



RESOLUTION NO. _____

BOARD LETTER APPROVAL

Ann M. Santilli
Ann M. Santilli (Aug 19, 2024 08:50 PDT)

ANN M. SANTILLI
Chief Financial Officer

Anselmo G. Collins

ANSELMO G. COLLINS
Senior Assistant General Manager
Water System

Aram Benyamin
Aram Benyamin (Aug 19, 2024 12:18 PDT)

ARAM BENYAMIN
Chief Operating Officer

Janisse Quiñones

JANISSE QUIÑONES
Chief Executive Officer and Chief Engineer

DATE: August 12, 2024

SUBJECT: Estimated Water Supply Cost, Water Quality Improvement,
and Owens Valley Regulatory Expenditures for January 1, 2025
Through December 31, 2025

SUMMARY

The attached Resolution approves expenditures for inclusion, for the 12-month period commencing January 1, 2025, in adjustment factors of the Water Rate Ordinance No. 184130 (Ordinance). These include Water Supply Cost Adjustment (WSCA), Water Quality Improvement Adjustment (WQIA), and Owens Valley Regulatory Adjustment (OVRA) factors. These expenditures are used to calculate factors for rate components that recover costs of providing water service to customers.

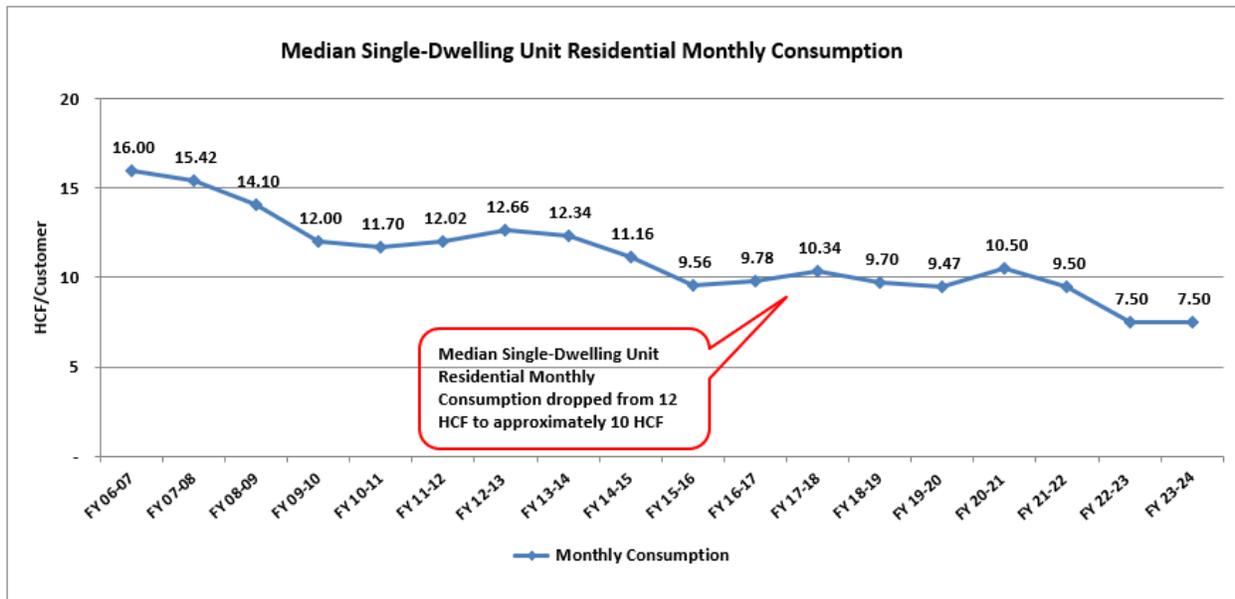
City Council approval is not required.

RECOMMENDATION

It is recommended that the Board of Water and Power Commissioners (Board) adopt the attached Resolution authorizing the estimated expenditures for inclusion in the WSCA, WQIA, and OVRA factors for the 12-month period commencing January 1, 2025.

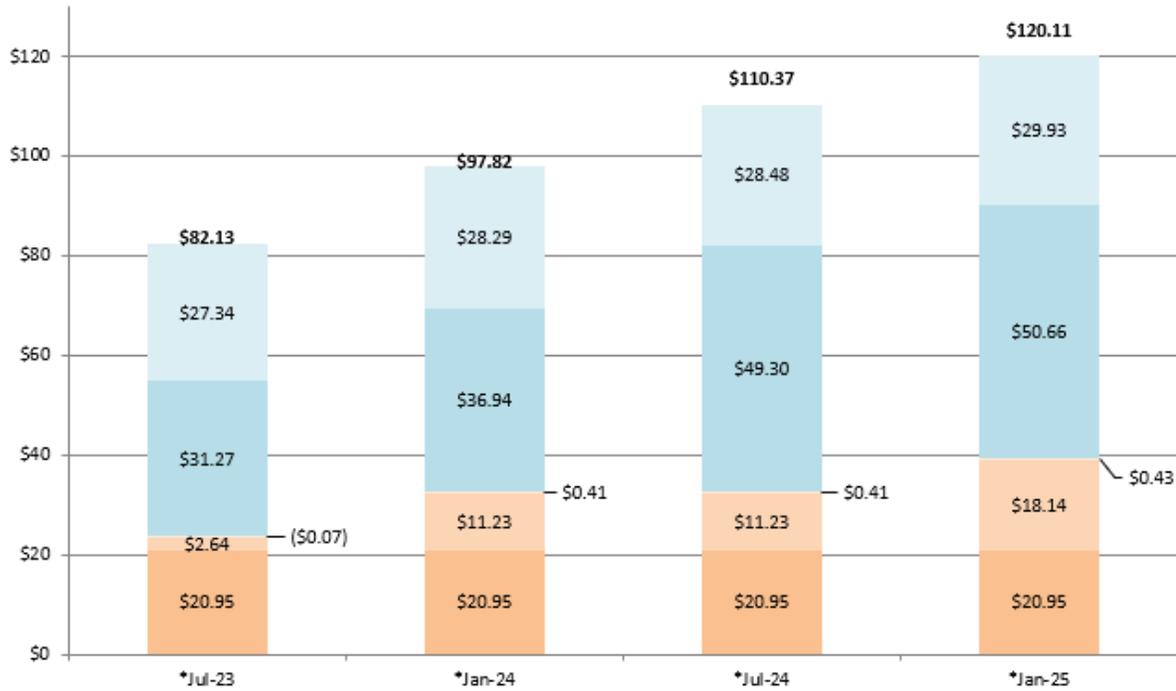
FINANCIAL INFORMATION

The chart below shows the trend of the historic median Single-Dwelling Unit Residential customer monthly consumption. Due to effective conservation efforts as a result of Executive Directive No. 5 issued by the Mayor in October 2014, the median Single-Dwelling Unit Residential customer monthly usage has reduced from 12 hundred cubic feet (HCF) to approximately 10 HCF. Due to the wet winters and lower sales, the median Single-Dwelling Unit Residential customer monthly usage was further reduced to 7.5 HCF over the last two consecutive fiscal years.



Effective January 1, 2025, the Single-Dwelling Unit Residential customer's water bill (10 HCF) will be \$120.11. Average hydrologic conditions are projected for the Los Angeles Aqueduct (LAA) supplies during the analysis period; however, expected supply remains high following the previous year's wet winter. The San Fernando Basin Groundwater Remediation Facilities are projected to be completed in early 2025 and will result in increased groundwater production. Water demand is projected to remain low, resulting in decreased purchases of supplemental supplies from the Metropolitan Water District of Southern California (MWD) to meet demands.

**LADWP Historic/Projected
Single-Dwelling Unit Residential Customer Monthly Median Bill (10HCF)**



Legend	
	Water Supply Adjustment
	Owens Valley Regulatory, Water Quality & Water Infrastructure
	Water Expense Stabilization & Low-Income/Lifeline
	Base Rate Revenue Target Adjustment
	Base Revenue

*Consistent with the Water System financial plan that assumes no securitization

*As a result of the court order from Los Angeles Superior Court Case No. 19STCV07272, effective May 5, 2023, the LADWP has stopped billing the Low-Income Subsidy Adjustment (LISA) Factor.

Compared to the previous period, the Single-Dwelling Unit Residential customer's monthly bill (10 HCF) will increase by 8.8 percent, or \$9.74 per month, from \$110.37 to \$120.11. The main drivers of the increase are attributed to a higher Base Rate Revenue Target Adjustment resulting from lower sales volume and lower base rate revenue from the Single-Dwelling Unit Residential customers in Fiscal Year 2023-24 arising from the recent wet winter, an increase in capital expenditures for the Donald C. Tillman Advanced Water Purification Facility Project, an increase in operation and maintenance expenses for Recycled Water, an increase in Purchased Water costs, and an increase in the balancing account for the WSCA.

Board-approved qualified expenditures for the 12-month period commencing January 1, 2025, are used to calculate the respective factors as outlined in the Ordinance. The WSCA, WQIA, and OVRA factors are calculated two times each year

and take effect January 1 and July 1, respectively. The water infrastructure related expenditures do not require Board approval in this Board resolution since the factor is calculated once each year and takes effect July 1. The rate components applied to actual billing of customers per HCF are shown in the table below as well as the variance comparison against the previously approved factors. Calculations for the three factors that require Board approval in this Board Resolution and supporting detail are included in Schedules A, B, and C and Attachments 1, 2, and 3.

Factor (in \$/HCF)	Proposed Jan-June 2025	Approved Jul-Dec 2024	Variance (Decrease)/Increase
Water Supply Cost Adjustment Factor			
Tier 1 - Basic Use	\$2.591	\$2.484	\$0.107
Tier 2 - Efficient Use	\$4.603	\$4.306	\$0.297
Tier 3 - High Use	\$4.603	\$4.306	\$0.297
Tier 4 - Excessive Use	\$4.603	\$4.306	\$0.297
Water Quality Improvement Adjustment Factor	\$2.181	\$2.036	\$0.145
Owens Valley Regulatory Adjustment Factor	\$0.550	\$0.559	(\$0.009)
Water Infrastructure Adjustment Factor	\$2.335	\$2.335	\$0.000

Automatic Water Adjustment Factors – Information Only

For your information, the automatic water adjustment factors not requiring Board action are in the chart below as well as the variance comparison against the prior period factors. Calculation for the proposed factors that would change on January 1, 2025, and supporting detail are included in Attachments 4 and 5.

Factor (in \$/HCF)	Proposed Jan-June 2025	Prior Jul-Dec 2024	Variance (Decrease)/Increase
Base Rate Revenue Target Adjustment Factor			
Schedule A - Single Dwelling Unit Residential	\$1.814	\$1.123	\$0.691
Schedule B - Multi-Dwelling Unit Residential	\$0.773	\$0.663	\$0.110
Schedule Other - Commercial, Industrial, and Governmental	\$0.110	(\$0.156)	\$0.266
Water Expense Stabilization Adjustment Factor	\$0.043	\$0.041	\$0.002

As a result of the court order from Los Angeles Superior Court Case No.19STCV07272, effective May 5, 2023, the LADWP has stopped billing the Low-Income Subsidy Adjustment (LISA) Factor. Therefore, the LISA Factor is not calculated for the January 2025 effective period.

Outside City Surcharge

The outside City surcharge, which also does not require Board approval, will be as follows for January 1 through December 31, 2025:

Outside City Surcharge (<i>Attachment 6</i>)	\$0.311
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The outside City surcharge is updated annually. This surcharge is a water service charge for customers with premises of which less than 90 percent of the area is inside the City of Los Angeles. The purpose of the surcharge is to recover the cost of procuring water from MWD for such customers' uses and is calculated as a difference between the average cost of water delivered to the City through the LAA over the previous five years and the cost of MWD Tier II treated water delivered to the City.

BACKGROUND

Estimated expenditures for Water Supply, Water Quality Improvement, and Owens Valley Regulatory costs for the 12-month period commencing January 1, 2025, are used in the calculation of the adjustment factors, as described below:

1. Water Supply Cost Adjustment Factor (*See Schedule A and Attachment 1*)

Recoverable through the WSCA factor are costs incurred for LAA, purchased water (PW), groundwater (GW), recycled water (RW), water conservation (WC), and any additional source of water supply not described above. The LAA expense includes depreciation expense, interest expense or equivalent, operating and maintenance expense, and property taxes. The PW expense includes the total cost to LADWP of all water delivered to LADWP's system, including, but not limited to, the cost of other services provided by water suppliers. The GW expense includes depreciation expense, interest expense or equivalent, and cost for operation and maintenance for in-City GW related booster pumping. The RW expense includes costs of purchasing recycled water and costs of producing recycled water, including capital expenditures, operating and maintenance expense, costs of stormwater capture and aquifer recharge, and debt service for facilities and systems, including pipelines and pumping and treatment stations, which are part of LADWP's water recycling projects and programs. The WC expense includes costs that are incurred for customer technical assistance, customer financial incentives and the acquisition and installation of devices and systems, including low-flush toilets and low-flow shower heads, and operating and maintenance expense, which are part of those programs or projects designed to reduce the use of water.

2. **Water Quality Improvement Adjustment Factor** (See Schedule B and Attachment 2)

Recoverable through the WQIA factor are costs incurred to improve water quality throughout the City of Los Angeles. This includes costs that are incurred for capital expenditures, operating and maintenance expense, and debt service associated with construction, equipment, supplies, groundwater treatment for potable use, and facilities and systems, including filtration and water treatment, cement lining, disinfection, reservoir improvements, monitoring equipment, pipelines, and conduits, which are part of those programs and projects designed to equalize the quality of water throughout the City, to meet State and Federal mandated water quality standards, or to provide security for water supply, storage, and conveyance infrastructure and related facilities.

3. **Owens Valley Regulatory Adjustment Factor** (See Schedule C and Attachment 3)

Recoverable through the OVRA factor are costs that are incurred for capital expenditures, operating and maintenance expense, and debt service associated with infrastructure and related facilities, which are a part of the Owens Lake Dust Mitigation Program, the Lower Owens River Project, and the Owens Lake Master Project.

ENVIRONMENTAL DETERMINATION

Determine item is exempt pursuant to California Environmental Quality Act (CEQA) Guidelines 15060 (c)(3). In accordance with this section, an activity is not subject to CEQA if it does not meet the definition of a project. Section 15378 (b)(4) states that government fiscal activities which do not involve any commitment to any specific project which may result in a potentially significant physical impact on the environment do not meet that definition. Therefore, the authorization of the estimated expenditures for inclusion in the WSCA, WQIA, and OVRA factors for the 12-month period is not subject to CEQA.

CITY ATTORNEY

The Office of the City Attorney reviewed and approved the Resolution as to form and legality.

ATTACHMENTS

- Resolution
- Schedules A, B, and C
- Attachments 1 through 6