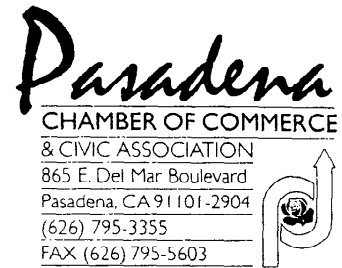


RECEIVED

09 JUN 22 A8 31

CITY CLERK
CITY OF PASADENA



June 19, 2009

Mayor Bill Bogaard
Pasadena City Council
100 North Garfield Avenue
Pasadena, CA 91109

Dear Mayor Bogaard and Council Members,

The Board of Directors of the Pasadena Chamber of Commerce reiterates its concerns about the current proposal to increase the cost of water service to customers over the next two years. As you are aware, our concerns fall into these areas: 1.) the potentially devastating impacts dramatic increases in water cost could have on your business and residential customers who are already suffering the effects of our stagnating economy; 2.) the lack of serious efforts by the Pasadena Water Department to reduce its own internal expenses before imposing substantial increases on customers; 3.) only a fraction of the proposed increases are the result of additional costs of purchased water from the Metropolitan Water District; 4.) the inequities in rate increases that impose penalty costs on customers who do not waste water; and 5.) the fact that the proposed rates are designed to increase revenue and will not result in water conservation.

We do recognize that neighboring communities are raising their water rates as a result of the MWD increases. However, those communities are really just recouping the additional costs, so none is raising rates to an extent, and over as short period of time, as Pasadena's proposed increases. South Pasadena, for example, is raising its rates by about 5% on July 1st and then by an average of 13% until July, 2012. California American Water is seeking increases for its customers that average \$17 per month. Alhambra will raise its rates by about 15% per year for the next five years. Burbank is raising its rates by 8.5% per year for the next four years and Glendale plans a 7.7% increase. It should also be noted that each of these are starting at an average rate lower than Pasadena's, according to the Redoak cost of service study data. Five years from now, none of our neighboring communities will have experienced increases equaling Pasadena, and their customers will still pay lower overall water rates, on average.

We have examined the Cost of Service Study performed for the Water Department by Redoak. Interestingly, that study recommends against imposing new pricing tiers and suggests that would further create inequities within and between customer classes. It is also interesting to note that the study shows Pasadena commercial customers pay much more than commercial customers in nearby cities, as much as 50% more than their

6/22/2009
6.C. 7:30 P.M.



counterparts in Burbank, Los Angeles and Glendale while our residential customers pay somewhat less than those in other cities, indicating that in Pasadena commercial customers significantly subsidize the water rates for residential uses.

Again, the Chamber of Commerce makes these recommendations:

The Chamber Board of Directors would prefer to see any immediate increases strictly limited to an amount that only recovers increases in the cost of water from the Metropolitan Water District. Other costs could be recovered through efficiencies within the water department or by postponing or foregoing some capital projects and an entire rate restructuring performed in conjunction with budget-based billing for water service.

If the Council is unwilling to take a harsh stance to contain departmental costs, it is the recommendation of the Board that the increases be reduced by half each year and phased in over a four year period. We also find it appropriate to reward those who have conserved water by exempting anyone who has saved 10% from 2006 use levels from tier 4 and 5 pricing levels.

The Chamber Board finds it difficult to accept any increase beyond the cost of water when the department itself has clearly not done anything to reduce its costs. Employee reductions claimed by the department have turned out to instead merely an accounting trick, moving some employees to the power department, a clever clerical deception.

Recognizing that commercial water customers pay significantly higher rates to subsidize residential users, the Chamber Board recommends restructuring the rates so that each customer class pays its fair share of all costs evenly. We have concerns about the amount of the "hook up" charge imposed by Pasadena that again weighs much more heavily on commercial customers than residential. Some neighboring water companies impose no such fee, while those that do charge significantly less than Pasadena.

Finally, the Board suggests that the department use billing and collections technology to discern water wasters and impose higher costs on those customers who are actually incurring the additional costs by wasting the commodity. It should be a simple matter to discern who is using significantly high amounts of water and then audit those accounts. That focus should be on both residential and commercial customers. For commercial customers, there are about 300 customers who will fall in the tier 4 and tier 5 pricing categories. It will be a simple matter to check the bills and audit those customers. For the more than 3000 residential customers in those pricing tiers, it may take more work, but it is a safe assumption that most of those are using water unnecessarily and should pay the higher price, if they fail to conserve water at the 10% level.

It is also clear from the Redoak cost of service study commissioned by PWP that many of the assertions made by department staff justifying the additional 25% charged to customers outside of Pasadena are inaccurate. Those inaccuracies could lead to a successful Proposition 218 challenge. For example, despite staff assertions to the contrary, the study makes no claim that there are additional costs to deliver water to

customers outside Pasadena, nor does it offer any justification for the additional charges, beyond the claim that Pasadena owns the commodity and can charge more for it. Also, left out of the discussion is any mention that those customers outside Pasadena have been paying for infrastructure and water for as long and at higher rates than those within the city limits, thereby having an equal "ownership" stake in the company. This distinction could possibly undermine the assertions that the additional charges are warranted and legal. There is also no mention of the fact that these customers already pay a dividend of nearly 8% as their portion of the transfer to the general fund. In order to ensure the premium paid by those outside Pasadena withstands a Proposition 218 challenge, the Chamber recommends reducing that 25% premium by the amount of the general fund transfer to 17%.

One of the challenges in examining these rate increases is the disturbing lack of consistency in the staff reports. It has been asserted that these additional charges are the result of increases in the cost of water that must be bought from MWD, but on even a cursory examination, the department is using higher fees to increase its reserves and capital projects fund. The department claims its rates will be competitive with surrounding municipalities, yet the Redoak study shows that Pasadena's commercial customers pay significantly more than commercial customers of any other local water utility. The department claims to have reduced its workforce when in fact it has only moved those employees to the power side of the company. Finally, we note that the amount Pasadena Water Company staff assert is the "penalty pricing" level imposed by MWD is different in these reports than what has been published by MWD. Pasadena Water claims the added costs is \$1600 per unit, but MWD's staff and board reports put the penalty amount at \$1468 per unit, 10% lower than department figures. All of these inconsistencies warrant a very close examination by the council before any rate increase, especially one so substantial and potentially devastating.

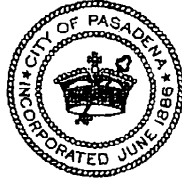
Please listen to your constituents, both commercial and residential, and reduce the amount of the water cost increases by either charging only as much as the increased costs from MWD or by extending the phase in period of these increases to at least four years, not the two years recommended by the department.

Thank you.



Paul Little
President and Chief Executive Officer

Cc: M. Beck, M. Jomsky, Chamber Board



PASADENA WATER AND POWER

June 22, 2009

Mr. Paul Little
President and Chief Executive Officer
Pasadena Chamber of Commerce
865 East Del Mar Boulevard
Pasadena, California 91101

Dear Paul,

I received your letter addressed to members of the Pasadena City Council, the City Manager and the City Clerk on Friday, June 19, 2009 on behalf of the Pasadena Chamber of Commerce. The letter reiterates your concerns about the proposed water rate increases to be considered by the City Council on June 22, 2009. I believe it is important for the Water and Power Department to address the concerns of the Chamber of Commerce members to ensure that adequate information is provided to all interested parties.

I have included excerpts below taken directly from your letter and provided responses from the Department in bold typeface below each of the excerpts. Much of this information was previously provided to you in an e-mail from Department staff on June 12, 2009.

Excerpt from Chamber of Commerce Letter:

The Board of Directors of the Pasadena Chamber of Commerce reiterates its concerns about the current proposal to increase the cost of water service to customers over the next two years. As you are aware, our concerns fall into these areas: 1.) the potentially devastating impacts dramatic increases in water cost could have on your business and residential customers who are already suffering the effects of our stagnating economy; 2.) the lack of serious efforts by the Pasadena Water Department to reduce its own internal expenses before imposing substantial increases on customers; 3.) only a fraction of the proposed increases are the result of additional costs of purchased water from the Metropolitan Water District; 4.) the inequities in rate increases that impose penalty costs on customers who do not waste water; and 5.) the fact that the proposed rates are designed to increase revenue and will not result in water conservation.

06/22/2009
6.C. 7:30 P.M.

Water and Power Department Response:

- 1) The department has documented \$1.5 million in savings in FY 2009 and 2010 that is not related to the reallocation of overhead positions to the Power Fund. This represents approximately 8-10% of “controllable” expenses (net of purchased water costs, capital improvements, depreciation, debt service, General Fund transfer, etc.)**
- 2) MWD raised its rates by 14% on 1/1/09 and will raise them by an additional 19.7% on 9/1/09. These increased costs of purchased water would routinely be passed along to customers as an adjustment to the Purchased Water Adjustment Charge (PWAC). The Water and Power Department has not made an adjustment to the PWAC for these additional costs while in the process of developing the currently proposed rate structure. Instead, the rate structure is intended to align water supply and cost through re-allocation and re-pricing of water in the existing blocks 1, 2, and 3. In that regard, the increased cost of purchased water does account for a substantial portion of the proposed rate increase since the new block widths and revised pricing reflect both the current amounts and pricing of water purchased from MWD.**
- 3) The Municipal Services Committee’s recommended changes to the rate proposal, particularly recommendations 2 and 3, are intended to provide relief for customers who have already implemented conservation measures and are considered “efficient” water users.**
- 4) The proposed rates are designed to adhere to cost of service principles and generate sufficient revenue to maintain the reliable delivery of safe water while maintaining the approved levels of capital investment as outlined in the Water Delivery System Master Plan.**

Excerpt from Chamber of Commerce Letter:

We do recognize that neighboring communities are raising their water rates as a result of the MWD increases. However, those communities are really just recouping the additional costs, so none is raising rates to an extent, and over as short period of time, as Pasadena's proposed increases. South Pasadena, for example, is raising its rates by about 5% on July 1st and then by an average of 13% until July, 2012. California American Water is seeking increases for its customers that average \$17 per month. Alhambra will raise its rates by about 15% per year for the next five years. Burbank is raising its rates by 8.5% per year for the next four years and Glendale plans a 7.7% increase. It should also be noted that each of these are starting at an average rate lower than Pasadena's, according to the Redoak cost of service study data. Five years from now, none of our neighboring communities will have experienced increases equaling Pasadena, and their customers will still pay lower overall water rates, on average.

Water and Power Department Response:

Section 6.4 of the Red Oak report addresses a regional rate survey using rates in effect in late 2007. The most significant difference in the results of the Red Oak report from the material presented by PWP is related to the usage levels within each connection size. Table 6-9 of the Red Oak report shows the consumption levels for each connection size used by their rate survey. PWP uses actual average monthly consumption for its own customers when providing comparison information. Below is a chart showing the different billing units of consumption used in comparing selected customer groups:

	<u>Red Oak</u>	<u>Pasadena</u>
5/8 and 3/4"	9	12
1"	11	20
2"	22	125
4"	104	600

As demonstrated, there is a significant difference in the number of billing units used by Red Oak compared to Pasadena's actual average usage for these selected connection sizes. Because Pasadena's fixed charge is higher for larger customers than that of the agencies used for comparison by Red Oak, the total bill at much lower consumption levels will be higher for Pasadena. However, if the higher consumption levels that are typical for Pasadena's customers at each connection size were used by the Red Oak model, the results would be in line with what PWP has presented in its materials. Table 6-11 of the Red Oak study depicts how this is true since Pasadena's commodity bills are comparable to or less than the other agencies, especially in the commercial classes. Many of the agencies in the survey have commodity rates higher than Pasadena, and this relationship extends as more water is consumed since many of these agencies charge more as more water is consumed. The results in table 6-12 are a function of the artificially low number of billing units used by Red Oak in its regional rate survey.

Excerpt from Chamber of Commerce Letter:

We have examined the Cost of Service Study performed for the Water Department by Redoak. Interestingly, that study recommends against imposing new pricing tiers and suggests that would further create inequities within and between customer classes. It is also interesting to note that the study shows Pasadena commercial customers pay much more than commercial customers in nearby cities, as much as 50% more than their counterparts in Burbank, Los Angeles and Glendale while our residential customers pay somewhat less than those in other cities, indicating that in Pasadena commercial customers significantly subsidize the water rates for residential uses.

Water and Power Department Response:

Please see above. Also, the Red Oak study was prepared in late 2007 and early 2008. The following significant changes have taken place in Pasadena's water supply and cost environment since the Red Oak analysis was completed:

- 1. The Judge Wanger court decision to reduce pumping from the Sacramento Delta that resulted in the 10% reduction in water allocated to Pasadena from MWD.**
- 2. The reduction in groundwater supply from 41% to 35%.**
- 3. The end of another rain season that resulted in below average rainfall.**
- 4. The City Council approval of a Water Conservation Plan intended to reduce water consumption by 10% in Pasadena on a permanent basis.**

Excerpt from Chamber of Commerce Letter:

Again, the Chamber of Commerce makes these recommendations:

The Chamber Board of Directors would prefer to see any immediate increases strictly limited to an amount that only recovers increases in the cost of water from the Metropolitan Water District. Other costs could be recovered through efficiencies within the water department or by postponing or foregoing some capital projects and an entire rate restructuring performed in conjunction with budget-based billing for water service.

Water and Power Department Response:

- The current water rate proposal is designed to address the increases in the cost of water purchased from MWD by re-aligning and re-pricing the amount of water available from each of its sources. This will ensure that all customers receive an equitable allocation of water from each source at each price. This action will restore cost of service principles to the water rate structure and ensure adequate revenue for each requirement of the water fund (operations, purchased water and capital investment.)**
- Investing in capital projects is particularly prudent at this time. The cost of materials and contract labor have decreased due to general economic conditions, and it is in the best interests of Pasadena's water customers for the City to make necessary improvements to its 100+ year old water delivery infrastructure at a time when the cost of doing so is lower.**
- The current rate proposal is a first step toward developing a water budget-based rate structure. Necessary improvements are being made to customer data in the utility billing and GIS systems to provide a framework for water**

budget-based rates. Water budget-based rates must also be aligned with cost of service principles required by Proposition 218, and it is necessary that the data in the primary supporting systems be accurate and reliable to adequately support those principles.

Excerpt from Chamber of Commerce Letter:

If the Council is unwilling to take a harsh stance to contain departmental costs, it is the recommendation of the Board that the increases be reduced by half each year and phased in over a four year period. We also find it appropriate to reward those who have conserved water by exempting anyone who has saved 10% from 2006 use levels from tier 4 and 5 pricing levels.

Water and Power Department Response:

- **The Municipal Services Committee recommended modification to the original rate proposal to implement the fixed Distribution and Customer charge (D&C) over three years instead of two years. This will provide the absolute minimum revenue required to maintain reliable delivery of safe water to the City's customers. The revenue generated is also the minimum required to maintain the current credit rating of the Water utility and ensure adequate bond fund reserves to remain compliant with existing bond covenants.**
- **The Committee's recommendation to provide a "rate relief" program available to those customers who can demonstrate a reduction in average usage over a three year period (2006-2008) and implementation of water efficiency programs will allow the Department to exempt such customers from the rates in block 5.**
- **The recommendation to provide a rebate or credit to specific customers for charges in blocks 4 and 5 for revenues collected in excess of actual penalty costs imposed by MWD will ensure that the Department does not retain revenues collected in excess of actual water costs.**

Excerpt from Chamber of Commerce Letter:

The Chamber Board finds it difficult to accept any increase beyond the cost of water when the department itself has clearly not done anything to reduce its costs. Employee reductions claimed by the department have turned out to instead merely an accounting trick, moving some employees to the power department, a clever clerical deception.

Water and Power Department Response:

- **The Department has identified \$1.5 million in budget reductions for FY 2009 and 2010 that are not related to the re-allocation of administrative staff to the Power Fund. The re-allocation of administrative staff to the Power Fund is appropriate to reflect the actual level of effort required to support each of the**

operations and would have taken place even without the current financial challenges in the Water Fund.

Excerpt from Chamber of Commerce Letter:

Recognizing that commercial water customers pay significantly higher rates to subsidize residential users, the Chamber Board recommends restructuring the rates so that each customer class pays its fair share of all costs evenly. We have concerns about the amount of the "hook up" charge imposed by Pasadena that again weighs much more heavily on commercial customers than residential. Some neighboring water companies impose no such fee, while those that do charge significantly less than Pasadena.

Water and Power Department Response:

- **Analysis completed by the Department has confirmed that there is no measurable subsidy of one customer class by another. This includes the analysis presented to the City Council on June 8 clearly showing the equitable distribution of billing units and revenue for each customer group. The current "unbundled" water rates that provide separate revenues for each type of expense (purchased water, operations and capital investment) also ensure that costs are spread equitably among all customer groups.**
- **The City imposes commercial development impact fees on new development to offset the costs of improvements to the water system infrastructure *directly related* to a specific development. For example, if a particular development requires upgrading the size of water mains or increasing fire flow requirements serving that development, it is appropriate to collect the costs of those upgrades directly from the developer. This is common practice among nearly all jurisdictions, and is guided by the requirements of AB 1600.**

Excerpt from Chamber of Commerce Letter:

Finally, the Board suggests that the department use billing and collections technology to discern water wasters and impose higher costs on those customers who are actually incurring the additional costs by wasting the commodity. It should be a simple matter to discern who is using significantly high amounts of water and then audit those accounts. That focus should be on both residential and commercial customers. For commercial customers, there are about 300 customers who will fall in the tier 4 and tier 5 pricing categories. It will be a simple matter to check the bills and audit those customers. For the more than 3000 residential customers in those pricing tiers, it may take more work, but it is a safe assumption that most of those are using water unnecessarily and should pay the higher price, if they fail to conserve water at the 10% level.

Water and Power Department Response:

- **The Department will continue evaluation of the customer base to identify large volume water consumers as part of implementing the Municipal Services**

Committee's recommended modification #2 to the water rate proposal. Further identification will be made of those high volume users who have already implemented water conservation measures and can be considered "efficient" users. Necessary improvements are being made to customer data in the utility billing and GIS systems to allow determination of efficient and inefficient users, regardless of the volume of water used. This is a necessary step toward the development of a water budget-based rate design.

Excerpt from Chamber of Commerce Letter:

It is also clear from the Redoak cost of service study commissioned by PWP that many of the assertions made by department staff justifying the additional 25% charged to customers outside of Pasadena are inaccurate. Those inaccuracies could lead to a successful Proposition 218 challenge. For example, despite staff assertions to the contrary, the study makes no claim that there are additional costs to deliver water to customers outside Pasadena, nor does it offer any justification for the additional charges, beyond the claim that Pasadena owns the commodity and can charge more for it. Also, left out of the discussion is any mention that those customers outside Pasadena have been paying for infrastructure and water for as long and at higher rates than those within the city limits, thereby having an equal "ownership" stake in the company. This distinction could possibly undermine the assertions that the additional charges are warranted and legal. There is also no mention of the fact that these customers already pay a dividend of nearly 8% as their portion of the transfer to the general fund. In order to ensure the premium paid by those outside Pasadena withstands a Proposition 218 challenge, the Chamber recommends reducing that 25% premium by the amount of the general fund transfer to 17%.

Water and Power Department Response:

- **Section 5.2 of the Red Oak report provides a direct response to the question regarding the inside and outside City rate differential. This section of the report provides a written description of the process undertaken by Red Oak Consulting as well as Table 5-2 of that same section which provides the calculation from which the 25% differential is derived. Previous cost of service studies have validated the additional delivery cost for water delivered to many of the customers in the outside-City service area. This additional cost is captured in the differential applied to the D&C charge. The appropriate ROI has also been validated by previous cost of service studies and represents a reasonable return on investment for comparable utilities.**

Excerpt from Chamber of Commerce Letter:

One of the challenges in examining these rate increases is the disturbing lack of consistency in the staff reports. It has been asserted that these additional charges are the result of increases in the cost of water that must be bought from MWD, but on even a cursory examination, the department is using higher fees to increase its reserves and

capital projects fund. The department claims its rates will be competitive with surrounding municipalities, yet the Redoak study shows that Pasadena's commercial customers pay significantly more than commercial customers of any other local water utility. The department claims to have reduced its workforce when in fact it has only moved those employees to the power side of the company. Finally, we note that the amount Pasadena Water Company staff assert is the "penalty pricing" level imposed by MWD is different in these reports than what has been published by MWD. Pasadena Water claims the added costs is \$1600 per unit, but MWD's staff and board reports put the penalty amount at \$1468 per unit, 10% lower than department figures. All of these inconsistencies warrant a very close examination by the council before any rate increase, especially one so substantial and potentially devastating.

Water and Power Department Response:

- **The Department has identified \$1.5 million in budget reductions for FY 2009 and 2010 that are not related to the re-allocation of administrative staff to the Power Fund. The re-allocation of administrative staff to the Power Fund is appropriate to reflect the actual level of effort required to support each of the operations and would have taken place even without the current financial challenges in the Water Fund.**
- **MWD will assess penalty rates at the *rates in effect at the time the penalty is assessed*. For Pasadena, MWD will assess actual penalties incurred by the City after June 30, 2010, which is the end of the annual billing cycle for MWD. MWD is raising its rates by 19.7% on 9/1/09 and the increased rates will be in effect when the penalties (if any) are assessed. The penalty rates used during the June 8 presentation to the City Council were taken directly through communication with MWD staff who confirmed both the penalty structure and the effective rates at the time the penalties would be imposed.**

Please let me know if you have additional questions.

Sincerely,


Phyllis E. Currie
General Manager

c: City Council
City Manager
City Clerk
Membership – Pasadena Chamber of Commerce