

Independent Rates Oversight Committee – IROC

March 19, 2012

MINUTES

1. **Roll call**

Chairperson Peugh called to order the regular meeting of the IROC at 9:35 a.m. Monica Foster conducted a roll call and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Jim Peugh, Chair	X	
Don Billings	X	
Christopher Dull		X
Andy Hollingworth	X	
Jeff Justus	X	
Jack Kubota	X	
Colin Murray		X
Michael Ross	X	
Irene Stallard-Rodriguez	X	
Todd Webster		X
Gail Welch	X	
<b>Ex-Officios</b>		
Augie Caires, Metro JPA	X	
Ken Williams, City 10	X	

*Department representatives present: Roger Bailey, Director; Alex Ruiz, Assistant Director; Tom Crane, Assistant Director, and Tom Zeleny, Deputy City Attorney*

2. **Non-Agenda public comment**

None.

3. **Approval of Draft Minutes from February 21, 2012**

**Action:** Chairperson Peugh asked for a motion to approve the Minutes as submitted. Member Billings moved, and Vice Chair Hollingworth seconded. The motion passed 8-0.

4. **Chair updates** – *Chairperson Peugh*

None.

5. **City Staff updates**

*Alex Ruiz*

- Announced various informational reports that will be heard by NR&C in their March meeting

*Ann Sasaki*

- Calendar YTD Sewer spills: 14, compared to 14 same time as last calendar year.

*Jim Fisher*

- Calendar YTD Water main breaks: 21, compared to 20 same time as last calendar year.

6. **Fond farewell to Augie Caires whose last meeting as an IROC Member is March 19, 2012**

Roger Bailey, Director, expressed gratitude to Mr. Caires for his many years of contributions to the City of San Diego ratepayers, and his valuable service to improve the wastewater and water systems for current and future generations. He commended him for his passionate services and contributions while serving on several committees in the Department over the past 20 years. Mr. Bailey presented Mr. Caires with tokens from the Department, and a certificate of appreciation.

Mr. Caires thanked the Department and indicated that he is very proud to have served the City of San Diego and its rate payers. Last, he congratulated and expressed appreciation for the IROC Committee. Member Kubota presented Mr. Caires with a personal gift of appreciation and kind words.

7. **San Diego County Taxpayers Association proposal to revise IROC's duties and responsibilities in the San Diego Municipal Code**

Lani Lutar, San Diego County Taxpayers Association (SDCTA), shared their proposal for amendments to the IROC's Municipal Code. She focused on the comparison of the Purpose and Intent section, to prior language from 2001 of the Public Utilities Advisory Commission. She stated the SDCTA supported the creation of IROC, and is now proposing amendments to the Purpose and Intent, to bring clarity.

Sean Karafin, SDCTA, described each of the proposed amendments. He noted most of the amendments are designed to be more direct and clearer. Handouts were provided outlining the current language versus the proposed language.

Comments were as follows:

*Member Kubota:* Inquired about the required IROC positions being proposed to be eliminated, which was listed in the February draft that was released. He also asked what the schedule is moving forward.

Ms. Lutar explained it is not proposed to change the number of seats; however, it is proposed not making certain fields of expertise a requirement, due to their understanding that the Mayor's office is having challenges filling labeled vacancies. She added the schedule is to present to NR&C within the next month or so.

*Member Welch:* Important for IROC to take a proactive and multi disciplined approach to review the Water and Wastewater Departments. She indicated it is important to have the specific roles on the Committee to view all aspects of elements across the board. There is a significant amount of effort spent at IROC subcommittees looking at rates, source of funds, use of funds, etc. and it would be a disservice to reduce IROC to only a financial role. Chairperson Peugh concurred, adding that deleting them from the IROC Charter would be a mistake, and the rate payers would be poorly served.

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Ms. Lutar indicated there is a new Council Advisory Committee that has been established to look specifically at Water Policy. With the Subcommittee reports reviewed, the fiscal aspects have not come out nearly as strongly as expected, with the exception of most recently. She added until there is clarity on the financial, the other areas may have to come secondary.

*Vice Chair Hollingworth:* Stated the role and mission of IROC should be clarified by City Council, and agrees with the SDCTA and supports the proposed amendments. He re-emphasized the mission of IROC is “rate payer protection.”

*Member Stallard-Rodriguez:* Appreciates the work put forth by the SDCTA; however, agrees with Member Welch. She indicated all areas need to be studied, everything impacts the rates, and there is an obligation to the rate payers to look at everything, not only the financials. It would be a disservice to eliminate them from the Ordinance.

*Ex-Officio Williams:* Supports the proposal of SDCTA, but is a non-voting member who has observed the meetings and events over the past several years. He indicated it is his view the Committee is spread too thin. He added if IROC focuses on the rates, IROC could be a more effective group.

*Member Billings:* Commented that IROC was created and the Ordinance was written for a reason, unique to our service area and are under Consent Orders. He strongly objects the proposed amendments and recommends using the correct vehicle for auditing, and believes it is not in the best interest of the rate payers. He recommends that the City use its existing Audit Committee, and allow IROC to fulfill its obligations as set forth in the current ordinance.

Ms. Lutar clarified that the changes to the expertise would not impact IROC, and there is not a request to eliminate members. She added it is not the intent to make IROC an audit body, but in fact is proposing not making it a requirement to have additional financial audits done, as a result of IROC’s existence. She indicated the goal is to make sure rate payer dollars are being used appropriately, and the rate case projects are monitored for status.

**Action:** Member Stallard-Rodriguez made a motion to hold a special IROC meeting to review this proposal as soon as possible. Member Welch seconded. The motion passed 7-1, with Vice Chair Hollingworth opposing.

8. **Metropolitan Water District (MWD) water rates**

Marsi Steirer, Deputy Director, introduced Cathy Pieroni, Principal Water Resources Specialist, who gave an update on the MWD water rate setting process. She noted MWD was formed as an act of the California Legislature in 1927.

She noted that this year MWD had their public rate hearing on March 12, with the full Board vote decision scheduled to occur the following day. This was protested. She then referred to a letter to MWD, by SDCWA delegates dated February 3, which included 4 pages of questions that were submitted by the Water Authority's delegates that had not been addressed at the time of the rate hearing.

She then gave an update on the rate hearing, indicating there were about 40 speakers, where more than half from the SDCWA were in opposition of MET's rates, and approximately 17 speakers were in support. She added the MWD Committee recommended that the Board return the rate decision to April. It went to the Board the following day, and was voted affirmatively unanimously to push the rate decision to April. The SDCWA made a motion at the Board to direct MWD staff offer one additional workshop providing a review of a new option to reducing MWD's budget and rates. This vote was defeated.

Ms. Pieroni then referred to a chart showing historical rate increases of MWD from 2003 which shows the cost of water has continued to increase over time. She described the chart in detail, including a description of the MWD rate categories and their relation to SDCWA's current law suit. She then reviewed MWD's historic fixed costs (readiness to serve, and capacity charges). Vice Chair Hollingworth suggested the SDCWA establish a recommended budget size for MWD, and present it at the next meeting.

Denise Vedder, SDCWA, indicated there are 3 proposals on the table, that MET is proposing to raise their rates. MWD proposes raising the Water Authority's transportation rate by 14%, which impacts San Diego disproportionately.

Member Ross suggested IROC, in regard to the lawsuit, focus on having potential future agenda items related to ratepayer rebates and credits if we are successful in the outcome.

Ms. Pieroni added that last month's Board meeting the SDCWA voted on a method for distributing any proceeds from the MWD rate lawsuit. The money would not stay with the SDCWA, it would be returned to SDCWA's member agencies minus the cost of litigation.

9. **Public Utilities presentation on Water and Sewer FY2008-FY2011 Rate Case Expenditures - update**

Alex Ruiz indicated this report was presented to NR&C on February 29 and is in response to questions with regard to rate payer proceeds from the last rate case, focused on the CIP projects that were part of that rate case. One of the San Diego Taxpayers

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Association's proposed recommendations to change the intent of IROC is to have staff provide these briefings on a more regular basis, which is our intention.

Mr. Ruiz referred to provided slides and gave an overview of the 2007 Rate Case Capital Program review, CIP execution, and regulatory compliance. He reminded the IROC of the actual language that was included in the 2007 Prop 218 Notices for water and sewer in regard to rate increases, which we proceeded to execute on that basis.

First, he provided Capital Program details, for the FY08-FY11 period) as projected in the 2007 Rate Case for Water, which consist of 61 projects (\$585M), having a CA Department of Public Health Compliance order and Federal Safe Drinking Water Act.

He then reviewed the actual vs. planned CIP for FY08-FY13 period for Water and Wastewater. The CIP execution was delayed in FY08, however the City still met all regulatory requirements and timelines for the Department of Public Health. He added we have experienced significant savings from lower bids, financing costs, grants, and SRF loans. He then showed graphs of miles of water pipeline replaced for water and sewer as well as costs. He pointed out the City has exceeded the amount of pipeline that were put in the ground.

Mr. Ruiz then reviewed the Water and Wastewater CIP Programs' financials showing the use of financing from FY08-FY11 and FY12-FY14 including bonds, grants, cash and DRES funds. He then reviewed a graph showing actual cash available. This included \$630M of combined funds, where the majority of "cash available" is allocated as of FY11. He noted the actual cash (\$51M) + DRES will partially fund continued CIP for the next 3 years. He then gave a brief Use of Funds review, a consultant is currently being selected and the review is anticipated to be completed at the end of 2012.

Last, he discussed the Cost of Service Study (COSS), noting individual studies were done for water and wastewater consistent with industry practices. IROC will be engaged in the process in a very open and meaningful way.

Vice Chairperson Hollingworth expressed his concerns with the next Rate Case, after his review. He believes revenues were already collected from in 2008-2011 for \$200M worth of projects put over to 2012-2014. His concern is the rate payers could be double charged for that portion. He also asked if the last rate case was intended to be temporary, due to the fact that more scope has been added since, and finally, if the Department is in compliance with the 218 Notice. He then recited written language from the 218 Notice.

Roger Bailey, Director, clarified that the list of CIP projects that were an example of some of the projects to be done associated with the rate adjustment, were scheduled from a budgetary standpoint over a period of 4 years. He cautioned the assumption that the year the project shows up in the budget is the year the project was intended to be completed. It is important to understand that the costs of those projects are shown in the

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first 4 years, but the actual financing is done over a period of 30 years. He added for example, the construction is completed but he debt service continues for 30 years. Member Billings agreed. Tom Zeleny, Deputy City Attorney, described the Prop. 218 Notice which in his opinion, is drafted broadly. He also reiterated the importance of the Cost of Service Study.

**10. Water System Bond Refunding (2012A Refinancing Bonds)**

This item was deferred.

**11. Transfer of \$500,000 from the DRES for the Water Department Security Upgrades Design-Build Contract**

Hossein Azar, Senior Civil Engineer, and John Stohr, Project Manager of Water Security Upgrade, presented a description of the project. Mr. Azar referred to handouts, and gave an overview, noting this would provide physical security for 34 pump stations and water storage facilities, which would include fencing, a wireless microwave communication system, and monitored by surveillance video.

Member Billings added that this project is addressed in the security vulnerabilities identified in the EPA mandated Vulnerability Assessment, and secondly these upgrades will save the ratepayers funds by reducing the monthly cost of leasing communication lines from third parties. He asked what the savings is calculated at? Mr. Azar indicated it will save \$500 per month/per site, which is a great savings.

Chairperson Peugh asked if operational data can be transmitted as well. Jim Fisher, Assistant Director, indicated this opportunity will be looked into.

Mr. Azar then asked for support to transfer \$500,000 from the DRES and award of the Water Department Security Upgrades design build contract.

**Action:** Member Billings made a motion to support, Member Stallard-Rodriguez seconded, the motion passed 7-0, with 1 abstention.

**12. Subcommittee Reports:**

**a. Finance**

- Reviewed the MWD Proposed Rate Increase and actions to be taken.
- Discussion regarding the scope of the CIP Audit, an accommodation was reached.

**b. Environmental & Technical**

None.

**c. Public Outreach, Education & Customer Service**

- Discussed the Advance Water Purification Project Metrics for outreach.
- Discussed the IROC planning meeting, which is on today's agenda.

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Member Billings asked if there was feedback on polls or surveys for public outreach understanding the Advanced Water Purification Project. Mr. Ruiz indicated a survey was in conjunction with one conducted by the SDCWA last May or June. It indicated a tremendous shift in the attitudes with a result of the education. He can recommend an update by Ms. Steirer at the next IROC meeting.

13. **Metro/JPA – Report out**

None.

14. **California Department of Public Health Safe Drinking Water State Revolving Fund Loan Applications for the Harbor Drive Pipeline Replacement and Lindberg Field Cast Iron Main Replacement Projects**

This item was deferred.

15. **Update on proposed IROC Planning Meeting**

Chairperson Peugh indicated this was discussed at the Public Outreach Subcommittee, suggesting a 4-hour meeting in June, with John Gavares as the facilitator. He asked for suggestions or comments.

Action: Chairperson Peugh asked for a motion to elect members interested in being on the Ad Hoc Committee. After discussion, Members Welch, Stallard-Rodriguez, and Ex-Officio Member Williams volunteered. Member Billings moved to elect the mentioned members to the Ad Hoc Planning Meeting Team, Member Hollingworth seconded. The motion passed 8-0.

16. **FY2012 IROC Annual Report Planning**

No discussion at this time.

17. **Proposed Agenda Items for next IROC Meeting**

- Deferred Item 14.

18. **IROC Member's Comments**

Vice Chairperson Hollingworth suggested Item 10 not be deferred, as there was sufficient information provided. Mr. Ruiz concurred.

Chairperson Peugh adjourned the meeting 12:00 p.m.

Minutes submitted by: Monica Foster, Administrative Aide I