Item 419/2025

City of Garden Grove

INTER-DEPARTMENT MEMORANDUM

To:	Lisa L. Kim	From:	Patricia Song
Dept:	City Manager	Dept:	Finance
		Date:	11/12/2025

Subject: Review of the Automatic Pass-Through Adjustments for purchased water costs. (Action Item)

OBJECTIVE

To request that the City Council review the automatic pass-through adjustment calculation for increased wholesale water delivery charges, effective January 1, 2026.

BACKGROUND

The City's Water Utility fund pays for wholesale water purchases from the Metropolitan Water District of Southern California (MET), the Municipal Water District of Orange County (MWDOC), and Orange County Water District (OCWD). The City also pays a replenishment assessment to OCWD for its groundwater supply.

Ordinance No. 2948 adopted by the City Council on December 12, 2023 provides for automatic pass-through adjustment to changes in costs of wholesale water purchases. Section 1.D of the ordinance states that "The Commodity Delivery Charge shall be automatically adjusted to reflect adopted increases or decreases in wholesale charges for water established by other public agencies from which the City of Garden Grove purchases water to the extent such increases or decreases are not reflected in the schedule of charges then in effect. The amount of any such automatic adjustments shall be calculated by the Finance Director, or his designee, and shall be presented to the City Council for review."

Passing through wholesale water purchase cost increases to ratepayers enables the City to recover water delivery expenses and comply with covenant requirements associated with its outstanding water bonds.

The analysis below provides for the basis of the pass-through rate adjustment. Notice of the rate adjustment will be provided to all City water customers at least thirty (30) days prior to the effective date of rate change.

DISCUSSION

MET, MWDOC and OCWD have adopted their rate and fee adjustments for Fiscal Year 2025-26. As a result, and in accordance with Ordinance 2948, the City will pass the increases to its water customers.

Below is an illustration of the calculated changes to the Commodity Delivery Charge. Base year data was derived from the 2023 rate study performed by FG Solutions.

Water Commodity Delivery Charge Pass-Through Adjustment Calculation - Calendar Year (CY) 2026
For Rates Effective January 1, 2026

	Base Year FY 23/24 [1]	Estimated CY 2026 [2]	
Total Acre-Feet (AF) of Imported Water	2,966	3,148	(B) = (A)*15%
Total Acre-Feet (AF) of Ground Water	16,807	17,836	(C) = (A)*85%
Total Wholesale Water Supply (AF)	19,773	20,984	(A)
OCWD Replenishment Assessment ($/AF)	$ 624.00	$ 711.00	(D)
MWD Tier 1 Water Rate ($/AF)	$ 1,209.00	$ 1,528.00	(E)
Ground Water Cost (Including Replenishment Assessment)	$ 10,487,623	$ 12,681,680	(F) = (C) * (D)
MWD Tier 1 Water Rate Charge	3,585,842	4,809,533	(G) = (B) * (E)
MWD Readiness to Serve Charge	541,486	456,516	[3]
MWD Capacity Charge	207,834	237,151	[4]
MWD Connection Charge	492,275	519,979	[5]
MWDOC Choice Programs	28,734	74,857	[6]
Total Wholesale Water Charges	$ 15,343,794	$ 18,779,716	(H)
Cost per AF	$776.00	$894.95	(I) = (H) / (A)
Cost per CCF (1 AF = 435.60 CCF)	$1.71	$1.97	(I) / 435.60
	(a)	(b)	
Increase from Base Year (pass-through), $/CCF		**$0.26**	(J) = (b) - (a)
Bi-Monthly Commodity Delivery Charge Before Pass-Through Adjustment for Calendar Year 2026:			
Tier 1, $/CCF		$3.83	(K)
Tier 2, $/CCF		$5.84	(L)
Bi-Monthly Commodity Delivery Charge with Pass-Through Adjustment Effective 1/1/26:			
Tier 1, $/CCF		**$4.09**	(K) + (J)
Tier 2, $/CCF		**$6.10**	(L) + (J)

Notes:

[1] Base Year (FY23/24) amounts are from the 2023 Rate Study, not FY23/24 actuals.

[2] CY 2026 water supply is estimated based on historical consumption data.

[3] Source: Metropolitan Water District of Orange County Ordinance 2157 Exhibit A, adopted 4/16/2025.

[4] Source: Metropolitan Water District of Orange County Ordinance 2157 Exhibit B, adopted 4/16/2025.

[5] Source: Metropolitan Water District of Orange County Ordinance 2157 Section 4, adopted 4/16/2025.

[6] Source: Metropolitan Water District of Orange County Ordinance 2157 Exhibit C, adopted 4/16/2025.

Line and Number References:

(A) Total wholesale water supply estimate by City based on historical consumption.

(B) City estimates 15% of total water supply will be imported.

(C) City estimates 85% of total water supply will be from groundwater production.

(D) OCWD Board approved Replenishment Assessment per adopted OCWD FY25/26 budget.

(E) Rate per Metropolitan Water District of Orange County Ordinance 2157 Section 1(A) adopted 4/16/2025.

(K) Bi-Monthly Commodity Delivery Charge per Ordinance No. 2948, Section 1.B for CY 2026.

(L) Bi-Monthly Commodity Delivery Charge per Ordinance No. 2948, Section 1.B for CY 2026.

Based on the above calculation, the Commodity Delivery Charge will increase by $0.26 per billing unit, or 100 cubic feet, for Calendar Year (CY) 2026 from the base rate established for that year by Ordinance No. 2948 in 2023. The adjustment reflects the actual cost increase of wholesale water the City has to incur to continue to provide water to its residents. The City is authorized to automatically adjust the Commodity Delivery Charge component based upon actual increases incurred by the City for acquiring groundwater and imported water.

The table below presents the current year commodity delivery charge, alongside with the pre-established rates for calendar year 2026, and the adjusted 2026 rates:

Bimonthly Commodity Delivery Charge ($ per CCF)

	Current (2025) Rate	2026 Rate Before Adjustment[1]	Adjusted Rate Effective Jan. 1, 2026
Tier 1	$3.73	$3.83	**$4.09**
Tier 2	$5.87	$5.84	**$6.10**

[1] Established by Ordinance No. 2948 in 2023.

With the CY2026 pass-through adjustment, it is estimated that the average residential customer's water bill will increase by approximately $3.96 per month (assuming a 5/8 x 3/4-inch meter and 22 CCF of water use), or $7.92 on each bi-monthly bill. The new rate will take effect on January 1, 2026.

Notice of Change in Water Commodity Delivery Charges will be sent to all City water customers on or before November 28, 2025.

FINANCIAL IMPACT

The proposed pass-through water Commodity Delivery Charge increase will allow for the Water Utility to continue meeting its financial obligations and carry out its capital improvement and replacement programs. There will be no impact to the General Fund.

RECOMMENDATION

It is recommended that the City Council:

- Review the Water Commodity Delivery Charge Adjustment Calculation for Calendar Year 2026 regarding the automatic pass-through adjustments for purchased water costs.

ATTACHMENT(S)

- Notice of Change in Water Commodity Delivery Charges.
- Calculation of Calendar Year (CY) 2026 Water Commodity Rate Adjustment performed by FG Solutions.