

Independent Rates Oversight Committee – IROC

June 18, 2012

MINUTES

1. **Roll call**

Chairwoman Welch called to order the regular meeting of the IROC at 9:30 a.m. Monica Foster conducted roll call, and a quorum was declared. Attendance is reflected below:

Member	Present	Absent
Gail Welch, Chair	X	
Don Billings, Vice Chair <i>departed at 11:25</i>	X	
Christopher Dull		X
Andy Hollingworth	X	
Jeff Justus	X	
Jack Kubota	X	
Jim Peugh	X	
Michael Ross	X	
Irene Stallard-Rodriguez	X	
Todd Webster	X	
<b>Ex-Officios</b>		
Luis Natividad, Metro JPA	X	
Ken Williams, City 10	X	

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

2. **Non-Agenda public comment**

None.

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

**Action:** Chairwoman Welch asked for a motion to approve the Minutes as submitted. Member Peugh moved to approve as submitted, Member Kubota seconded. Motion passed 9-0.

Member Kubota asked if sometime the meaning of the term used on page 5, “de-appropriate” could be described, in regard to the CIP.

4. **Chair updates – Chairwoman Welch**

- Thanked and recognized Jim Peugh and Andy Hollingworth for their years of dedicated service as Chair and Vice Chair. She presented each with a framed certificate, and a couple of keepsakes on behalf of the IROC members.
- Thanked the Committee for their time and effort spent on the direction setting workshop last Monday. She indicated a prioritized list of 19 critical issues was put together, which are important to focus on over the next 1-2 years. This will be distributed.
- Item number 6 was added as a standing Agenda item, so members of the Mayor and Council offices may comment.

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- A note has been added to the standing item “Proposed Agenda items for next IROC meeting” on Agendas that will indicate the due date for submitting proposed Agenda items for the next meeting. (See Item 12 on today’s Agenda.)
- Plan to present IROC’s revisions to the Municipal Code Charter and the FY11 Annual Report at the next NR&C meeting of June 27.

5. **City Staff updates**

*Roger Bailey*

- June 28 CWA will have public hearing approximately regarding a proposed rate adjustment to adjust revenues by approximately 9.6%, which will affect the City of San Diego. This would be an approximate additional cost of \$24M-\$25M annually. There will be a public hearing.

Committee Member Hollingworth asked if part of the rate increase can be financed from the DRES fund? Mr. Bailey indicated all options available are being considered, as well as a series of discussions will continue taking place. He reminded IROC the pass-through was absorbed last year and there are some downsides to that, which will be discussed with IROC soon.

*Ann Sasaki, Wastewater Branch*

- Update on sewer spills CYTD 20 vs. 19 last year. On a FY, 34 vs. 40 last FY.

*Jim Fisher, Assistant Director, Water Branch*

- Update on water main breaks CYTD: 42 vs. 45 last year. He then gave a short diagram presentation related to an article sent to IROC on a June 5 main break at Lomica Drive/Pablo Drive. This was a pipe installed in 1963, and was a failure to a 2” connection point on a bypass valve, connected to a 20” SCRW pipe. He described the difficulty shutting down these valves, and needed additional emergency response crew to assist. This type of break required a specialized hydraulic crew to assist to manage the pressures to maintain service. This involved about a 20-valve shut-down involving the pressure zone. He indicated there were approximately 100 customers without service because of the location of the break.

6. **Comments from the Offices of Mayor and City Council**

None.

7. **Cost of Service Study (COSS) Project Plan**

Roger Bailey, Director of Public Utilities, introduced presenters Patricia Tennyson of Katz & Associates, and Brain Jewett and Ann Bui of Black and Veatch Corporation (B&V). After continued discussions with IROC, the goal is to provide the Mayor and Council recommendations come December. Meanwhile, there will be workshops and public outreach.

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A handout of the high level Cost of Service Study (COSS) presentation was provided in the packet. Mr. Jewett began by giving an introduction of the Project Team. He assured this process approach is the industry standard for rate design which are vetted through the American Water Works Association as well as Water Environment Federation for Sewer Rates. He indicated that this is a very rigorous and transparent process. He then reviewed the process to perform a comprehensive cost of service and rate study that accomplish the establishment of an operating financial plan fully supporting on-going O&M, replacement, capital improvements and debt service. Also will analyze cost allocations that allow for equitable rates among the customer classes while meeting the City policies and legal requirements associated with Prop. 218.

Ms. Bui presented the COSS focus and key issues as being principally, to match the costs of providing service to customer classes and to design rates to equitably recover costs with the considerations of maintaining revenue adequacy; use fair and equitable cost allocations; use practical rate and billing formats; minimize customer impacts; and to maximize customer understanding and acceptance.

She then reviewed the COSS approach, which is to start with extensive financial planning, building from the bottom up and studying a variety of information including consumptive use patterns and changes. The next element is to look at what it takes to provide that level of service that customers expect, by allocating costs. Last is to review the rate design. She added this complex process is transparent, rigorous, and methodical as well.

She concluded by listed some of the cost allocation factors addressed for certain needs for water and wastewater use, to design and operate the system. She then discussed the functional cost components such as operating expenses and capital costs, as well as functional cost components such as volume, customer billing and meters, and direct costs such as fire protection and recycled water.

Mr. Jewett briefly reviewed the compliance with Prop. 218 and the need to follow all procedures outlined. He noted that a capacity fee analysis will accomplish the establishment of a capital financial plan fully supporting capacity improvements, developing fees that allow new or re-development to pay its fair share, reducing the burden on rate adjustment, and meets City ordinance & policies as well as relevant legal requirements.

Last, Patricia Tennyson presented the communication plan, which will ensure methodical outreach with a goal of a transparent COSS. She indicated they will ensure consistency with City staff and the Project Team as well. The Department is committed to a very robust public outreach process. She added communications continue with Kurt Kidman and Brent Eidson, and additional workshop dates will be set as COSS progresses. Mr. Jewett then gave the basic overview of the Project schedule. He concluded the presentation.

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Ex-Officio Williams asked what the City's approach is in terms of tiered rates. Roger Bailey, Director of Public Utilities, indicated a lot of this is policy and will have to be set by the Mayor and Council. There are options B&V are looking into, and at the end of this process there should be some scenarios regarding the tiered structure and some alternatives.

Mr. Williams also asked in regard to the Prop. 218, once a structure that includes tiered rates is adopted, who bears the liability of potential lawsuits? Ms. Bui indicated it depends on what it involves. Tom Zeleny, Deputy City Attorney, added tiered rates were challenged and upheld prior to Prop. 218. Since, there has not been much activity. Mr. Bailey reminded IROC there currently is a tiered structure.

Member Webster inquired about information on contingency costs, and how this is passed on to the rate payer. Ms. Bui indicated this is under the financial planning revenue requirements section related to reserve funds. These policy type issues, some of them have nebulous guidelines depending on each scenario; certain recommendations can be made, bringing it back to staff and IROC.

Member Hollingworth asked about the net revenue requirement model, as to what the forecasted revenue requirement is down the road, and where the variances occur. Ms. Bui indicated they are working with Staff on this as to what they want to see with respect to the reconciliation. This will be brought back to IROC.

Chairwoman Welch commented with her concerns on the commercial and industrial sides, such as how the model will accommodate some of the significant costs associated with impending cap and trade legislation. She also mentioned she would like to expect plans related to the drought restrictions, and for those using beneficial cooling towers.

Vice Chair Billings commented with respect to the independence from the Department as a client, when challenging the assumptions for projections, he suggested using useful benchmarking to help frame discussions going forward, as well as who sets the parameters of the scenarios specifically related to large scale potential CIP projects that may or may not hit during a rate case.

Mr. Billings also stated there is interest in knowing about allocation of costs and revenues between the Water and Wastewater Funds related to recycled water. Mr. Bailey indicated this is a policy issue, and will have to be decided by Mayor and Council, if what we currently have changes.

Member Peugh commented he feels the appropriate cost of recycled water should be looked at and should feed in to this study. He also indicated his concern that none of the considerations for this study are related to incentivizing conservation. Member Peugh inquired about stakeholders group meetings, and for IROC to be included in the

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distribution list. She indicated there is one on the 12<sup>th</sup> of this month. Mr. Bailey stated he will make sure to get them on the distribution list.

Ex-Officio Natividad asked that when the communication plan portion is developed, to consider multi-cultural outreach. Ms. Tennyson concurred. He also suggested the term “rate payer” should be listed as a “stakeholder”. Last, he suggested that input and concerns from stakeholders are addressed, or considered, at the beginning of the process so they can be implemented if need be.

8. **Subcommittee Reports:**

a. **Finance – Andy Hollingworth**

- Discussed the proposed CWA rate increase, and what drives the increase. Hearing is June 28, community voted not to make a public comment at this hearing.
- Discussed the FY10 and FY11 Bid to Goal Program status.
- Discussed LA County Economic & Development Corporation and study of the Imperial Irrigation District (IID) water and cost of water we get from the MWD. He stated it was revealed that the cost of water from IID is actually substantially more costly than what you could get from the MWD, but is supposed to change in approximately 2023, if it does. There also is a risk element of relying on MWD.

b. **Environmental & Technical**

No comments.

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

No comments, meeting was cancelled.

9. **Metro/JPA – Report out – Luis Natividad**

Nothing to report at this time.

10. **Discussion about IROC Subcommittee structure. Should IROC change the focus of the current three subcommittees?**

Chairwoman Welch distributed handouts from the Direction Setting Workshop of June 11, and indicated 19 priority topic areas were identified and she noted that rates and finance subjects were at the top of the list. She recited proposed change scenarios for subcommittee name/areas of focus submitted by members. Scenario A was submitted by Member Hollingworth to have a Finance Subcommittee, an Infrastructure Subcommittee, and a Water Wholesalers Subcommittee (includes MWD and CWA). Scenario B was submitted by Member Peugh to have a Finance Subcommittee, Infrastructure & Operations Subcommittee (CIP would be moved to this subcommittee), and an Outreach & Communications Subcommittee (include HR issues).

Chairwoman Welch asked for any comments. Vice Chairman Billings noted he needs to excuse himself early, and if needed he votes for Scenario B. Ex-Officio Member

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Williams commented for Scenario A, having the Water Wholesalers Subcommittee may spread IROC too thin, as City 10 is already in existence and involved. Chairwoman Welch suggested a task force can be formed as needed.

Member Peugh indicated having the Outreach and Communications Subcommittee is crucial to keep the public informed of the value of the system and the understanding of the rates structure. Ex-Officio Member Natividad suggested changing in Scenario B, the word Communications to Information, and also believes the HR issues could be a task force as needed.

**ACTION:** After members collaborated, Member Webster moved to accept Scenario B, submitted by Member Peugh for redirection of the committee names listed, and areas of focus. Member Justus seconded. Motion passed 9-0.

Chairwoman Welch stated she will forward follow up information related to the 19 Topics, to take into more of a strategic focus as well as assist IROC in developing the annual plan.

She then asked for any nominations for IROC Subcommittee Chairs, and pointed out there are no term limits. She noted she is stepping down from being the chairperson for the Outreach and Communications Subcommittee. She then nominated Member Stallard-Rodriguez for this position. She stated currently Member Webster is chairperson of the Infrastructure and Operations Subcommittee, and Member Hollingworth is for the Finance Subcommittee. She asked for any nominations. None were made. She indicated this item will be added to the next IROC meeting.

**11. Water Forecasting Cash-flow Reporting template**

Member Hollingworth provided handouts including a Water Utility Cash Flow Forecast Model Template in the packet, and indicated this template was developed in regard to the 2011 end report recommended a long-term cash flow forecasting model. He indicated the Department accepted that recommendation. He recommended that when there are rate increases, this model be provided to the City Council through the City Auditor or the Independent Budget Analyst to verify there is a need for a rate increase. He added this is to improve transparency and provide an objective reason for rate increases.

Mr. Bailey indicated the Department's goal is to be as open as possible. However, when information, especially with policy implications, is published it needs to go through a process which must include vetting through the Mayor and Council. Lee Ann Jones-Santos, Deputy Director, concurred and indicated that this template may not be the right tool to evaluate progress. Member Hollingworth disagreed and indicated he would like to see the detailed schedules justifying the increases. Ex-Officio Member Williams suggested taking it back to the Finance Subcommittee. Chairwoman Welch concurred and suggested the Department provide a description of what can be provided without putting the Department at risk, or without being vetted through the Mayor and Council.

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Ms. Jones-Santos suggested it being two items, a cash flow and the request to provide the reconciliation between the COSS and what actually happens.

**ACTION:** Member Ross moved to bring this item back to the Finance Subcommittee for further discussion before bringing it back to the full IROC. Member Billings seconded. Motion passed 8-1 (Hollingworth opposed).

**12. Proposed Agenda items for next IROC meeting:**

- Selection of Chairperson for the Infrastructure and Operations Subcommittee
- Selection of Chairperson for the Outreach and Communications Subcommittee
- Selection of Chairperson for the Finance Subcommittee
- Results of the FY13 Strategic Initiatives
- IROC Annual Report Development
- Asset Management Plan
- Results from the upcoming NR&C Presentation

Member Webster asked for an update on the Valve Study. Mr. Fisher commented the auditors are still conducting their field work, and should be concluding the end of this month, and then do the report. It is anticipated to be out late August/early September.

**13. IROC Member's Comments**

- Ex-Officio asked if a contact list can be distributed to the City Council members.

Chairwoman Welch adjourned the meeting 12:03 p.m.

Minutes submitted by: Monica Foster, Administrative Aide I