

Agenda Report

April 8, 2013

TO: City Council

FROM: Water and Power Department

SUBJECT: Recommendation to set the date of June 17, 2013 to conduct a public hearing regarding the proposed changes to the Purchased Water Adjustment Charge ("PWAC")

RECOMMENDATION

It is recommended that the City Council:

- 1) Find that the Public Hearing for the Proposed Changes to the Purchased Water Adjustment Charge is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges).
- 2) Set the date of June 17, 2013 for a public hearing to:
 - (a) Increase the PWAC by \$0.10 per billing unit effective October 2013 and by an additional \$0.10 per billing unit effective October 2014, and;
 - (b) Approve the implementation of the PWAC formula as defined in the Water Rate Ordinance to pass-through incremental purchased water costs for a total period not to exceed five years (as provided by Government Code Section 53756).

EXECUTIVE SUMMARY

In April 2012, the Metropolitan Water District of Southern California ("MWD") approved two rate increases of 5% each. The first water rate increase was implemented in January 2013. The second water rate increase will become effective January 1, 2014. These increases raise the cost of water purchased by Pasadena Water and Power ("PWP") from MWD. To cover the additional costs of these water rate increases, PWP is proposing to adjust the PWAC by 10¢ per billing unit effective October 2013 and by an additional 10¢ per billing unit effective October 2014.

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In addition, PWP is proposing a public notice process for the PWAC formula already approved in Section 13.20.110 of the City's Water Service Rate Ordinance. This formula provides for the automatic pass through of changes in wholesale water charges. Although the formula was previously approved, it has not been through the notification and public hearing process required by Proposition 218. Legislation enacted by Assembly Bill 2567 ("AB 2567") approved in July 2012, provides that after one public notice and hearing for the process, automatic adjustments may be made for a period of up to five years without further separate hearings.

If the formula is approved, PWP will provide the City Council and its customers at least 30-day's notice of any future PWAC adjustments during the five year period. This will allow customers sufficient opportunity to set or modify their budgets to accommodate the rate changes. Formula driven increases will apply only to the water commodity charge. Any proposed adjustments to rates for distribution, customer service or capital improvement charges will continue to require notification and public hearing processes required by Proposition 218.

PWP is seeking the City Council's approval to set a date of June 17, 2013 to conduct a public hearing on this proposal. After the date is set, a notice will be sent to all water customers and property owners within PWP's water service area. This item was presented as information to the Municipal Services Committee at the meeting on 3/26/2013.

BACKGROUND

PWP produces about 40 percent of its water supply from local groundwater in the Raymond Basin and purchases about 60 percent from MWD. Over the past decade, PWP has been experiencing higher purchased water costs due to MWD's periodic water rate increases. Although PWP has taken proactive steps to address water supply challenges, the goal to substantially reduce the City's reliance on imported water will require ongoing conservation efforts and additional capital investments as approved in the 2011 Water Integrated Resource Plan ("WIRP"). Appendix 1 illustrates the increases in MWD's rates from year 2003 through year 2015 and shows the corresponding actual and projected purchased water costs for PWP.

To cover the increases in purchased water costs which are primarily driven by the cost of purchasing water from MWD, PWP has implemented several adjustments to its PWAC over the past years using the approved formula in Section 13.20.110 of the Water Rate Ordinance. The PWAC formula allows PWP to pass-through incremental purchased water costs to its customers. Most recently, PWP implemented changes to the PWAC in October 2010 and October 2011 in response to MWD rate increases which took effect in January 2011 and January 2012. See Appendix 2 for history of PWAC changes since 2002.

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In April 2012, the MWD Board of Directors approved two rate increases of five percent each. The first five percent rate increase was implemented in January 2013 and the second five percent rate increase will become effective on January 1, 2014. To cover the incremental costs that will result from the 2013 and 2014 MWD rate increases, PWP is proposing to increase the PWAC by 10¢ per billing unit (2.7% increase) effective October 2013 and by an additional 10¢ per billing unit (2.6% increase) effective October 2014. A billing unit is equivalent to 748 gallons of water. This action requires that PWP conduct a Proposition 218 public hearing process.

Five-year Automatic PWAC Adjustments

PWP is also requesting approval to implement the PWAC formula as defined in the Water Rate Ordinance to pass-through incremental purchased water costs primarily from anticipated MWD water rate increases for total period not to exceed five years. This proposal will be included in the same public notice as the two specific recommended increases. If approved, it will not be necessary to conduct further Proposition 218 hearings for PWAC adjustments for five years from the date of approval. Future PWAC changes will be implemented only if future increases in purchased water costs actually occur over the five year period beyond the increases being proposed for October 2013 and 2014. Prior to implementing any increase during the five year period, PWP will provide the City Council and PWP customers with at least 30-day's notice before the effective date. This will allow customers sufficient opportunity to set or modify their budgets to accommodate the rate changes.

This proposal complies with the provisions of Assembly Bill 2567 ("AB 2567"), which provides for automatic rate adjustments to pass through changes in wholesale water charges for a period of up to five years without a hearing process for each adjustment. The proposal applies only to the commodity/PWAC component of the water rate, and it does not cover the distribution and customer charge ("D&C") and the capital improvement charge ("CIC") components. Any future changes to D&C and CIC rates will still be subject to separate City Council approval and the Proposition 218 public hearing process.

Public Hearing

After approval of a hearing date of June 17, 2013, PWP will notify by mail all property owners and ratepayers of the proposed rate adjustments as required by Proposition 218. The notice must be mailed no less than 45 days prior to the public hearing and will include information regarding the public hearing date and the process by which written protests to the proposed water rate changes may be submitted.

The process of considering the proposed water rate changes requires a series of steps to be taken in sequence on the following dates:

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- April 8, 2013 City Council to set June 17, 2013 as public hearing date
- 3rd week of April 2013 Public notices mailed to ratepayers and property owners
- April to June 17, 2013 Written protests received (if any)
- June 17, 2013 Conduct Public Hearing and approve PWAC proposal
- October 2013 If proposal is approved, implement a 10¢ per billing unit increase in PWAC
- October 2014 If proposal is approved, implement a 10¢ per billing unit increase in PWAC

Receipt of written protest by a majority of property owners or tenants would prevent the implementation of the proposed PWAC increase and the notice of automatic pass through of water commodity cost adjustments. This would also require a revision of the recommended fiscal year 2014 Water Fund budget to accommodate the additional purchased water costs by reducing other planned expenses.

Proposition 218

Proposition 218 was initially approved by California voters in November 1996 with the intent to ensure that all taxes and most property-related charges are subject to voter approval, and to further limit the use of assessments and property-related fees to pay for general governmental services rather than property-related services. At that time, it was not widely adopted by water utilities until July 2006 when the California Supreme Court ruled that water rates are property-related fees for Proposition 218 purposes. This ruling requires that water rate increases are subject to specific notification and public hearing requirements.

Since July 2006, PWP has been adhering to this ruling and has been providing at least 45-day notices to its rate payers and giving them the opportunity to provide comments and attend public hearings prior to making water rate changes including PWAC. In 2009, the California Supreme Court further ruled that Proposition 218 can be used for multi-year rate changes without the need to hold more public hearings for each change under certain conditions.

PWP is proposing to provide public notice for section 13.20.110 of the Water Service Rate Ordinance relating to adjustments to the PWAC. This notice will comply with the provisions of AB 2567 (approved in July 2012), which authorizes automatic rate adjustments to pass through changes in wholesale charges for water are allowed without a further separate hearing process for a period not to exceed five years. This notice will ensure that PWP's Water Service Rate Ordinance is in compliance with the provisions of AB 2567.

Impact of the Proposed PWAC Increase

The proposed PWAC adjustments effective October 2013 and 2014 will impact all PWP water customers. The price for each billing unit of water will increase by 10¢ in October 2013 and by additional 10¢ in October 2014. A billing unit is equal to 748 gallons of water.

The monthly bill for a typical residential customer using 12 billing units will increase by approximately \$1.20 or 2.7% due to the proposed October 2013 PWAC change, as shown in Table A below. The monthly bill will further increase by approximately \$1.20 or 2.6% in October 2014 due to the proposed second PWAC adjustment.

Table A
Sample impact for residential customer using 12 billing units per month
Effective October 2013

Typical Residential Rate Adjustment for 5/8" - 3/4" Meter Using 12 Billing Units (BU) in Summer							
Current Rate Structure				Proposed Rate Structure with 10¢ PWAC increase in October 2013			
	Rate per BU	Usage per Block	Charge Amount		Rate per BU	Usage per Block	Charge Amount
Block 1	\$1.12537	8	\$ 9.00	Block 1	\$1.22537	8	\$ 9.80
Block 2	\$2.71851	4	\$10.87	Block 2	\$2.81851	4	\$11.27
Total Water Used		12	\$19.87	Total Water Used		12	\$21.07
Distribution and Customer Charge			\$17.51	Distribution and Customer Charge			\$17.51
Capital Improvement Charge			\$ 7.49	Capital Improvement Charge			\$ 7.49
Total Bill Before Tax			\$44.87	Total Bill Before Tax			\$46.07
Net Increase: \$1.20 or 2.7%							

ENVIRONMENTAL ANALYSIS

This item is exempt from the California Environmental Quality Act ("CEQA") pursuant to State CEQA Guidelines Section 15273 (Rates, Tolls, Fares, and Charges). Under Section 15273, CEQA does not apply to the establishment, modification, structuring, restructuring, or approval of rates, tolls, fares, or other charges by public agencies which the public agency finds are for the purpose of:

1. Meeting operating expenses, including employee wage rates and fringe benefits,
2. Purchasing or leasing supplies, equipment, or materials,

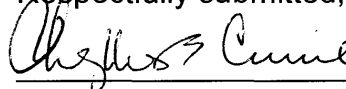
3. Meeting financial reserve needs and requirements,
4. Obtaining funds for capital projects, necessary to maintain service within existing services areas, or
5. Obtaining funds necessary to maintain such intra-city transfers as are authorized by city charter.

FISCAL IMPACT

The estimated cost to mail notices to all City of Pasadena water ratepayers and property owners as mandated by Proposition 218 is approximately \$30,000. Funding for this action will be addressed by the utilization of existing budgeted appropriations in Water Operating Fund 402 (Account #8144-402-881000-0792). It is anticipated that all of the cost will be spent during the current fiscal year.

Based on projected billing unit sales, the proposed October 2013 PWAC increase is expected to generate \$730,000 in additional revenue in FY 2014 for a partial year implementation. The revenue impact of a full year implementation in FY 2015 and thereafter will be about \$1,250,000. Similarly, for FY 2015, the October 2014 PWAC increase is expected to generate about \$730,000 added to the revenue for the full year of the first increase of \$1,250,000 for a combined impact of \$1,980,000. When both increases are fully implemented (FY 2016), the combined revenue impact will be approximately \$2,500,000 per year. The additional revenue will be sufficient to cover the higher costs for purchased water from MWD, estimated at \$2 million to \$3 million annually.

Respectfully submitted,



Phyllis E. Currie

General Manager

Pasadena Water and Power

Prepared by:

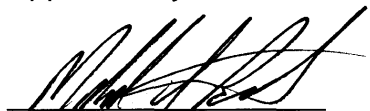


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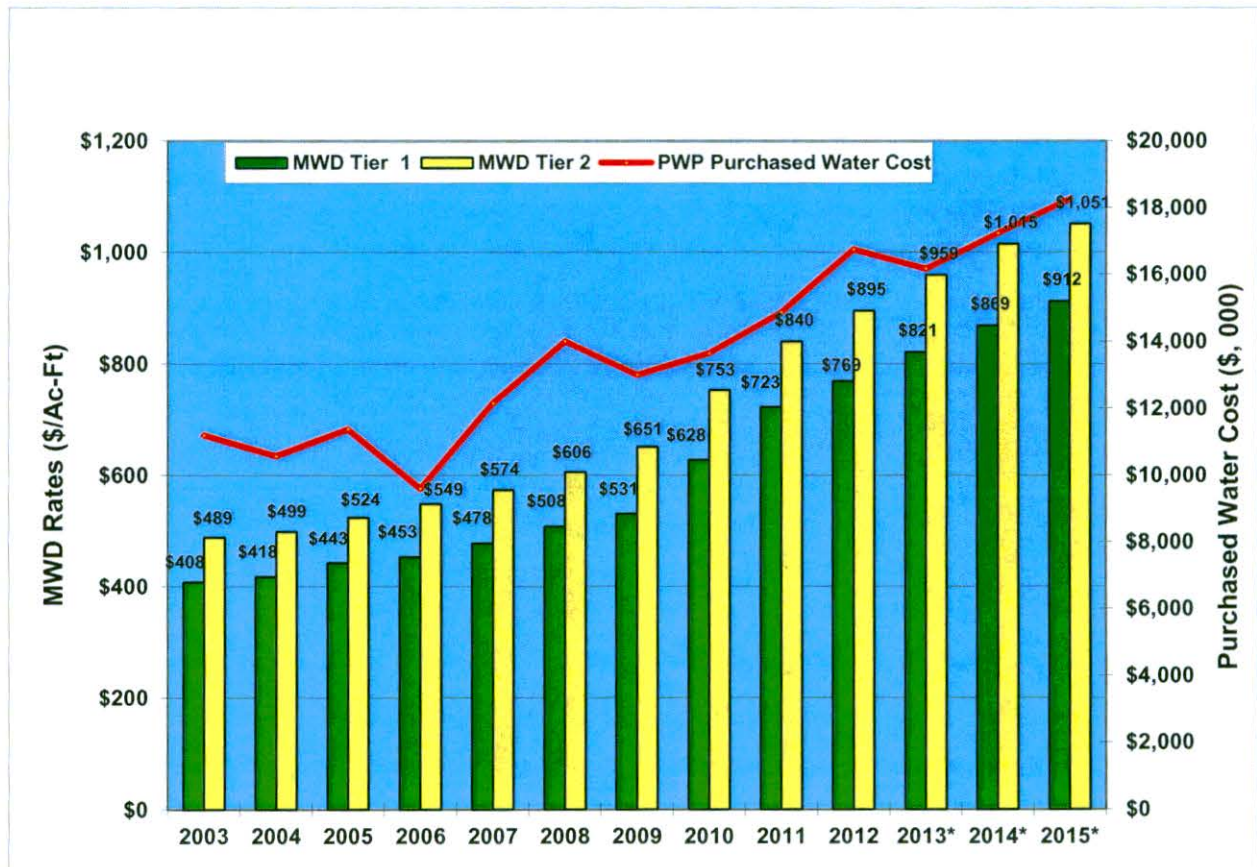
Approved by:



Michael J. Beck

City Manager

Appendix 1 PWP Purchased Water Cost and MWD Rates



Note: Purchased water costs for 2013 through 2015 are projected numbers, while MWD rates are the approved rates

Appendix 2
History for PWAC Increases
For the Ten Year Period covering July 1, 2002 through June 30, 2012

July 2002	Implemented a Purchased Water Adjustment Charge (PWAC) of 6.589 cents per billing unit (BU) to capture higher costs of water purchased from the Metropolitan Water District of Southern California (MWD).
October 2003	Increased the PWAC by approximately 3 cents per BU (2% increase in system average rate) to recover higher purchased water costs.
December 2004	Increased PWAC by approximately 4 cents per BU (2% increase in system average rate) to recover higher purchased water costs.
July 2008	Increased the PWAC by approximately 24 cents per BU (10% increase in system average rate) to recover increased purchased water costs.
July 2009	Increased the PWAC by approximately 10 cents per BU (4% increase in system average rate) to recover increased purchased water costs.
August 2009	Rolled the PWAC into the Commodity Charge. PWAC was reset to zero.
October 2010	PWAC increased by 9.5 cents per BU (3% increase in system average rate).
October 2011	PWAC increased by 12 cents per BU (3% increase in system average rate).