

TO: Andrew P. Powers, City Manager

FROM: Jay T. Spurgin, Public Works Director

DATE: April 25, 2017

SUBJECT: California American Water Company Proposed Rate Increase – Legal Services

RECOMMENDATION:

Authorize additional budget in the amount of \$60,000 for legal services with Downey Brand LLP pertaining to California American Water Rate Case A1607002 (Contract No. 11360-2017), and approve appropriation and expenditure in the amount of \$60,000 from A/C #001-0000-311-1000 (General Fund, Fund Balance) to A/C #001-5010-631-5199 (Legal Services).

FINANCIAL IMPACT:

\$60,000 Increase to the General Fund Operating Budget. Budget appropriation in the amount of \$60,000 is requested from General Fund, Fund Balance. Total legal services costs are expected to be \$160,000, offset by a \$25,000 contribution from Conejo Recreation and Parks District (CRPD).

BACKGROUND:

Thousand Oaks residents and businesses are provided potable drinking water primarily from three separate water purveyors: California American Water Company (Cal-Am), the City of Thousand Oaks Water Division, and California Water Service Company (Cal Water). Generally, Cal-Am serves about 46 percent of the City in Newbury Park, the City Water Division serves about 38 percent in central Thousand Oaks, and Cal Water serves about 16 percent in the North Ranch/Westlake area.

On July 1, 2016, Cal-Am filed an application with the California Public Utilities Commission (CPUC) to increase water rates for 2018, 2019, and 2020. The proposed rates include consolidation of several geographically non-contiguous water systems in Southern California. For Cal-Am's Thousand Oaks service area, the cumulative three-year water rate increase would total over 40 percent, including higher imported water costs expected from Calleguas Municipal Water District.

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At the January 24, 2017 meeting, City Council authorized a legal services agreement for \$100,000 with Downey Brand LLP of Sacramento to assist staff in opposing the Cal-Am rate increases through the CPUC process.

DISCUSSION/ANALYSIS:

The water rate increases proposed by Cal-Am would have a significant impact on City residents and businesses within its service area. Cal-Am’s proposal would increase its rates by an average of 14 percent per year over three years, while City rates and Cal Water rates would increase approximately seven percent and five percent per year, respectively. Accordingly, the average monthly cost of water for a typical residential customer in the Cal-Am service area would be much higher as compared to either the City or Cal Water, as shown in Table 1.

Table 1
Residential Monthly Water Cost Comparison

Purveyor	2018 Cost (18 hcf/month)*
Cal-Am	\$131
City	\$112
Cal Water	\$118

*Includes imported water increase

The City, and similarly CRPD, would pay about \$200,000 more per year for water within the Cal-Am service area if proposed rate increases were approved. The cumulative impact to 18,000 City residents who are Cal-Am customers is estimated to be over \$4 million per year.

The City is a Party to this CPUC proceeding. As such, on February 13, 2017, staff submitted direct testimony in opposition to the proposed Cal-Am rate increases. Rebuttal testimony was submitted on March 29, 2017. This rate case has become more complex and time intensive than originally anticipated. Staff and outside Counsel have reviewed and analyzed numerous documents filed by Cal-Am, the CPUC Office of Ratepayer Advocates, and others totaling thousands of pages. Additional efforts in the future include settlement discussions, hearing preparation and participation in front of the CPUC in San Francisco, and final decision review and comment.

Staff recommends City Council authorize expenditure of an additional \$60,000 for legal services, for a total not-to-exceed amount of \$160,000, which is expected to adequately cover legal fees and costs through the remainder of the rate case proceedings. Additionally, CRPD has contributed \$25,000 to the City’s efforts. The County of Ventura Board of Supervisors did not approve a \$10,000 contribution at the April 11, 2017 meeting.

COUNCIL GOAL COMPLIANCE:

Meets City Council Goals A and B:

- A. Provide municipal government leadership which is open and responsive to residents, and is characterized by ethical behavior, stability, promoting public trust, transparency, confidence in the future, and cooperative interaction among civic leaders, residents, business representatives, and staff, while recognizing and respecting legitimate differences of opinion on critical issues facing the City.

- B. Operate City government in a fiscally and managerially responsible and prudent manner to ensure that the City of Thousand Oaks remains one of California's most desirable places to live, work, visit, recreate, and raise a family.