## City of Garden Grove

#### INTER-DEPARTMENT MEMORANDUM

To:

Matthew J. Fertal

From: William E. Murray

Dept:

City Manager

Dept:

Public Works

Subject:

REVIEW OF PASS-THROUGH ADJUSTMENT FOR WHOLESALE

Date: November 11, 2014

WATER COST INCREASES

# **OBJECTIVE**

To request that the City Council review the automatic pass-through adjustment for increased wholesale water charges, effective January 1, 2015, imposed by the Metropolitan Water District of Southern California (MET), the Municipal Water District of Orange County (MWDOC) and Orange County Water District (OCWD).

## **BACKGROUND**

The City's Water Enterprise Fund pays commodity charges to the MET/MWDOC for its imported water supply. The City also pays a Replenishment Assessment (RA) to the Orange County Water District (OCWD) for its groundwater supply.

Increases in commodity charges by wholesale suppliers for purchased water are passed on to the water customers so that the City can maintain its water infrastructure system, to provide water, and ensure that the Water Enterprise Fund remains solvent.

In February 2012, in compliance with Government Code Section 53756 and Proposition 218, the City Council adopted Ordinance No. 2809 providing for automatic adjustments for increases and decreases in purchased water costs, subject to review by the City Council. In accordance with Ordinance No. 2809, the data documenting the basis of the calculation of the pass-through rate adjustments is available to the public for review in the City Clerk's office and Staff will provide at least thirty (30) days advance notice of the adjustments to all customers.

#### DISCUSSION

MET/MWDOC and OCWD have adopted their rate and fee adjustments for FY 2014-2015. As a result, the City's automatic pass-through of its water commodity adjustment charge (WCAC) will reflect the adjustments in these water costs. The last adjustment to the WCAC, a charge per water billing unit (100 cubic feet), was in January 2014.

Based on the calculations for the WCAC adjustment in FY 2014/2015, the WCAC will increase by \$0.08 per billing unit. The increase does not exceed the actual total cost increase to the City. This will result in the WCAC component of the current water rate schedule increasing from \$0.59 per one hundred cubic feet ("HCF") of water

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(748 gallons) used to \$0.67 per HCF. None of the other rate components will be increased. Under this adjustment, the average residential customer's water bill will increase by approximately \$1.20 per month (assuming a  $5/8 \times 3/4$ -inch meter and 15 HCF of water use), or \$2.40 per every bi-monthly bill. The increased Water Commodity Adjustment Charge will go into effect on January 1, 2015.

Pursuant to Ordinance No. 2809, the water rates (other than the WCAC) are also annually adjusted for inflation on July 1, based on the percentage of increase in construction costs during the previous one-year period (March 1 through February 28). The percentage of increase is based on the Engineering News Record Construction Costs Index – Los Angeles Area ("ENR"). However, the 4.4% increase authorized to begin on July 1, 2014, was not implemented.

## FINANCIAL IMPACT

There is no impact to the General Fund. The WCAC pass-through adjustment will allow for the Water Enterprise Fund to continue meeting its financial obligations and carry out its capital improvement and replacement programs.

# **RECOMMENDATION**

It is recommended that the City Council:

 Receive and file the Automatic Pass-Through Adjustment to the Water Commodity Adjustment Charges Report.

WILLIAM E. MURRAY, P.E.

Public Works Director

By: Katie Victoria

Administrative Analyst

Attachment: Current and Projected Water Commodity Costs FY 2014-15

Recommended for Approval

City Manager

CURRENT AND PROJECTED WATER COMMODITY COSTS FY 2014-15	CTED WATER COMMC FY 2014-15	DDITY COSTS		
City Water Production Projected Retail Demand Basin Production Percentage (BPP) * Projected Groundwater Production Projected Imported Demand Conjunctive Use Program	26,009 AF 72.00% 18,664 AF 5,393 AF 1,953 AF	և և և և		
Number of City's Service Connections	34,117			
Commodity Charges	Unit 1	Per Unit Cost \$/af	SUB TOTALS	
MET/MWDOC Imported Water Charge - \$/af (July-Dec) MET/MWDOC Imported Water Charge - \$/af (Jan-June) OCWD RA: Pumped Water - \$/af Conjunctive Use Program - \$/af (July-Dec) Conjunctive Use Program - \$/af (Jan-June)	3,715 1,678 18,664 1,464.5 488.0	890.50 923.50 294.00 791.25 821.50	\$3,307,762.25 \$1,549,725.35 \$5,487,245.40 \$1,158,785.63 \$400,892.00	* Basin Production Percentage (BPP) - The percentage of an Orange County Water District member agency's total potable water demand that can be produced from the basin without
Additional Fixed Costs Charged	connections	\$/unit		subjecting that member agency to additional fees.
MET/MWDOC Readiness to Serve Charge MET/MWDOC Connection Charge	N/A 34,117	881,106.00 10.50	\$881,106.00 \$358,228.50	**\$0.08 = (\$35.25) × (AF) × (100 FT^3)
TOTAL IMPORTED WATER COSTS			\$13,143,745.13	(6.1.1.000,000)
FY 14/15 Cost of Water - \$/af LESS FY 13/14 Cost of Water - \$/af Increase in Cost of Water - \$/af Increase in Cost of Water - \$/ccf **			\$505.35 (\$470.10) \$35.25 \$0.08	Increase in Cost of Water (\$/ccf) - Very large quantities of water purchased from regional suppliers are dealt with in units of AF due to large volumes involved. Local retailers charge water in smaller units equivalent to one hundred cubic feet, which is consistent with water meter manufacturer standards.