Increases to Reflect Cost of Service.*** PWP is proposing changes to the water rates over the next two fiscal years to recover increased operation and maintenance costs of the water system and preserve the financial health of the Water Fund. The Water Fund reserves have been depleted due to the under collection of Distribution and Customer Charge (D&C). See Chart 1 below. The proposed increases are necessary to ensure revenue adequacy. Specifically, PWP proposes to:
 - Effective July 2009, increase the D&C revenue by \$4.1 million and the Fire Protection Services (FPS) revenue by \$0.25 million for all customer groups, thereby increasing the overall water operating revenue by \$4.35 million or 10%;
 - Effective July 2010, increase the D&C revenue by an additional \$4.5 million for all customer groups, thereby increasing the overall water operating revenue by \$4.5 million or 8.7%;
 - Re-size the existing commodity block widths to reflect cost of service and resource availability;
 - Re-align pricing for Blocks 1, 2 and 3 to reflect the actual cost of providing water within each block;
 - Maintain the Purchased Water Adjustment Charge (PWAC) mechanism, combining the current PWAC into base commodity rate, and reset PWAC to zero (in a revenue neutral manner.) PWAC allows PWP to pass-through increased purchased water costs to customers;
 - Change the existing 35% rate differential between inside- and outside-city customers to 25% to reflect a rate of return comparable to that allowable for investor owned utilities and the level of PWP's investments in its water system; and
 - Adjust the seasonal rate differential between winter and summer rates from 6% to 3% to reflect actual summer peaking cost (in a revenue neutral manner.)

Chart 1



• **Proposed Implementation of Water-Conservation Based Rate Structure.**

PWP is also proposing to implement a phased water conservation based rate structure to improve water use efficiency, encourage conservation and take the first significant steps toward developing water-budget based rates. This proposal is consistent with the proposed water conservation plan and sustainable water supply goals. The first phase will involve implementation of a modified water conservation rate structure by July 2009, and the second phase will involve the development of a comprehensive water-budget based rate structure consistent with City Council's direction by July 2010.

Effective July 2009, PWP proposes to implement the first phase - modified water conservation rate structure - as follows:

- Redefine customer groups by residential, commercial, institutional and industrial customers as described herein instead of by meter sizes only, and resize commodity block widths in accordance with the water conservation plan
- Addition of two higher priced commodity block rates to the existing three commodity block rates for excessive water use to encourage conservation, provide necessary price signals and achieve desired conservation objectives of reducing water demands by up to 10%

- Adopt the water shortage pricing described in Attachment 1 for implementation during periods of emergency water shortage to minimize the impact of an emergency water shortage on PWP's customers, and to recover higher costs of water purchases in excess of the PWP's allocations from its wholesale water suppliers and recover associated conservation program costs. Attachment 1– Water Rate Proposal, which is included and considered an integral part of this report provides additional information on the proposed water rate increases and implementation of a phased water-conservation based rate structure.

A public hearing to receive public protests to the recommended water rate changes is required by Proposition 218. In the absence of a majority protest by property owners and tenants, the proposed water rate increases and implementation of water-conservation based rate structure will take effect upon approval of the City Council and an adoption of the appropriate ordinance amendment.

CUSTOMER BILL IMPACT:

The details of the combined average monthly customer bill impact of the proposed July 2009 rate changes to the water rate structure on inside-city customers for selected meter sizes and usage levels are shown in Table 1.

**Table 1
 Average Monthly Customer Bill Impact
 (Inside City Annualized, Excluding Taxes)**

Meter Size	Usage (BU)	Current Monthly Bill	Proposed D&C and FPS Increase	Impact due to Block Restructure	Estimated Proposed Monthly Bill	\$ Change	% Change
Residential							
5/8" & 3/4"	12	\$26.96	\$4.15	\$5.54	\$36.65	\$9.69	36%
1"	20	\$56.62	\$7.89	\$1.53	\$66.04	\$9.42	17%
Commercial							
1 1/2"	100	\$261.85	\$16.69	\$49.73	\$328.27	\$66.42	25%
2"	125	\$361.09	\$37.46	\$21.35	\$361.09	\$58.81	16%
3"	300	\$833.05	\$91.37	\$86.70	\$1,011.12	\$178.07	21%
4"	600	\$1,766.80	\$139.39	\$0.77	\$1,906.96	\$140.16	8%
6"	1,400	\$3,841.91	\$217.62	\$102.25	\$4,161.78	\$319.87	8%
8"	2,400	\$6,899.35	\$351.83	\$386.22	\$7,637.40	\$738.05	11%
10"	3,000	\$8,782.25	\$457.81	\$556.61	\$9,796.67	\$1,014.42	12%

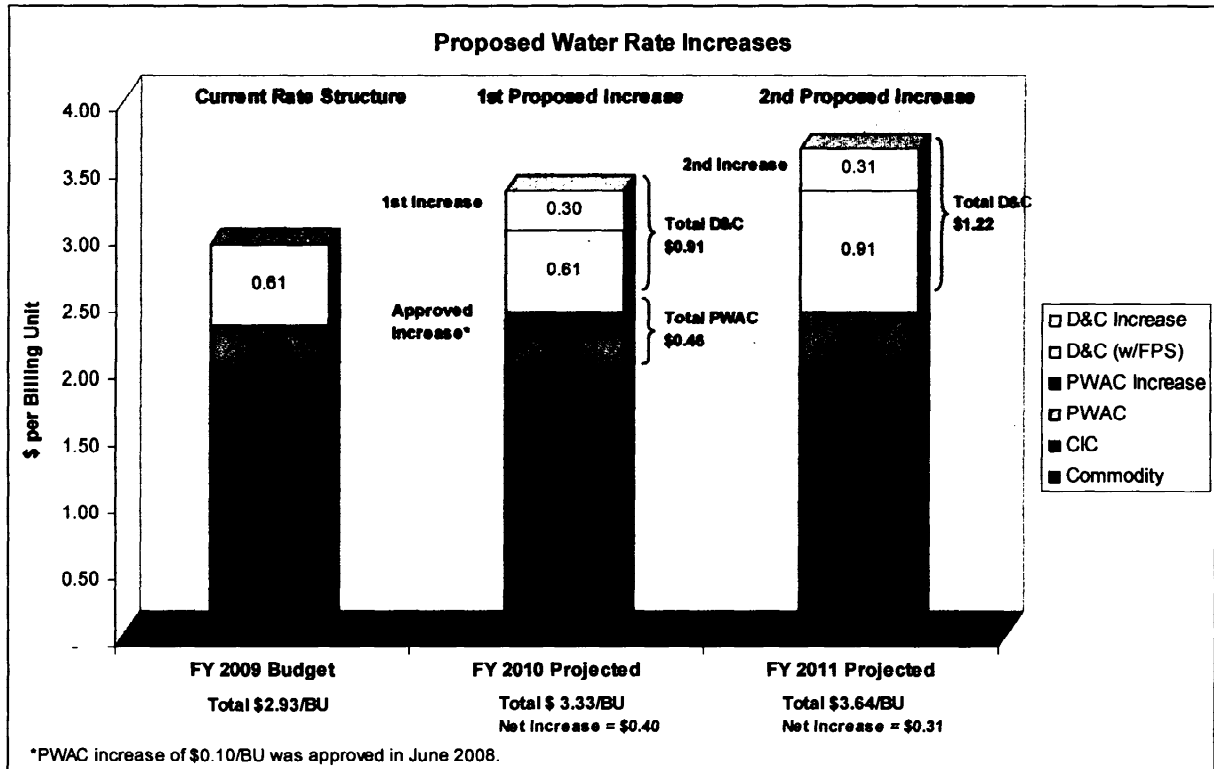
Note: The proposed bill for 5/8 and 3/4-inch meter using 12 BU includes an increase of \$5.54 due to the change in block 1 width from 12 to 8 Billing Units (BU). BU = 100 cf or 748 gallons

The impact of the proposed rate changes and cost of service block restructuring is generally more significant for smaller, mostly residential meter sizes as a percent of the total bill. This is to be expected since the customers in these smaller connection sizes

represent approximately 89% of the total number of customers. The customers in these groups also collectively consume about 55% of the total water supply. As a result, the re-alignment of cost of service and allocation of water in the restructured block widths will naturally impact the customers in these groups more significantly. This re-allocation provides true cost-of-service alignment of water supply and usage.

The proposed water rate composition is also shown in Chart 2.

Chart 2



As shown in Chart 2, the proposed July 2009 water rate changes will increase the average water rate from \$2.93 per billing unit (BU) to \$3.33 per BU, and the proposed 2010 D&C increase will further increase the average water rate to \$3.64 per BU.

PROPOSITION 218 REQUIREMENTS:

Proposition 218, as implemented by Government Code section 53755, allows one written protest per parcel, filed by an owner or tenant of the parcel, to be counted in calculating the majority protest to a proposed new or increased water charge. If a majority of property owners and/or tenants file written protests, the rate increases shall not be approved. PWP will notify by mail all property owners, tenants and ratepayers of the proposed D&C and PWAC increases as required by Proposition 218. Information related to the public hearing regarding adoption of the water rate increases proposed by PWP will also be included in the notice. Following the establishment of June 8, 2009 as the public hearing date to consider written and/or oral comment on the proposed rate increases, a separate notice will be mailed to each property owner, tenant and ratepayer, as required by Proposition 218.

OUTREACH AND EDUCATIONAL CAMPAIGN:

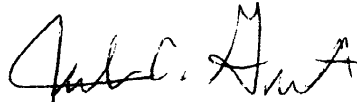
During the required 45 notice period, PWP staff will engage in active outreach efforts to provide adequate information to all ratepayers. These efforts will include participation in meetings within each City Council district, discussion with the Chamber of Commerce, one-on-one meetings with large commercial customers, and offers to meet with the town council and customers of Altadena. It will also include distribution of information in such publications as In Focus, the Pasadena Weekly, the City's website, PWP's website as well as PWP's internal and industry publications, Currents and The Conduit, respectively.

FISCAL IMPACT:

The estimated cost to mail notices to all City of Pasadena water customers and property owners as mandated by Proposition 218 is about \$30,000. Funds are available in the Water Division Account #8144-402-881000-0792.

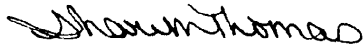
The proposed July 2009 D&C rate and fire protection surcharge increases are expected to generate \$4.35 million annually, and the proposed July 2010 D&C rate increases are expected to generate an additional \$4.5 million annually to offset increased operation and maintenance costs of the water system. If the rate proposal is approved, the additional operating revenue will result in an increase to the General Fund Transfer of approximately \$260,000 in FY 2010 and \$530,000 in FY 2011.

Respectfully submitted,



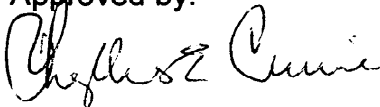
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