

Agenda Report

April 19, 2010

TO: City Council

FROM: General Manager
Water and Power Department

SUBJECT: CITY COUNCIL WORKSHOP TO DISCUSS THE POTENTIAL DEVELOPMENT OF WATER BUDGET-BASED RATE DESIGN AND PROPOSED INTERIM WATER RATE ADJUSTMENTS

RECOMMENDATION

It is recommended that the City Council:

- (1) Receive information regarding the Potential Development of Water Budget-based Rate Design as part of a public workshop discussion.
- (2) Receive information regarding Proposed Water Rate Adjustments to: (a) Reduce Block 4 Rates; (b) Eliminate Block 5 Allocation and Rates; (c) Discontinue Block 5 Relief; and (d) Discontinue Refund or Credit of Water Purchased for Blocks 4 and 5."

MUNICIPAL SERVICES COMMITTEE

This information was presented to the Municipal Services Committee at its meeting on April 13. No specific action was requested.

BACKGROUND

The workshop on water rates will provide an update on the development of water budgets as the basis for the city's water rate structure, and include a discussion of some key policy issues for consideration by the City Council. The workshop will also include a discussion of proposed adjustments to the current rate structure as an interim step. The presentation materials for the workshop are included as Attachment 1 for additional information.

Development of a water budget rate structure would involve a significant redistribution of the allocation and cost of water to Pasadena Water and Power (PWP) customers. Three key policy issues to be considered are:

- Is a water budget-based rate structure right for Pasadena?
- What is the most equitable and beneficial way to allocate water resources, especially the lowest cost water resource (Pasadena's local groundwater)?
- What is an appropriate schedule to implement water budgets and rates to residential and commercial customers?

A discussion of the options, benefits and drawbacks of each key policy issue will be part of the workshop. Material will also be presented on our progress on developing a water budget-based rate design, potential impacts to various customer groups, necessary changes to systems and business processes and a projected timeline for implementing the rate design in Pasadena.

The other topic for discussion is a modification of current water commodity rates by reducing Block 4 water rates by 25 percent, eliminating Block 5 and eliminating the refund or credit for water purchases under Block 4 rates for water delivered beginning July 1, 2010. The approved credit to customers for sale of water in Blocks 4 and 5 during fiscal year 2009 will remain in place.

The proposed interim water rate modifications are in response to several changes in Pasadena's water resources and the result of significant conservation efforts by PWP's customers during the past year. In April 2009, the Metropolitan Water District (MWD) announced a supply allocation plan for fiscal year 2010 that reduced allocations of water to each member agency. Subsequent to the initial reduced allocation, Pasadena's allocation was increased to reflect changes in base year calculations and the application of a population growth factor. As a result, it is not expected that the City will be required to purchase water at MWD's penalty rates as long Pasadena's customers continue conserving water.

Customers have responded very favorably to the requests for water conservation, in part due to the price signals presented by the implementation of Blocks 4 and 5. The average rainfall levels over the winter also provided customers with an opportunity to reduce outdoor irrigation. The result has been a reduction in water usage from the previous year of nearly 13%.

The proposed interim rate modifications will ensure that rates remain aligned with water costs while retaining the necessary price signal to encourage continued conservation. The proposed changes will require a notice and public hearing in accordance with Proposition 218.

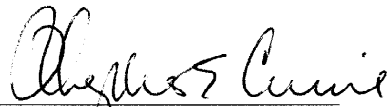
COUNCIL POLICY CONSIDERATION

Water conservation goals are included in the Urban Environmental Accords Goals, the General Plan Conservation Element. The Comprehensive Water Conservation Plan adopted by Council in 2009 included the use of water rate "price signals" to encourage customers to conserve water. If City Council approves the rate adjustments, the price signal for customers to conserve water will still be in place, but at reduced levels as compared to current water rates.

FISCAL IMPACT

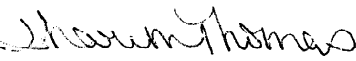
There is no fiscal impact for receiving the information presented in this workshop.

Respectfully submitted,



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Water and Power Department

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Approved by:



Michael J. Beck
City Manager

Attachments:

1. Workshop Presentation Information