

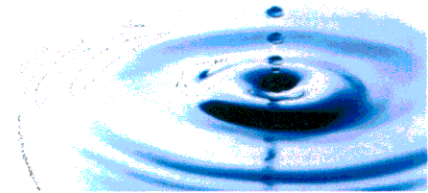
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Pasadena Water and Power



## Water Rates Workshop: Budget-Based Rates Interim Rate Adjustments

April 19, 2010



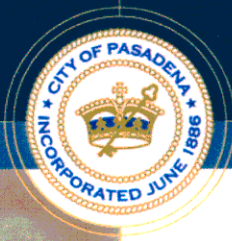
## Agenda

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- Introductory Remarks
- Budget Based Rate Discussion
- Interim Rate Adjustments



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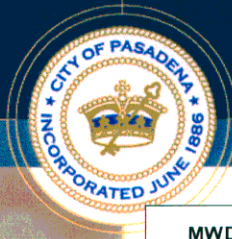
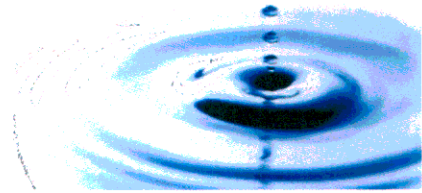
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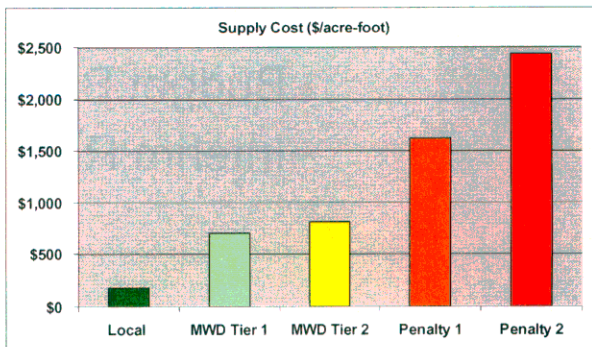
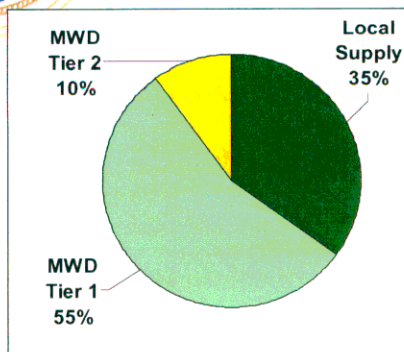
## Budget Based Water Rate Workshop Discussion

April 19, 2010



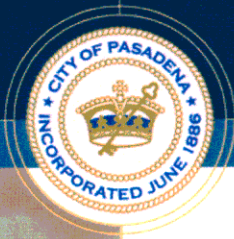
## Water Supply and Costs

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- Threshold Questions – How To:
  - > Equitably allocate a scarce resource?
  - > Assign costs to usage allocations?

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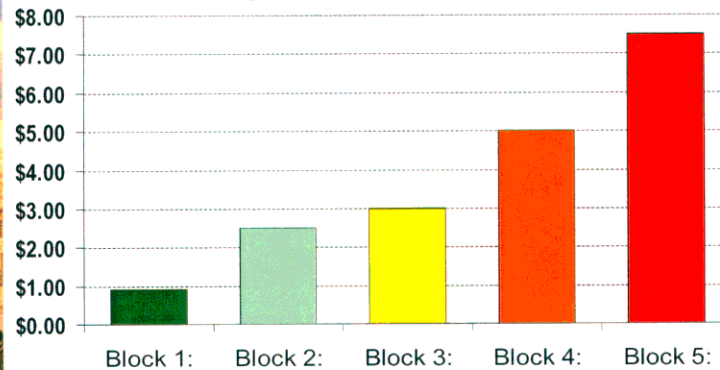


# Current Water Rate Structure

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- Recover Cost of Service
  - > Prop 218 requirements – “property related”
- Encourage Water Conservation

Commodity Rate Blocks (\$/billing unit)



- > Inclining rates for each usage block provides price signals to conserve

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# Current Water Allocation: By “Meter Size”

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- **Five Allocation “Blocks”**
  - > Each priced to match cost of supply source
  - > Larger meters sizes receive larger allocations in each block
  - > Larger meters also pay higher fixed monthly charges for distribution system and customer costs
- **Issues:**
  - > Some inefficient customers do not use higher-cost water in Blocks 3, 4 or 5
  - > Large users with small meters pay higher prices for a larger percentage of their overall use

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## Budget-Based Method: Allocation by “Efficient Use”

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- **Allocation “Blocks”**

- > Efficient use for each property must be determined
- > Allocations based on efficient use
- > Blocks priced to reflect cost of supplies

- **Potential Impacts**

- > Costs may shift from large consumers to small consumers
- > Larger residential properties receive larger allocations in each block (more low-cost water)
- > Smaller/mid-sized properties could receive smaller allocations in each block (less low-cost water than under the current allocation by meter size)
- > Potential shift of low-cost water from residential to commercial customers

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## Key Policy Issues

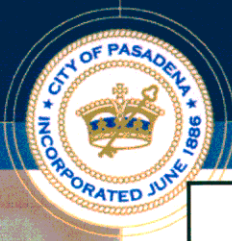
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1. Should PWP Develop Water Rates Using “Efficient-Use” Water Budget?
2. How Should Low-Cost Ground Water (Block 1) be Allocated?
3. How Should Budget-Based Rates be Phased In for Various Customer Classes?

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# Key Policy Issue 1: "Efficient-Use" Considerations

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Benefits	Drawbacks
<ul style="list-style-type: none"> <li>• All customers provided fair allocation for efficient water use</li> <li>• All inefficient customers given price signal to conserve</li> <li>• Expected to reduce Pasadena's overall water consumption</li> </ul>	<ul style="list-style-type: none"> <li>• Potential "cost shift" within and between customer classes (versus current rates)</li> <li>• Reduced low-cost water allocation for most residential customers &gt;&gt; bill increases</li> <li>• Increased up-front capital and annual operating costs</li> <li>• Increased staff requirements</li> </ul>

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# Key Policy Issue 2: Low-Cost Water Allocation

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Option	Considerations
<ul style="list-style-type: none"> <li>• Make all block allocations a fixed % of efficient use</li> </ul>	<ul style="list-style-type: none"> <li>• Significant potential impact within and between customer classes</li> </ul>
<ul style="list-style-type: none"> <li>• Maintain current ratio (residential vs. commercial)</li> </ul>	<ul style="list-style-type: none"> <li>• Eliminates inter-class cost shift</li> <li>• Reduces residential "bill shock"</li> </ul>
<ul style="list-style-type: none"> <li>• Prioritize indoor use</li> </ul>	<ul style="list-style-type: none"> <li>• Equalizes "per capita" allocation for residential customers</li> <li>• Reduces residential "bill shock"</li> <li>• Commercial allocation?</li> </ul>
<ul style="list-style-type: none"> <li>• Maintain current allocation for all</li> </ul>	<ul style="list-style-type: none"> <li>• Minimal disruption to customers</li> <li>• Block 1 could exceed efficient use</li> </ul>

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## Key Policy Issue 3: Phase In Alternatives

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Option	Considerations
<ul style="list-style-type: none"><li>• Create individual efficient-use budgets for all customers</li></ul>	<ul style="list-style-type: none"><li>• Substantial billing system and administrative cost</li><li>• 3+ year implementation schedule</li></ul>
<ul style="list-style-type: none"><li>• Residential budgets by group (lot size)</li><li>• Commercial as % of individual historic use</li></ul>	<ul style="list-style-type: none"><li>• Moderate billing system and administrative cost</li><li>• 2+ year implementation schedule</li></ul>
<ul style="list-style-type: none"><li>• Residential budgets by group (lot size)</li><li>• Commercial “As-Is”</li></ul>	<ul style="list-style-type: none"><li>• Simplifies billing and administration</li><li>• Reduces “bill shock”</li><li>• 12+ month implementation schedule</li></ul>

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## Proposed Rate Design Objectives

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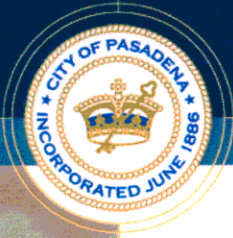


- Create water budgets for customers based on efficient use
- Minimize rate impact for efficient users
- Implement budget based rates in “timely and orderly progression”
- Develop Simple and Clear Communications
  - > Proposed rate changes and bill impacts
  - > Efficient water use levels
  - > “Normative” or “comparative” usage information

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# Budget Based Rates: Development Progress

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- **Defined Customer Classifications**
  - > Single Family Residence (SFR)
  - > Multi-Family Residence (MFR)
  - > Commercial
- **Analyzed Most Customer Accounts**
  - > Representing approximately 90% of total usage
  - > Historical usage information
  - > Lot size and landscaped/irrigable area data
- **Developing Rate Design Considerations**
  - > Efficient use determinants
  - > Block allocation and pricing
- **Analyzing Impact to PWP's Business Operations and Billing System**

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# Next Steps

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- **City Council and Committee Actions**
  - > MSC – Additional workshop/public hearing for customer input - June/July
  - > Additional Council Workshop on Budget Based Rates
- **Data Review, Analysis, and Rate Development**
  - > Complete “unique parcel” assessment
  - > Survey Pasadena's customers to verify occupancy and landscape assumptions
  - > Develop water allocation and pricing proposal
- **Ensure Business Readiness/Staff Preparedness**
  - > Develop and test impact to billing system
  - > Implement bill print software and re-designed bill
- **Customer Outreach and Education**

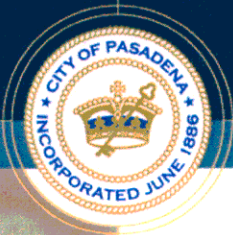
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# Budget Based Rate Schedule Overview

	2010				Months to Implementation												
	May	Jun	Jul	Aug	-36	-30	-24	-18	-12	-6	-5	-4	-3	-2	-1	Target	
Policy Considerations	█																
MSC/Council Workshops				◆													
Rate/System Development (Individual Budgets)					█												
Rate/System Development (Comm'l Historical Basis)							█										
Rate/System Development (Residential by Group)								█									
Introduce Bill Print Changes												█					
MSC/Council Rate Workshop													◆				
Prop 218 Notice															◆		
Public Outreach														█			
Public Comment														█			
Public Hearing																◆	
Implement Rate Adjustments																◆	

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## Budget Based Rates: Discussion Points

Pasadena Water and Power



1. Should PWP Develop Water Rates Using “Efficient-Use” Water Budget?
2. How Should Low-Cost Ground Water (Block 1) be Allocated?
3. How Should Budget-Based Rates be Phased In for Various Customer Classes?

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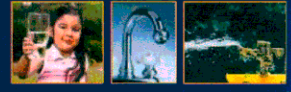
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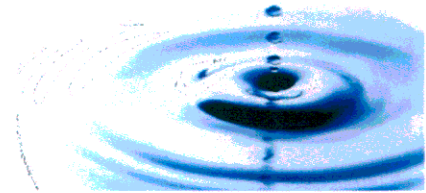
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## Water Rate Workshop: Interim Rate Adjustments

April 19, 2010



## Changes Since 2009 Rate Adjustments

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- Increased MWD Water Allocation
  - > Reflects reductions in local groundwater rights
  - > Reduced chance of incurring “penalty” charges
- Water Conservation
  - > Customer response to price signals
  - > Participation in water conservation programs
- Average rainfall during 2009-10 winter season
  - > Encouraged customers to reduce irrigation
- Transition to conservation rate design
  - > Anticipated multi-step process

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# Interim Rate Adjustment Proposal

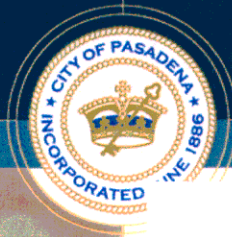
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- Target Effective Date: July 1, 2010
- Eliminate Block 5
  - > Usage will be charged at Block 4 rate
  - > Eliminate Block 5 exemption language
- Reduce Block 4 Rates by ~25%
- Eliminate Block 4 & 5 Refund Provision
  - > Block 4 & 5 revenues collected through 6/30/10 will be refunded per current ordinance
  - > Future Block 4 revenues would not be refunded
  - > Revenues from Block 4 would provide funding for potential penalties, conservation programs, and new resource development

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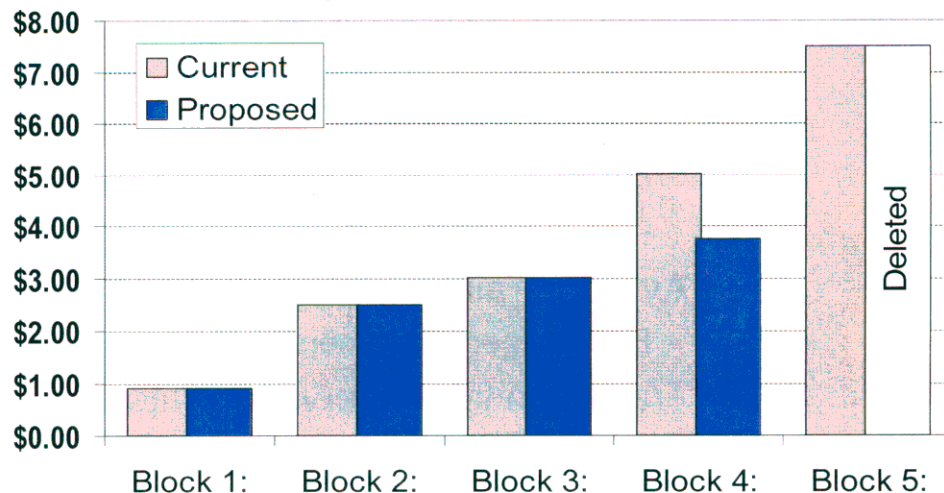


# Proposed Water Rate Blocks

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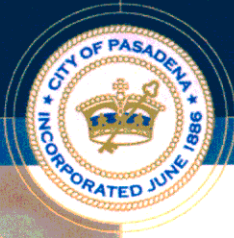


Commodity Rate Blocks (\$/billing unit)



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# Approved Rate Increases

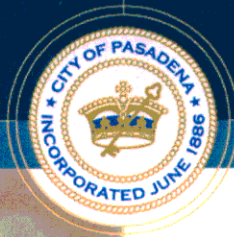
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- Approved by Council June 2009
- Fixed Charge (D&C) Increases
  - > Second increase (\$3.2 million or 6.2%)
    - Effective July 1, 2010
  - > Third increase (\$3.7 million or 6.8%)
    - Effective July 1, 2011

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# Potential MWD Water Rate Increases

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- MWD Rate Increases
  - > 15% increase in FY2009
  - > FY2011 increase Currently Under Discussion
    - 7.5% increase anticipated – effective Jan 2011
    - Additional 7.5% increase anticipated – Jan 2012
- Additional MWD Water Costs Passed Through in “Across-the-Board” Rate Increase of Approximately 4%
  - > Public hearing in Fall 2010
  - > Requires Prop 218 notification

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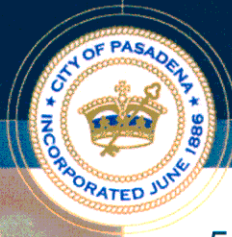
# Capital Improvement Charge ("CIC") Rate Changes

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- **CIC Revenues Down**
  - > Volumetric charge >> tied to water usage
  - > Will decline further with conservation
- **Possible Future Changes**
  - > Increase CIC rate
  - > Shift portion of capital revenue requirement to monthly fixed charges
  - > Possible consideration for Water Integrated Resource Plan discussion

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# Customers With Block 4 & 5 Usage (FY2010)

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- 5,393 Customers as of February 2010

	<u>Block 4</u>	<u>Block 5</u>
Single Family Residences	2,753	1,108
Multi-Family Residences	549	319
<u>Commercial (including Municipal)</u>	<u>379</u>	<u>285</u>
Total	3,681	1,712

- 329 Customers Exempted from Block 5 Rate
  - 275 residential customers
  - 54 commercial customers

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# Distribution of Refund/Credit for Blocks 4 and 5 (FY2010)

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- Projected \$1.7 Million Total Amount
  - > Will Be credited on utility bills starting (August/September 2010)
  - > No refund checks (unless customer left system)
  - > No interest payments

## Net Amount to be Refunded

	<u>YTD February</u>	<u>Est. Total*</u>
Single Family Residence	\$ 470,398	\$ 739,197
Multi-Family Residence	\$ 212,094	\$ 333,291
<u>Commercial (including Municipal)</u>	<u>\$ 407,529</u>	<u>\$ 640,403</u>
Total	\$1,090,022	\$1,712,891

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## Interim Rate Adjustments Schedule Overview

	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	...	July 2011
Water Fund Budget Hearings	█												
Budget Adoption				◆									
Mail Rate Adjustment Notices		◆											
Public Comment			█										
Public Outreach			█										
Public Hearing				◆									
Implement Rate Adjustments					◆								
Fixed Charge Increase					◆								◆
Block 4 & 5 Refunds						█							
PWAC Increase Consideration								█					
MWD Increase Effective											◆		



# Interim Rate Adjustments: Summary

Pasadena Water and Power



- **Schedule June 7 Hearing Date**
  - > Interim rates effective July 1, 2010
- **Printing of Customer Notice**
  - > Process begins immediately to meet Prop 218 45-Day notice requirement
- **Another Notice Required Fall 2010**
  - > For purchased water cost rate increase to cover January 1, 2011 MWD rate increase

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