

TO: Andrew P. Powers, City Manager

FROM: Jay T. Spurgin, Public Works Director

DATE: January 24, 2017

SUBJECT: California-American Water Company Proposed Rate Increase Update Report

RECOMMENDATION:

1. Receive update report.
2. Ratify City Attorney's agreement with Downey Brand LLP in an amount not to exceed \$100,000 for legal services pertaining to California American Water Rate Case A1607002.
3. Approve budget appropriation and expenditure in the amount of \$100,000 from A/C# 001-0000-311-1000 (General Fund/Fund Balance) to A/C# 001-5010-631-5199 (General Fund/Public Works Administration/Legal Services).

FINANCIAL IMPACT:

\$100,000 Increase to the General Fund Operating Budget. Budget appropriation in the amount of \$100,000 is requested from General Fund, Fund Balance.

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) (Attachment #1 – Water Purveyor Service Areas). Generally, Cal-Am serves Newbury Park, City Water Division serves central Thousand Oaks, and Cal Water serves North Ranch/Westlake.

All three purveyors receive treated imported water from the Calleguas Municipal Water District, and then distribute water to customers through similar systems of pipelines, pumps, and reservoirs. The approximate number of customers served by each is shown in Table 1.

Table 1
Water Purveyor Services

Purveyor	No. of Services	% City Served
Cal-Am	20,700	46
City	17,100	38
Cal Water	7,500	16
<i>Totals</i>	<i>45,300</i>	<i>100</i>

Water rates for customers within the City’s water service area are approved by the City Council and must be in compliance with Prop 218, including a protest ballot process. Cal-Am and Cal Water are private “investor owned utilities” and, as such, are regulated by the California Public Utilities Commission (CPUC). Water rates for customers of these companies are approved by the CPUC through a three-year General Rate Case (GRC) process, and are not subject to Prop 218.

On July 1, 2016, Cal-Am filed an application with the CPUC for a GRC to increase water rates for its many California systems, including their Thousand Oaks system, for 2018, 2019, and 2020. The GRC process is expected to take several more months, with final rate approval this Fall.

The GRC proposes rates for an option to consolidate several separate water systems in Southern California, as well as a non-consolidation (stand-alone) option. The consolidation option proposes combining five separate systems in Ventura County, Los Angeles County, and San Diego County — a huge geographic area for rate setting purposes. These separate systems are unique in that each obtains water from different sources (imported vs. ground water) and each is comprised of different infrastructure of varying complexity, age, as well as operations and maintenance needs. Consolidating allows capital from one area to be spent on infrastructure improvements in a service area potentially 100 miles away. Cal-Am’s GRC application is not clear how City residents will benefit from consolidation.

DISCUSSION/ANALYSIS:

The water rate increases proposed by Cal-Am vary significantly between the consolidation and stand-alone options (Attachment #2 – proposed residential rate adjustments). For Cal-Am’s Thousand Oaks service area, cumulative three-year water rate increases for the consolidation option totals 32.5 percent, but only 15.3 percent for the stand-alone option. Note that these figures do not include higher imported water costs expected to be passed on from Calleguas, estimated to be an additional three percent per year. This is because CPUC rules allow Cal-Am to simply “pass through” higher imported water costs via a very simple “advice letter” approval process, which does not require any public input. For comparison, City rates were raised last year by three percent per year (without imported water increases), and Cal Water raised its rates by one percent per year (without imported water increases).

Cal-Am Water Rate Update

January 24, 2017

Page 3

City staff is concerned about the proposed rates under the consolidation option. The proposed increases, coupled with the additional imported water increases, would put Cal-Am rates significantly higher than both City and Cal Water rates, as shown in Table 2.

Table 2
Residential Monthly Water Cost Comparison

Purveyor	2016 Cost (18 hcf/month)	Proposed 2018 (w/ consolidation)*
Cal-Am	\$103	\$131
City	\$103	\$112
Cal Water	\$108	\$118

*Includes imported water increase

Historically, all three purveyors' rates have been similar. This is reasonable considering all pay the same for imported water and all have similar distribution systems of like age; therefore, all should have approximately equal operating, maintenance, and capital costs.

On Tuesday, January 17, 2017, at 6 p.m., the CPUC held a public hearing at the Palm Garden Hotel in Thousand Oaks. Approximately 150 residents attended the hearing. All residents who spoke (about 35) were in opposition to consolidation, and some were opposed to the 15 percent stand-alone option increase as well.

The proposed rates under the GRC filed last year have the potential for significant impact to City residents who are Cal-Am customers. Accordingly, City staff filed for and was granted "Party" status by the CPUC. Party status provides the City the opportunity to have greater influence in the GRC proceedings through providing direct testimony in opposition to the consolidation option, rebutting testimony submitted by Cal-Am, and cross examining witnesses during the hearing phase of the GRC. Because the GRC process is complicated and legally technical, staff recommends retaining outside counsel with CPUC expertise to assist the City through the process. Attorney and expert costs are estimated not to exceed \$100,000. The City Attorney's Office entered in to an agreement with Downey Brand, LLP for legal services related to this matter. Staff recommendation is for City Council to authorize expenditure of up to \$100,000 for said services.

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.

Cal-Am Water Rate Update

January 24, 2017

Page 4

- 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.

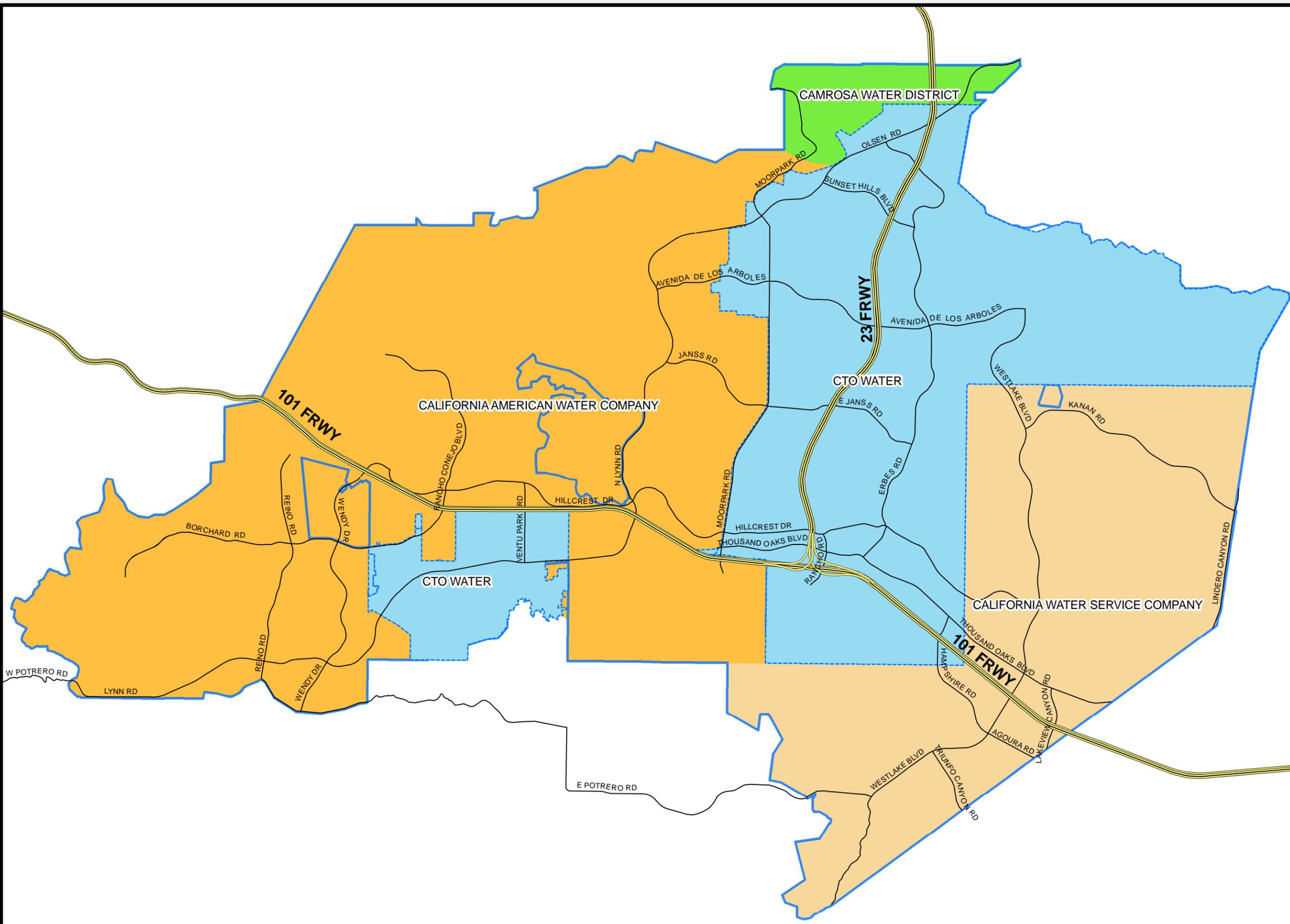
Attachments:

Attachment #1 – Water Purveyor Service Areas

Attachment #2 – Proposed Residential Rate Adjustments

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WATER SERVICE BOUNDARIES



LEGEND

- FREEWAYS
- MAJOR_ROADS
- CITY LIMITS
- CTO WATER SERVICE BOUNDARY
- CALIFORNIA AMERICAN WATER COMPANY
- CALIFORNIA WATER SERVICE COMPANY
- CAMROSA WATER DISTRICT



California American Water Proposed Residential Rate Adjustments*

With Consolidation of Districts

District	Current		2018			2019					2020				
	Avg Use (CGL)	Current Bill	Proposed Bill	\$ Increase	% Increase	Annual Change			Cummulative Change		Annual Change			Cummulative Change	
						Proposed Bill	\$ Increase	% Increase	Cumm. \$ Increase	Cumm. % Increase	Proposed Bill	\$ Increase	% Increase	Cumm. \$ Increase	Cumm. % Increase
Ventura (Thousand Oaks)	135.3	\$103.30	\$126.74	\$23.45	22.70%	\$132.04	\$5.29	4.17%	\$28.74	27.82%	\$136.85	\$4.82	3.65%	\$33.55	32.48%
LA-Duarte	130.0	\$65.76	\$78.48	\$12.72	19.34%	\$81.75	\$3.27	4.17%	\$15.99	24.32%	\$84.73	\$2.98	3.65%	\$18.97	28.85%
LA- San Marino	157.8	\$68.73	\$86.75	\$18.02	26.21%	\$90.37	\$3.62	4.17%	\$21.64	31.49%	\$93.66	\$3.29	3.65%	\$24.93	36.27%
LA-Baldwin Hills	110.2	\$68.79	\$65.51	-\$3.28	-4.77%	\$68.24	\$2.73	4.17%	-\$0.55	-0.80%	\$70.73	\$2.49	3.65%	\$1.94	2.82%
San Diego	71.6	\$63.33	\$61.88	-\$1.46	-2.30%	\$64.46	\$2.58	4.17%	\$1.13	1.78%	\$66.81	\$2.35	3.65%	\$3.48	5.50%

Without Consolidation of Districts

District	Current		2018			2019					2020				
	Avg Use (CGL)	Current Bill	Proposed Bill	\$ Increase	% Increase	Annual Change			Cummulative Change		Annual Change			Cummulative Change	
						Proposed Bill	\$ Increase	% Increase	Cumm. \$ Increase	Cumm. % Increase	Proposed Bill	\$ Increase	% Increase	Cumm. \$ Increase	Cumm. % Increase
Ventura (Thousand Oaks)	135.3	\$103.30	\$113.81	\$10.51	10.17%	\$116.53	\$2.73	2.40%	\$13.23	12.81%	\$119.10	\$2.56	2.20%	\$15.80	15.30%
LA-Duarte	130.0	\$65.76	\$84.34	\$18.59	28.26%	\$89.23	\$4.89	5.80%	\$23.47	35.69%	\$93.88	\$4.65	5.21%	\$28.12	42.76%
LA- San Marino	157.8	\$68.73	\$86.37	\$17.64	25.67%	\$91.38	\$5.01	5.80%	\$22.65	32.96%	\$96.14	\$4.76	5.21%	\$27.41	39.88%
LA-Baldwin Hills	110.2	\$68.79	\$84.87	\$16.08	23.37%	\$89.79	\$4.92	5.80%	\$21.00	30.53%	\$94.47	\$4.68	5.21%	\$25.68	37.33%
San Diego	71.6	\$63.33	\$67.83	\$4.49	7.10%	\$70.62	\$2.79	4.12%	\$7.29	11.51%	\$73.09	\$2.46	3.49%	\$9.76	15.41%