

Independent Rates Oversight Committee (IROC)

October 15, 2012

MINUTES

Please note: Due to a recorder malfunction during this meeting, these notes are more abbreviated than usual.

1. Roll call

Chairwoman Welch called to order the regular meeting of the IROC at 9:37 a.m. Monica Foster conducted roll call, and a quorum was declared. Attendance is reflected below:

Members	Present	Absent
Gail Welch, Chair	X	
Don Billings, Vice Chair	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	
Ex-Officios		
Luis Natividad, Metro JPA	X	
Ken Williams, City 10	X	

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

2. Non-Agenda public comment

Mr. Vadie Cooper, a member of the public, commented that he is frustrated with the level of customer service that is provided when calling the Customer Support line. He mentioned the wait time was unacceptable, and he would also like an explanation of his last water bill he has a discrepancy with. Last, he suggested the Department make the online billing system easier to follow, and less-complex, as well as suggested ideas for possible additions to the website to answer frequently asked questions, making the site more user-friendly.

Member Peugh requested a presentation at a future IROC meeting regarding how the Customer Care Solutions is doing collectively, and would like information related to using the online billing system, and the ease of viewing the Customer Service webpage.

3. Approval of Draft Minutes from July 16, 2012

Action: Chairwoman Welch asked for a motion to approve the minutes. Member Peugh moved to approve as presented, Member Stallard-Rodriguez seconded. Motion passed 8 (in favor) – 1 (abstained, Billings) - 0 (opposed)

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4. **Chair updates** – *Chairwoman Welch*

- IROC Ordinance approved by NR&C on October 10, 2012. The next steps for the revised Muni code are to go to City Council twice as two readings will be required for the ordinance.
- IROC Workplan is due to NR&C by May 1, 2013.
- There will be a Customer Care Center tour taking place on November 8 from 2:00pm-3:00pm at 600 B Street, for those interested. Monica Foster will send out more information via email.

5. **City Staff updates**

Roger Bailey, Director of Public Utilities

- Last Wednesday the Department presented to the Coastal Commission, they made a decision not to support another Waiver. The next application is not due until 2015.

Stan Griffith, Deputy Director, Wastewater Collections

- Water main breaks: Year to date: 68 opposed to 69 same time last year; Fiscal year 2011 was 94 opposed to 132 in fiscal year 2010.

Ann Sasaki, Assistant Director, Water Branch

- Wastewater spills year to date: 33 opposed to 26 same time last year. She noted the spills are mainly due to roots and grease.

Brent Eidson, Program Manager

Mr. Eidson Presented an overview of the Water Policy Implementation Task Force which began in May, 2012, and consists of industry and community leaders from a wide range of backgrounds. The Task force was directed to formulate recommendations for implementation of the Comprehensive Water Policy (Policy 400-15). They have been tasked to develop specific goals, timelines and measurements of success to implement the new Policy.

Since May, he indicated, the Task Force has focused on acquiring a comprehensive understanding of the City's water supply situation; establishing working groups within the Task Force to focus on specific policy areas; and formulating recommendations to the City Council on implementation of Policy 400-15. Mr. Eidson listed three initial recommendations: 1) Make drought response Level 1 a permanent water standard; 2) Changes to the Landscape Ordinance; and 3) Consider a water budget-based billing program for commercial landscape meters.

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He noted the areas to be addressed in the coming months are: water reuse, indirect potable reuse, gray water, and storm water capture/reuse. Also, water rates and their tier structure and pricing; use of water rates as an incentive for conservation; and new technologies, which include desalination and advance water treatment. He noted all Task Force activities will conclude with a final report providing an action-oriented implementation plan. The Task force will present its second progress report at the first Natural Resources & Culture Committee meeting in February, 2013.

6. **Mayor and Council Staff Comments**

None.

7. **Cost of Service Study Workshop: Assumptions and Scenarios**

Ann Bui, COSS Project Director of Black & Veatch, Brian Jewett, Principal Consultant, and Alberto Morales, Manager, presented an overview of the Cost of Service Study assumptions and scenarios. Handouts were provided. Ms. Bui began by pointing out the Revenue requirement components, such as Financing Sources, Revenue, Operating Budget, Capital Program, and Reserves.

Presenters described the projected revenues under existing rates, and elaborated on four factors: (1) number of accounts, (2) unit consumption, (3) existing rates, and (4) revenue under existing rates. They reviewed past performance, which includes O&M expense budget line items and current year budget (FY13).

Presenters discussed slides showing incorporation of known and measureable changes which noted increases/decreases in chemicals, energy and supplies; IT improvements; Service Level Agreements; large projects; and inflationary adjustments, which may include increases for known cost items; and other adjustment factors such as Engineering News Record, CPI, and SCE projections. Other slides were related to O&M Assumptions, Capital Improvement Program, and 5-Year Water CIP Expenditures.

Presenters listed projects which include: complete all mandated projects; implement water and wastewater main replacement projects to reduce water main breaks and sewage spills to a minimum; and examine annual water and wastewater prioritization lists based on Council Policy and Department sub-criteria.

Presenters then discussed the importance of reserves, and explained that reserves are needed because they are required by bond holders, they address emergency events, and they allow slow build-up of funds for large future events. They then discussed existing reserves such as: Appropriated Reserve, Operating Reserve, Rate Stabilization Reserve, Capital Reserve, Secondary Purchase Reserve, and the Dedicated Reserve from Efficiency and Savings Reserve (DRES).

Chairwoman Welch asked for verification that the cost of the COSS effort is \$160K, and that half will be used for outreach, and half for modeling. Ms. Bui confirmed the budget.

Member Hollingworth commented that COSS should be conducted every 2-3 years, and would like it designed to compare the Cash Flow with the CAFR.

Member Peugh asked how the COSS would address rate incentives to promote water conservation. Staff indicated this will be discussed in a future workshop.

8. **Informational Report: San Diego County Water Authority's participation in the Carlsbad Desalination Project Water Purchase Agreement**

Ms. Dana Frieauf from the San Diego County Water Authority (Water Authority) prefaced her presentation with the comment that her presentation did not include rate impact details and since the Water Authority board had not yet decided that. She then gave a brief overview of the proposed Carlsbad Desalination Project (Project). She referred to handouts, noting the challenges to ensuring reliability for the San Diego region including high reliance on a single source of imported water supply, future water demands and potential effects of climate change. She indicated the Project is part of a regional diversification strategy to manage uncertainties. She noted no single resource strategy can manage all uncertainties, and there is a multi-faceted approach required. She then referred to the Water Authority's 2020 Diverse Supply Portfolio pie chart graph indicating the percentage of seawater desalination that would be representative of the region's water supplies in 2020 with this Project.

Ms. Frieauf reviewed the proposed Project noting that a seawater desalination project of this size was included in the Water Authority's 2003 Master Plan Program EIR and in the Water Authority's 2005 and 2010 Urban Water Management Plan. She noted this Project proposes a public-private partnership with Poseidon Resources, which has successfully ascertained all regulatory permits to design, build and operate a 56,000 acre-foot per year seawater desalination facility located in Carlsbad. Initial operations will utilize intake facilities at an existing power plant and that eventually it is expected to operate as a stand-alone facility.

Ms. Frieauf identified that the Project parties include: San Diego County Water Authority; Poseidon Resources; Kiewit-Shea Joint Venture; and IDE Technologies. She indicated Poseidon will permit, design, construct, own and operate the desalination plant through a 30-year Water Purchase Agreement (WPA) (released on September 27, 2012); and the Water Authority will purchase product water over the 30-year term if it meets specifications.

Ms. Frieauf described the balancing of price and risk, referring to a chart outlining the responsibilities taken on by Poseidon and the Water Authority. She stated Poseidon will be responsible for permit, design, and building the Desalination Plant, as well as the Conveyance Pipeline, and operate and maintain the Desalination Plant while supplying product water. The Water Authority's responsibilities will be a "take or pay" for product water if it meets specifications (min. of 48,000 AF/yr); timely construction of the Twin Oaks Valley Water Treatment Plant (TOVWTP), improvements and Pipeline 3 rehab;

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physically be able to receive project water; and operate and maintain the Conveyance Pipeline, the TOVWTP improvements and Pipeline 3.

Next, Ms. Friehauf reviewed the allotted water purchase payments, showing a graph of the annual projected water purchases in wet weather hydrology. She noted if Poseidon does not deliver water, then the Water Authority is not required to pay. Performance guarantees include a product water quality guarantee, minimum product water delivery guarantee, as well as the Water Authority has water ordering rights to adjust delivery orders to reflect seasonal and daily demand changes. She reviewed the termination and purchase options available.

Ms. Friehauf indicated that the total cost of the proposed Project is \$984M, and the total unit cost, including debt service, operation, Water Authority construction oversight and administrative cost is \$2,290/AF for 48,000 AF/yr, and \$2,041/AF for 56 AF/yr. She then reviewed the Draft Member Agency Water Purchase Contract.

Last, Ms. Friehauf listed the remaining tasks leading to the Water Authority's Board consideration of the WPA, as well as upcoming meetings in the October and November timeframe.

The IROC Chair then called for public comment:

Livia Borak, representing the Coastal Environmental Rights Foundation, urged the IROC to verify the actual costs with the City 10. She also added that energy costs will go up, which is a risk allocated to Rate Payers. Ms. Borak added we do not need the water, as it is obtained from the Indirect Potable Reuse. Last, she stated she urges IROC to draft a letter to Mayor and Council, and a get a resolution forwarded to the NR&C by their next meeting.

Marco Gonzalez, representing the Coastal Environmental Rights Foundation also commented. He indicated he would like rate payer implications to be known before the San Diego County Water Authority (Water Authority) votes on the agreement.

Vice Chair Billings expressed disappointment that CWA elected to not send any senior staff to respond to IROC's questions about the proposed Water Purchase Agreement. He noted deep concern that the project was being pushed through without adequate public review and input, and that San Diego ratepayers would be burdened for decades with costs that might be avoidable if less expensive and more effective alternatives were pursued instead of this expensive WPA. He asked for IROC's support to send an urgent letter expressing these concerns to the Mayor and City Council.

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Member Peugh asked what the impact to the rate payers is. Ex-officio Williams offered information that he understands it would be approximately a \$5-\$7 increase per month/per household and may vary. Roger Bailey, Director of Public Utilities, added the Water Authority Board has not voted on the rate structure to recover the costs from agencies yet, and until this is decided on, we cannot be sure how this impacts the individual surrounding agencies.

Member Hollingworth asked if this Project is feasible without the City of San Diego's approval, and also who takes the cost overrun? Ms. Friehauf indicated Poseidon does.

ACTION: Member Peugh made a motion to ask City Council to urge City 10 not to approve this measure until the Rate Structure is agreed upon. Vice Chair Billings seconded the motion. Motion passed 9-0.

9. **Discussion: Impact of not passing through the January 1, 2013 San Diego County Water Authority water cost increase to City of San Diego Water Rate Payers**

This item was tabled to the next full IROC meeting of November 19, 2012.

10. **Establish an Ad-hoc Committee to develop the FY2012 IROC Annual Report utilizing the individual subcommittee section report drafts**

Chairwoman Welch noted in the past, the Ad-hoc Committee has consisted of the Chairperson of IROC, along with the 3 Subcommittee Chairs. She would like to keep it consistent.

ACTION: Chairwoman Welch asked for a motion to have the Ad-hoc Committee consist of herself (Chairwoman), and the 3 Subcommittee Chairs. Member Peugh seconded the motion. Motion passed 9- 0.

11. **Subcommittee Reports:**

a. **Finance – Andy Hollingworth**

- Discussed the Cost of Service Study
- Discussed the development of the FY2012 Annual Report

b. **Infrastructure and Operations – Jim Peugh**

- Discussed the Strategic Plan and its linkage to this Subcommittee
- Received update on the SAP Enterprise Asset Management implementation
- Status update on the Performance Audit activities through 9/30/12
- Discussed the Infrastructure & Operations portion of the FY2012 Annual Report

c. **Outreach and Communications – Irene Stallard-Rodriguez**

- Discussed the Advanced Water Purification Demonstration Project outreach metrics
- Brent Eidson provided an update to the Public Utilities External Affairs Program

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- Discussed the FY12 IROC Annual Report Preparation plan

12. Metro/JPA Report out – Luis Natividad

Similar topics as IROC covered. There is nothing new to report at this time.

13. Proposed Agenda items for next IROC meeting

- Finance Subcommittee will be taking new member nominations at the next meeting. Member Stallard-Rodriguez expressed interest.
- Item 9 carry over (Discussion: Impact of not passing through the January 1, 2013 SDCWA water cost increase to City of San Diego Water rate payers).
- Carlsbad Desalination Project Water Purchase agreement update or speaker.

14. IROC Member's Comments

None.

Chairwoman Welch adjourned the meeting 12:22 p.m.

Minutes submitted by: Monica Foster