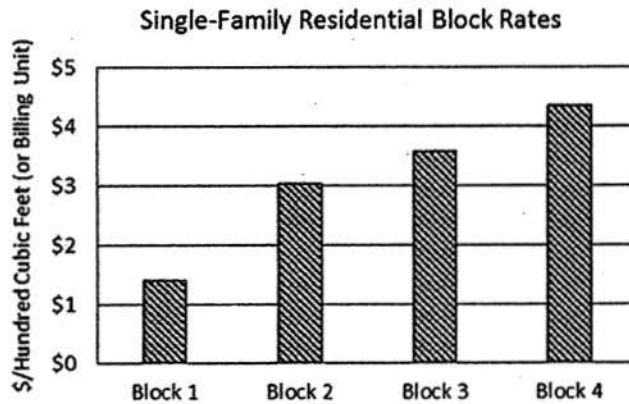


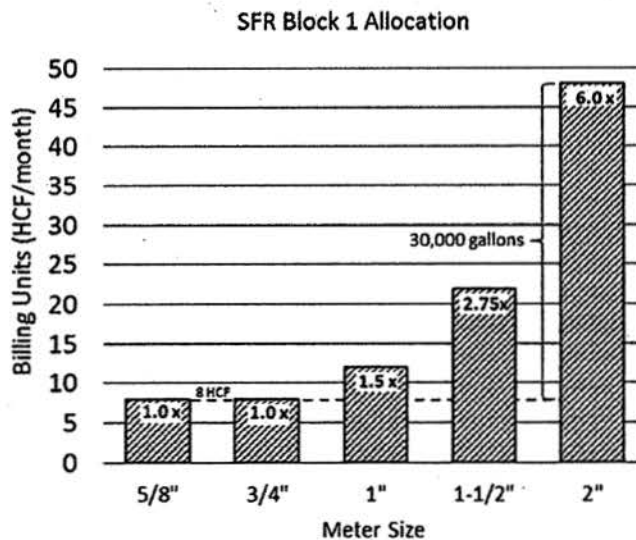
Comments of Ken Kules on the proposal to "Set A Date Of May 13, 2019 For A Public Hearing For Recommended Adjustments To The Water Rates" (March 11, 2019 City Council Agenda Item 9)

Introduction. Proposition 218 was approved by California voters in 1996. It amended the California Constitution and - among other things - requires that water rates may not exceed the "proportional cost" of providing the service to "the parcel." It is clear that the City of Pasadena's existing water rate structure does not comply with the proportional cost requirement with regard to the following issues and that extends to the rates under the rate proposal being considered now in the Agenda Report for the subject item (Rate Proposal).

Single-Family Residential (SFR) Block Size Inequity. The Rate Proposal would use the existing "block" allocation schedule in which unit cost of water (\$/hundred cubic feet or billing unit) increases as use increases in a "tiered" system:



This graphic show the allocation for access to the cheapest Block 1 water for SFRs:



Eight billing units per month "is generally considered a sufficient amount of water for a residential family of four's indoor use" (2009 Comprehensive Water Conservation Plan, p.11). That is the monthly

allocation for SFR customers that have 5/8" and 3/4" meters. In contrast, SFR customers with larger meters have increasingly larger allocations in block 1 although their reasonable indoor use should be the same. In the case of parcels with 2" meters, the allocation is 6 times larger than for the small meters and the extra allocation is enough to re-fill a swimming each month at the cheapest unit cost for water. That is not equitable and this inequity extends to blocks 2-4 allocations as block 1 is the foundation for allocation in those blocks.

The number of SFR meters in Pasadena are shown in the following table:

**Table 1
Number of Accounts by Customer Class and Meter Size**

Meter Size	Residential Single Family	Residential Multi-Family	Commercial and Industrial	City Accounts	Total	% of Total
5/8"	526	53	118	2	699	1.8%
3/4"	18,603	1,398	1,196	18	21,215	54.4%
1"	10,277	1,103	965	109	12,454	31.9%
1 1/2"	1,275	506	474	32	2,287	5.9%
2"	372	542	799	76	1,789	4.6%
3"	4	83	145	20	252	0.6%
4"	0	49	143	12	204	0.5%
6"	0	22	58	9	89	0.2%
8"	0	0	20	2	22	0.1%
10"	0	0	3	1	4	0.0%
Total	31,057	3,766	3,921	281	39,015	100.0%

Source: Water Cost of Service Review and Rate Design Analysis-Update (Pasadena Water & Power, 8-25-2015)

It shows 38% of Pasadena's SFR customers have an economic advantage over the 62% of customers with smaller meters under the current rate structure. It is also worth noting that perpetuating this practice is a social justice issue in that the equity imbalance is biased against a customer class that faces greater challenges in paying utility bills.

Single Family Residence Meter Sizing Inequity. I first raised the issue that meters in Pasadena's service area do not appear to be consistently sized before the City Council on May 18, 2015 and was assured that this would be addressed through an impending rate setting procedure. Another Pasadena customer made similar complaints before the City Council on July 30, 2007 and June 8, 2009 and he was lead to believe that the issue would be considered in the 2009 rate proceeding.

The American Water Works Association (AWWA) is recognized as having established the industry "standard of care" for development of water rates and sizing of water meters. AWWA Manual M1 endorses use of meter size as the basis for characterizing customer classes. AWWA Manual M22, however, specifically cautions against using water meter size as a metric for volumetric consumption:

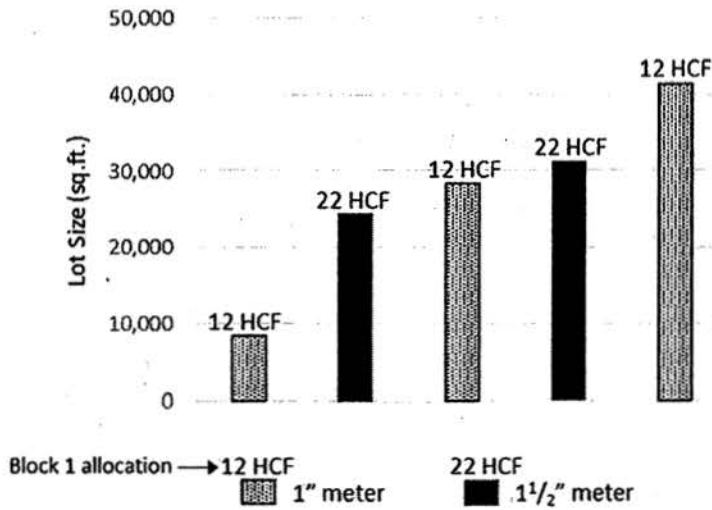
"...a cost-of-service study in support of a rate structure design can only be fair and equitable if all of the sample sites have properly sized meters."

Meter sizing under AWWA Manual M22 focuses on the fact that each water meter size has a minimum and maximum operating limit in which the meter will accurately measure flows. AWWA Manual 22 cautions that:

"The sizing of the meters and services can have significant impacts on a utility's revenue. As the flow drops below the recommended flow range for a meter, the meter will underregister. Oversized meters can result in lost revenue because of inaccurate registration at low flow."

The objective is to select the optimum meter size to match a customer's expected flow rates. For larger residential properties, the flows related to outdoor water use tend to be the dominant factor in meter selection, whereas indoor use is the dominant basis for selection on smaller properties. Meter size selection is intended by AWWA to be done by an engineer trained to follow AWWA Manual 22 procedures and should not be influenced by water rate considerations.

I have sampled meter size information for 5 SFR properties in Pasadena's service area to develop the following chart that identifies meter size and related lot size:



The conclusion drawn from this chart is that there is no correlation between lot size and meter size with resulting inequities. The more extreme example of that inequity is that the largest lot in the sample has the smaller meter size and is about 5 times larger than the smallest lot, but both will pay the same fixed D&C Charge. This will also result in additional inequitable allocation of water under the block structure for the Commodity Charge that uses meter size as a surrogate for water demand.

Relevance of the 2017 rate proposal to this proceeding. Pasadena initiated a water rate proceeding in 2015. This is an excerpt from that proceeding that acknowledges the flaws that I've described above:

**Table 2
Potential Rate Adjustments to the Water Rate Structure**

Rate	Description
Customer Classifications	Existing Water Customer Classifications are based on meter size. This method has been used to drive water block sizing (allocations). An option under consideration that has become common in the retail water sector of the Water Industry is to have customer classifications based on types of usage: Single Family Residential; Multi-Family Residential; Commercial; Irrigation.
Water Block Allocations	Currently PWP has water block allocations based on customer meter size rather than customer type. This results in the allocation of the least cost water in PWP's largest customer grouping (Single Family Residential "SFR") to vary considerably. Among options under consideration for SFR customers are block allocations based on a daily amount of water per person and in consideration of the expected availability of this least cost water.

Source: Water Cost of Service Review and Rate Design Analysis-Update (Pasadena Water & Power, 8-25-2015)

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It was asserted at the February 26 MSC meeting that the proposals considered in 2017 could not be implemented using the existing billing system. The clear representation at 2016 Water Rates Study Group that I participated in was that the rate structure proposed in 2017 was designed to work with the existing billing system - although it would require adjustments to accommodate the 2017 proposed changes.

The Agenda Report says that "It is not feasible to proceed with the [2017] rate structuring at this time because the necessary time to implement and stabilize the complex changes to the water rates would delay the Customer Information System replacement project by 6-12 months." This claim cannot be reconciled with the fact that the City Council's first public hearing was agendized for September 25, 2017 with the expectation that the proposed rates would be implemented on November 1, 2017 - only five weeks later.

I urge the City Council to address the HJTA settlement terms under this proceeding without increasing the water rates and proceed with a separate proceeding to raise rates.

Remedy to the rate ordinance to comply with the HJTA settlement requires only that the City Council 1) accept the terms of the settlement; 2) affirm that the existing system-wide rates are applicable to all PWP customers; and 3) direct that the water rates ordinance be revised accordingly. While there may be a need to adjust the rates to increase water revenues, that should be accomplished under a separate proceeding.

Revision of the CIS is three years away (assuming City Council approvals and barring further delay) and there would need to be a subsequent time-consuming water rate proceeding to alter the water rate structure. That suggests that a new rate structure would not be approved for at least 4 years and probably longer. The courts have said that "the calculations required by Proposition 218 may be 'complex,' but 'such a process is now required by the California Constitution.'" A decision to put off solutions to the equity issues is clearly in conflict with Proposition 218 and I urge you to reject increasing water rates without addressing the inequities of the existing rate structure.

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