



ADMINISTRATIVE MEMO

Date: January 20, 2012

Agenda Item No.: 4

Meeting Date: January 25, 2012

To: COST OF SERVICE AND RATE DESIGN CITIZEN ADVISORY COMMITTEE

From: SHANA EPSTEIN, GENERAL MANAGER

Subject: PASS THROUGH ORDINANCE LANGUAGE REVISION

RECOMMENDATION

It is recommended that the Committee recommend to the City Council that the pass through language previously adopted by the City Council be updated to reflect Proposition 218 rules and clarify the factors by which the rates may be adjusted with this tool.

DISCUSSION

With the redesign of the water rate structure in 1992, the ordinance adopted by the City Council included authority to pass through to our customers increases in the cost of water and energy. The language included in the adopted ordinance was not implementable as written. In addition, the language needs to be revised for consistency with Proposition 218.

Passing through cost increases are a common standard practice in the utility industry. There are a variety of factors that can be considered for passing through the cost increases. Consumer price index (CPI), construction index, water, electric, natural gas, and chemicals are among some of the cost increases that utilities have included in pass throughs.

Although each of the previously mentioned costs are at times significant factors to be considered, staff recommends that only the outside agency water purchases such as Casitas Municipal Water District, United Water Conservation District and State Water Project (\$5M total) and energy charges (\$2.7M) previously adopted by the Council be included. Staff also recommends that the language be clarified to include sludge removal (\$820k) for the wastewater treatment process. Included in the cost of service and rate design study are the current and best estimates of anticipated costs for FY13 and FY 14. Since Proposition 218 the pass through authority is granted every 5 years and then needs to be reauthorized. This authority would minimize the impacts of costs outside Ventura

Water's control. Staff does not anticipate using the pass through mechanism in FY 13 and FY 14.

Without a pass through tool, Ventura Water is at risk of absorbing these unanticipated cost increases into the annual operating budget as a short term solution with mid and long term consequences of deferring needed maintenance and operational improvements. Deferring or eliminating maintenance and operational improvements may cause costs to be significantly more down the road.

Attachment A includes the pass through language of our current ordinance. Also included on Attachment A is revised pass through language drafted by the City Attorney.



Shana Epstein
Ventura Water General Manager

Attachment A: Adopted and Proposed Pass Through Language

Attachment A

Pass Through Language of Adopted Ordinance:

G. Pass-through charges. An increase in cost of water or energy purchased by the city or pump charges established or increased by other agencies which shall take effect subsequent to July 1, 1992, shall be passed through to all water users except those in the 0—16 hcf consumption block for the single-family residential customer classification, and 0—10 hcf consumption block for the multifamily residential customer classification, 0—16 hcf consumption block for the nonresidential customer classification and 0—16 hcf consumption block for the raw water (nonpotable, non-fully treated water) customer classification. Pass-through cost shall be in the form of a quantity rate surcharge, effective as of the date of said pump charge and of the purchased water or energy cost increase.

The city manager shall determine the amount of the surcharge increase by estimating the annual increase in cost of purchased water or pump charge and dividing this cost by the quantity of water consumed in the preceding year. The surcharge shall be computed separately for treated and untreated water sales.

Draft Proposed Pass Through Language

The rates charged for all water and wastewater supplied by the city shall be established by ordinance of the city council. Each customer receiving water or wastewater service is liable for payment for such service at the rates so established.

The city council authorizes the imposition of future water or wastewater rate increases when the water rates, pumping charges, sludge removal charges or other utility charges for water purchased or used by the city, or wastewater treatment costs, increase as a result of increased charges to the city from other agencies, including but not limited to the United Water Conservation District, Casitas Municipal Water District, Ventura Regional Sanitation District, and the State Water Project. Such increases shall be derived from and based solely upon the increases in the rates, pumping charges, or other utility charges that the city pays for the water purchased or used, or wastewater treatment costs.

The general manager of Ventura Water shall provide written notice of any such rate increases not less than thirty (30) days before the effective date of the rate increases. Any such notice may be provided in the city's regular billing statements.